
ANNUAL REPORT

2022



Introduction



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

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

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Our Vision

To be the international jack-up contractor of choice

Our Priorities

Focus

Jack-up operations are our sole focus.

Reliability

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

Relationships

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

Our Values

Protect

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

Lead

We conduct business ethically, with responsibility and accountability.

Execute

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

Who we are

Shelf Drilling is a leading provider of jack-up contract drilling services with our rigs in operations across Middle East, Southeast Asia, India, West Africa, Mediterranean and North Sea.

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

0.16

TRIR for 2022
Consistently lower than IADC average

99.3%

Uptime for 2022
>98.5% since inception

\$249m

Adjusted EBITDA for 2022

>30%

Adjusted EBITDA Margin every year since inception

~\$9Bn

of new contract awards since inception

97%

Marketed utilization at year end 2022

~3,900

Employees
54 Nationalities

26%

Females Onshore

90%

National Content Offshore*

5.5%

Annual Reduction in Scope 1 Emissions in 2022**

Grade A- Grade B-

ESG100 Rating 2022

CDP Climate Change Rating 2022

* Excludes UAE and Singapore project teams.

** Annualized reduction in average per rig per day Scope 1 emissions compared to 2021 average.

Jack-Up Fleet

94% Contracted Utilization Across 36 Jack-ups¹



13x Premium

92% Utilization

Demonstrated ability to invest and deploy

Existing premium rig fleet: 8

Purchase of SD Victory: 1

Acquisition of F&G jack-ups from Noble²: 4

22x Standard

95% Utilization

Cost efficient and fit-for-purpose

Middle East, Med. & West Africa: 11

India & Egypt: 11

Shelf Drilling Barsk

World's Largest Jack-up Rig

Uniquely suited for Norwegian operating environment

Size enables deeper water depths and deeper well drilling than other rigs

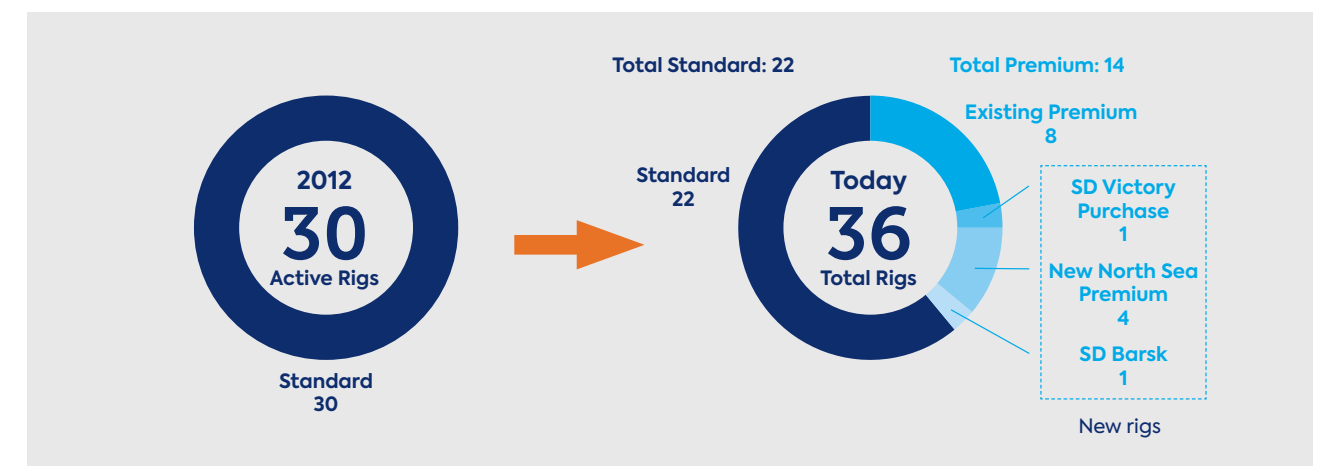
Note (1): As of March 20, 2023; Shelf Drilling Fortress and Adriatic 1 rigs are available.

Note (2): Excluding Shelf Drilling Barsk, a CJ70.

Significantly enhanced our fleet profile and geographical footprint

Acquired 5 premium harsh environment rigs and entered North Sea and Qatar
Acquired Shelf Drilling Victory and subsequently secured contract in the Middle East

Strategic Evolution and Transformation of Jack-up Fleet



“Right Assets in Right Locations”

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

Investment Highlights

Fit-For-Purpose Strategy

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

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

Right Assets in the Right Locations

Right-sized Organization

High National Content

Fit for Purpose Strategy

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

Leading Position in Key Markets

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

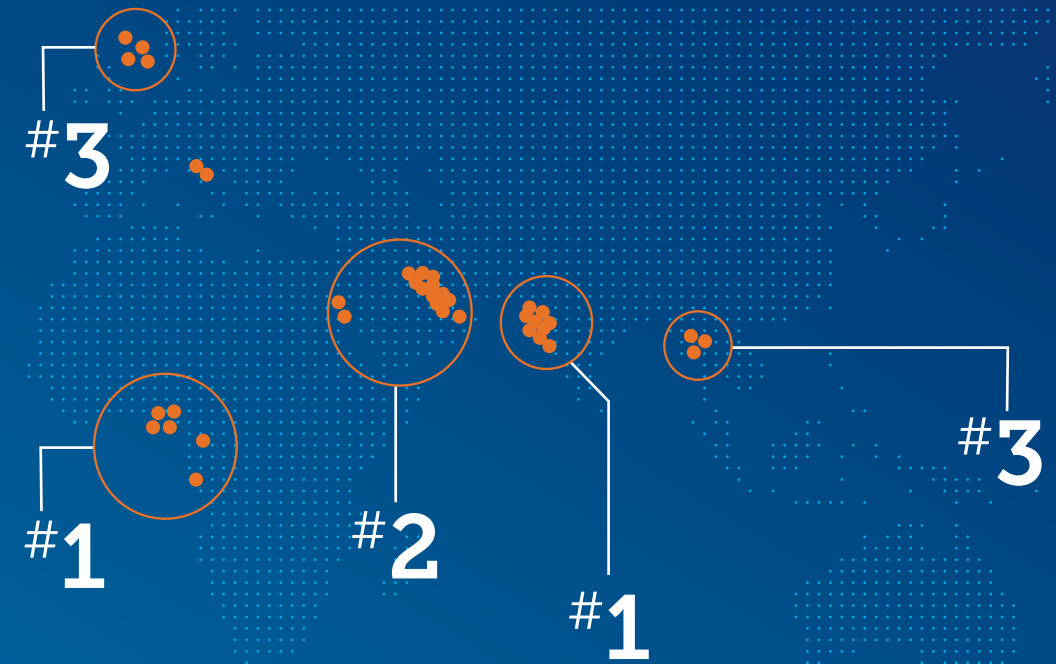
World Class Jack-up Contractor

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

Returns Focus

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

Operating with scale in the most attractive shallow water markets



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

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

Chairman's Statement

In 2022, we continued to enhance our fleet with the acquisition of the Shelf Drilling Victory and five premium jack-up rigs from Noble Corporation.



2022 was a turbulent year where the tragic events in Ukraine brought into sharp focus the need for reliable access to oil and gas to support the world's energy needs. Key producing states in the Middle East took action to grow their productive capacity, which created a rapidly improving environment for the jack-up market in which we operate.

In 2022, we continued to enhance our fleet with the acquisition of the Shelf Drilling Victory and five premium jack-up rigs from Noble Corporation. We were especially pleased to complete the Noble transaction which helped further transform our fleet composition while adding the talented teams who operate and support these rigs.

The Noble transaction was highly complex and executed in a very compressed time frame further demonstrating the agility and capability of our management team to identify and execute value adding transactions. To facilitate this transaction, we established Shelf Drilling (North Sea), Ltd. (SDNS) as a majority-owned subsidiary and, following the listing of SDNS on Euronext Growth Oslo, we welcomed both Rita Granlund and Ian Bagshaw as Independent Directors to the Board of SDNS.

We believe that our highly centralized approach to managing the business has delivered consistent and reliable operating performance throughout the cycles. In 2022, our safety and operational performance continued to improve, and our marketing efforts led to increased backlog and improvements in dayrates across all the areas where we operate. These factors translated into a much-improved financial performance with Adjusted EBITDA increasing by 57% over 2021. The recent actions we have taken, including the equity capital raise in February 2023, have positioned the Company well following the significant investments in expanding our fleet and also preparing a number of rigs for value-enhancing contracts in the near term.

The Board plays an active role in driving our sustainability program and regularly engages with management on this important issue. In 2022, we launched several initiatives to improve the quality and consistency of data captured for our Scope 1 and Scope 3 emissions as well as an assessment of the salient human rights issues for our business. We believe that the comprehensive sustainability program we have developed positions us well to address future reporting requirements, and we will continue to enhance our program as these requirements evolve.

The shallow water areas in which we operate, and the Middle East in particular, produce oil that are among the lowest CO2 emissions per barrel anywhere in the world. With COP28 being held later this year in the UAE, we believe that this region will be further highlighted as a critical source of hydrocarbons to meet the world's energy needs while limiting the effects of global warming. This supports our continued investment in expanding our fleet and footprint across this region.

In November we celebrated our 10-year anniversary and through this period have seen a dramatic change in the business environment as well as a radical transformation of our fleet. We believe the actions we have taken position us well to leverage the improving market conditions and the Shelf Drilling platform to drive further growth and value for our Company and all our stakeholders.

On behalf of the entire Board, I would like to thank our management team, our incredible employees and loyal stakeholders for your continued support to Shelf Drilling.

Ernie Danner
Chairman

Important Notice: All information in the Annual Report is as at March 20, 2023 or earlier if explicitly stated. As such, the Annual Report does not reflect any Company events or changes after March 20, 2023.

CEO's Statement

Shelf Drilling responded to the changing market conditions by looking for cost-effective ways to expand our fleet resulting in the acquisition and subsequent contracting of the Shelf Drilling Victory and the acquisition of five high-specification premium jack-up rigs from Noble Corporation. With these two transactions, we have added capacity in Saudi Arabia, entered the high specification gas market in Qatar, and entered the harsh environment North Sea and Norwegian North Sea markets with scale.



In 2022, the shallow water offshore drilling sector experienced a significant improvement in the business fundamentals underpinned by improving commodity prices, energy security concerns and the fact that there remain incremental low-cost barrels in the shallow waters of the Middle East. Brent oil price touched high's not seen since 2014 and gas prices reached record prices as Europe and the world rebalanced their sources of gas supplies. Oil and gas prices moderated in the second half of the year and, despite recent volatility, remain at levels that are supportive of continued investment by our customers in the shallow water sector.

In response to the changing market conditions the major National Oil Companies (NOC) in the Middle East are looking to boost their production capacity which has resulted in an unprecedented increase in the demand for jack-up rigs. The number of contracted jack-ups have increased to 386 in March 2023 with a marketed utilization of 91%. The improvement in utilization combined with the reduction in newbuild supply has resulted in an improvement in dayrates in all regions with some approaching levels not seen since 2014.

Shelf Drilling responded to the changing market conditions by looking for cost-effective ways to expand our fleet resulting in the acquisition and subsequent contracting of the Shelf Drilling Victory and the acquisition of five high-specification premium jack-up rigs from Noble Corporation. With these two transactions, we have added capacity in Saudi Arabia, entered the high specification gas market in Qatar, and entered the harsh environment North Sea and Norwegian North Sea markets with scale. These additions remain firmly aligned with our fit-for-purpose strategy, which has been a cornerstone of our business philosophy over the 10 years since our inception in that the assets are ideally suited to their respective markets. We were also very pleased to welcome into Shelf Drilling the shore-based teams and all the people that were working on the rigs prior to closing of the transaction with Noble Corporation. The team in Norway will transition at the end of the rig's current contract in the second half of 2023.

The protocols that various countries, customers, and Shelf Drilling had established to protect our employees and others from the effects of COVID-19 were gradually removed as the year progressed. This allowed, with a few exceptions, for our employees to return to a normal work cycle rotation. This was a welcome change for our employees and their families, and we thank them for their support, commitment, and dedication through what has been an incredibly challenging and stressful period.

In 2022, Shelf Drilling continued to make progress towards our vision of incident-free operations. Our rig and management teams delivered an outstanding safety performance with a Total Recordable Incident Rate of 0.16, matching the lowest in our Company's history achieved in 2021. The entire fleet operated for seven months in 2022 without a recordable incident (and four consecutively), demonstrating that our vision of incident-free operations is possible.

Our uptime performance was consistently high at 99.3%, despite the challenges associated with integrating the highest specification, harsh environment rigs into our fleet. This result further demonstrates the value of our unique and highly centralized approach to maintenance, technical support and procurement.

In Angola, we were pleased to see that the rigorous planning and preparation of the unique modifications we had made to the Shelf Drilling Tenacious to facilitate the platform construction by the rig enabled our customer to successfully execute their program and install the platform as planned. This is a further demonstration of the effectiveness of Shelf Drilling's differentiated customer-centric approach to creating innovative technical solutions to their challenges.

Our strong customer relations and robust operating platform enabled us to achieve a number of significant contracting wins during the year resulting in a backlog of \$2.7 billion, with 35 of our 36 rigs under contract at year end. The improving dayrate environment, combined with our low-cost operating structure, and efficient project execution drove a substantial improvement in our financial performance in 2022. Our Adjusted EBITDA of \$249M was a 57% improvement over the 2021 result, with margin improving from 30% to 36%.

We made significant progress in improving the quality and consistency of our Scope 1 and Scope 3 emissions reporting. We launched several initiatives, some of these with external partners, to drive further improvements in the management of engine, fuel, and emissions data to support our long-term sustainability goals. We also remain committed to promoting social responsibility and have invested in initiatives to support our people and local communities, including across our value chain. Further details on our sustainability actions and performance are described in our Sustainability Report included in this Annual Report.

We were pleased to see the support of existing investors, as well as welcoming new investors into Shelf Drilling and Shelf Drilling North Sea as we raised the financing required to complete the Noble acquisition. The interest in our Company and the recognition of the value-creating potential was further demonstrated by the level of participation in our January 2023 equity capital raise to prepare several rigs for upcoming contracts in the Middle East and India.

We expect to see significant further growth in EBITDA in 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.

As we reflect on the past 10 years of Shelf Drilling, we are proud of the achievements we have made and especially our demonstrated ability to successfully navigate multiple cycles. The actions we have taken position us to leverage the strength in the market fundamentals and capitalize on the opportunities they present. Our strong customer relations and operating platform, combined with the dedication and commitment of our people, are key factors that will continue to enable us to deliver outstanding returns to our stakeholders.

I would like to thank you all for your support to Shelf Drilling.

David Mullen
Chief Executive Officer

Board of Directors' Bios

Ernie Danner Chairman of the Board

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

David Mullen Director & Chief Executive Officer

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

John K. Castle Director

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

J. William Franklin, Jr. Director¹

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 and 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.

¹ Mr. Franklin stepped down from the Board of Directors on March 6, 2023.

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' Bios

Experienced management team has been instrumental in driving the Company's growth and success since inception.



David Mullen
Director & Chief Executive Officer

Mr. Mullen has been our Chief Executive Officer since October 2012. See "Board of Director's Biographies".



Gregory O'Brien
Executive Vice President & Chief Financial Officer

Mr. O'Brien was appointed Executive Vice President and Chief Financial Officer in March 2016.

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



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

Mr. Hoffman has worked on rigs around the world and has over 40 years' experience in the global oil and gas drilling industry.

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



Ian Clark
Executive Vice President

Mr. Clark has over 40 years' experience in the oil services business.

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

Our Journey

2012

- Signing of definitive agreement with Transocean
- Financing successfully closed
 - \$475 million bond +
 - \$75 million term loan
- Establishment of Shelf Drilling

2014

- Signing of 5-year contracts for four rigs in the Arabian Gulf with Saudi Aramco
- Signing of 5-year contracts with Chevron Thailand for two newbuild jack-up rigs – Shelf Drilling Chaophraya and Shelf Drilling Krathong
- Steel Cutting Ceremony in the UAE for the two newbuilds for Chevron Thailand

2013

- Launch of proprietary IT & ERP systems
- Redemption of \$195 million preferred equity from initial acquisition
- Fleet achieves substantial independence, majority of rigs transferred to Shelf Drilling operational control

2015

- Start-up of operations in UAE with ADNOC resulting in ten rigs in the Arabian Gulf
- Sale and leaseback transaction for the two newbuild jack-up rigs

2017

- Completion of initial refinancing transaction including issuance of \$167 million preferred equity
- Equity raise on Norwegian OTC list to acquire 3 premium jack-ups
- Contracts secured for all three acquired rigs
- Second newbuild rig – Shelf Drilling Krathong, starts contract with Chevron Thailand

2016

- Geographic expansion of our partnership with Chevron with commencement of a 2-year contract for their Nigeria operations
- First newbuild rig – Shelf Drilling Chaophraya, starts contract with Chevron Thailand



2018

- Long-term refinancing of high-yield (HY) Notes
- RCF extension and long-term refinancing of remaining debt
- Listing on Oslo Børs and redemption of Preferred Equity
- Purchase of Shelf Drilling Scepter



2020

- Acquisition of Shelf Drilling Enterprise
- 21-month contract for Shelf Drilling Enterprise with Chevron Thailand
- Debt offering to finance acquisition and deployment of Shelf Drilling Enterprise
- Suspension of share repurchase program
- Agreement with China Merchants to terminate bareboat charter agreement for two jack-ups
- RCF amendment to improve liquidity position
- Announcement of sale of Shelf Drilling Journey

2019



- Signing of transaction with China Merchants to acquire two newbuild CJ46 jack-ups
- 3-year contract award for first CJ46 jack-up with Saudi Aramco
- Shelf Drilling Scepter contracted with Chevron Thailand
- Three 3-year awards with ONGC in India
- Launched share repurchase program
- 35 rig-years awarded for four rigs with Saudi Aramco



2021

- Improved liquidity by issuance of \$130million of new senior notes and closing of select rig sales
- 10-year extension with Saudi Aramco for High Island IX
- 1-year contract plus options awarded to Shelf Drilling Tenacious by CABGOC in Angola, featuring major technical innovations
- 12 rig-years of backlog added with ONGC India across 4 rigs
- Shelf Drilling Chaophraya and Shelf Drilling Krathong awarded long-term contract extensions in Thailand

2022



- Acquisition of 5 premium harsh environment jack-ups from Noble Corporation, related private placement and debt financing
- Shelf Drilling North Sea listing on Euronext Growth Oslo
- Expansion of geographic footprint in North Sea and Qatar
- Acquisition of Shelf Drilling Victory
- 16 rig-years of contracts/ extensions in the Middle East
- 12 year-rigs of backlog added with ONGC India across 4 rigs

Board of Directors Report & Financial Statements



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Market Review

Brent Oil Price

Crude oil prices increased in early 2022 as most economies continued to recover from the COVID-19 pandemic, when the onset of the conflict in Ukraine shocked global energy markets. Brent crude prices, having started 2022 in the \$80s, already above the 2019 pre-pandemic highs, quickly surged to \$120 per barrel by March 2022 and traded in a highly volatile fashion over the subsequent months above the \$100 level. During this period, natural gas and liquefied natural gas (LNG) prices surged further to historic highs, particularly in Europe, due to acute short-term supply-side constraints and uncertainty regarding the future of Russian imports. By mid-year, however, inflation rates, brought on by years of accommodating monetary policy and exacerbated by high energy prices, materialized in high single to mid-teens in virtually all economies. The ensuing fears of a global economic recession, resulting from rapidly tightening monetary policies to combat inflation, weighed on oil prices in the later months of 2022. Brent averaged in the low \$80s in December 2022 and has subsequently continued to moderate while remaining constructive for further E&P investments.

Brent Crude Oil Prices (\$/bbl)



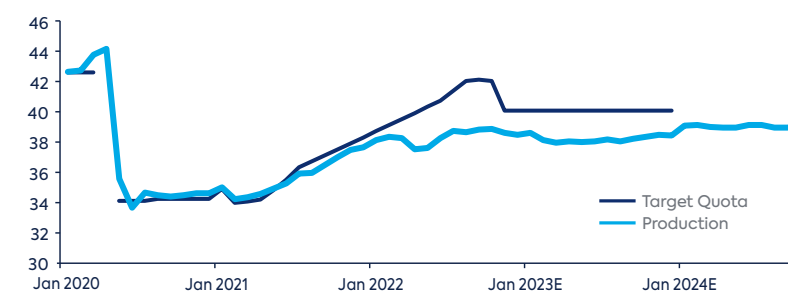
Source: Bloomberg, March 20, 2023

Note (1): From January 1, 2023 to March 17, 2023

Supply & Demand Dynamics and Outlook

The OPEC+ group has been actively balancing crude oil supply to the global market since its 9.7 million barrels per day (bpd) production cut instituted in April 2020. Though production quotas for all members were gradually restored by Q3 2022 to pre-cut levels, data suggest crude output by the group has consistently fallen short of its permitted quota since late 2021. In fact, the gap between official OPEC+ production quota and actual production widened to over 3 million bpd, prior to the group announcing another 2 million bpd production cut in late 2022. OPEC+ members' inability to meet their production quotas stem largely from the industry-wide underinvestment in upstream reservoirs that began following the 2014 commodity price downturn, a situation that only deteriorated further as a result of spending cuts during the pandemic and became even more pronounced as Russian supply was removed from Europe. As such, the core Middle East producers are massively expanding upstream investments in order to rebuild available productive capacity, so that they may continue to intervene with additions or cuts to the supply of crude oil as needed. National oil companies (NOCs) outside of OPEC+, notably Brazil, China, and India, are similarly investing in expanding production capacity to meet expected demand in the medium term.

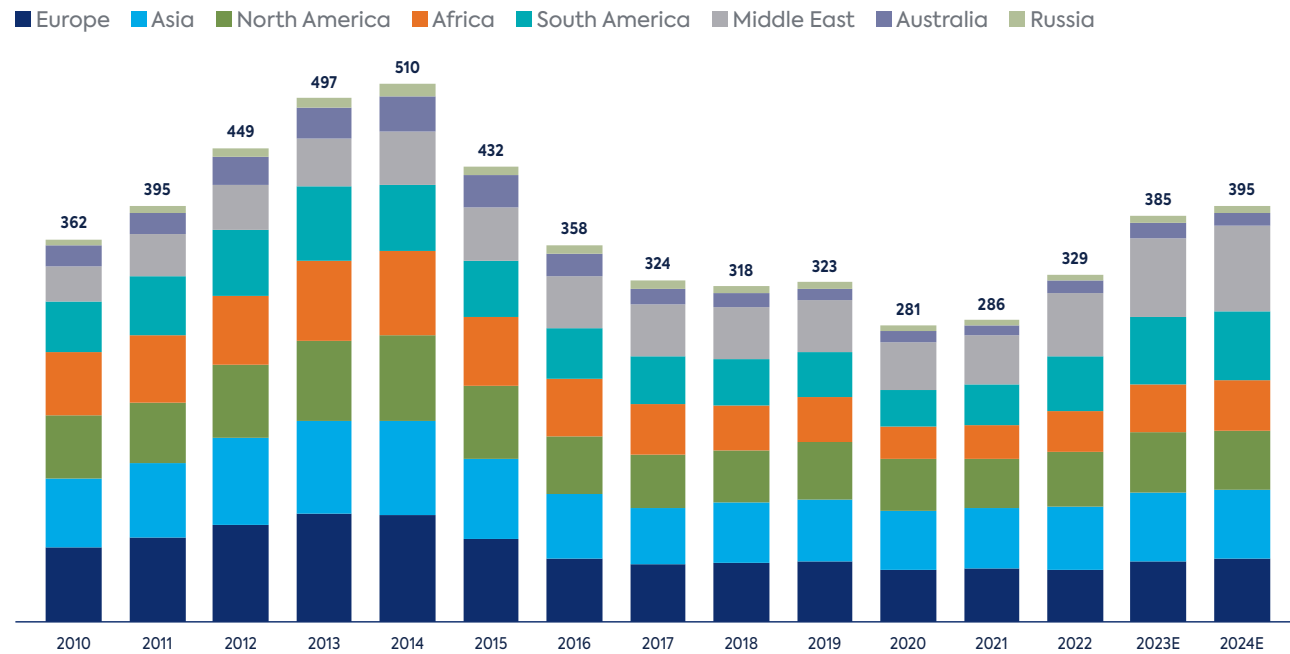
OPEC+ Production Targets vs. Actual Production (million bbls/d)



Source: Rystad Energy, March 2023

International oil companies (IOCs) and independent E&Ps are similarly ramping up spending in offshore drilling programs elsewhere in the world, following a year of record profits and free cash flow in 2022. Although the pace of ramp up has been slower than that of NOCs, overall investment levels are expected to continue to grow in the near and medium term. We expect to see gradual growth in E&P investments in the near term, supported by resilient and rising demand for oil and gas, in addition to the low levels of investment since 2014 that were inadequate for replenishing declining productive capacity, much less expanding production. We are also seeing a larger share of E&P investments heading offshore, as increasingly more of the onshore fields show signs of decline.

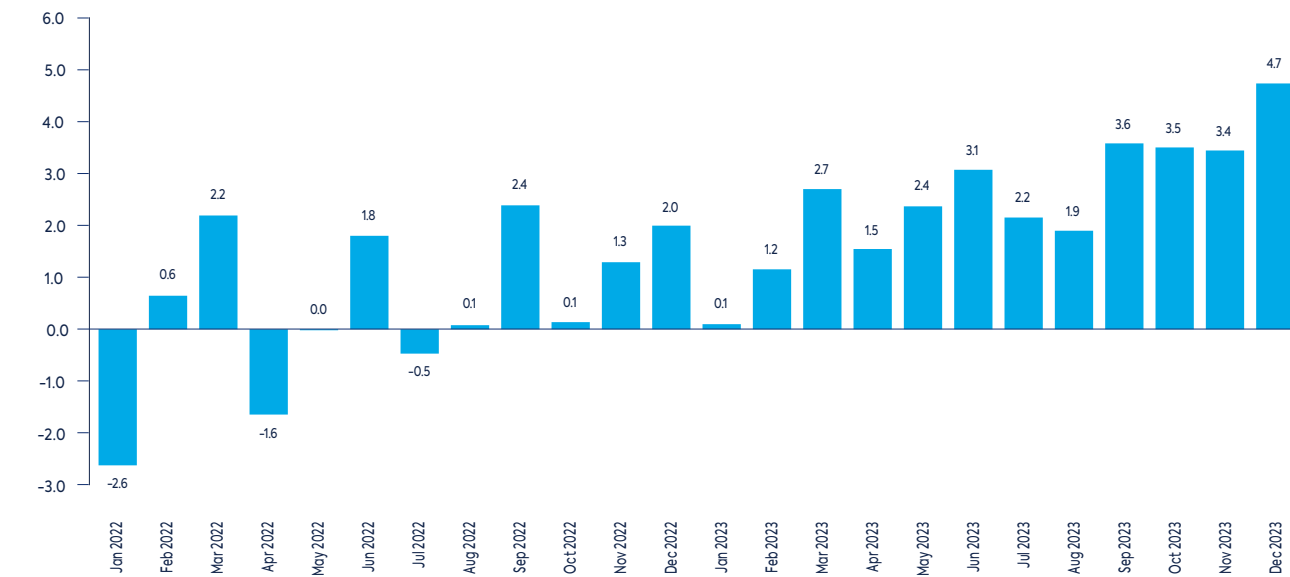
Total E&P Companies Offshore Investments Since 2010 (\$ Billion)



Source: Rystad Energy, March 2023

Global demand for crude oil returned to the pre-pandemic level of 100 million bpd during 2022. China's full re-opening should further boost demand, as trade, travel and other economic activities resume in 2023. According to the IEA, average year-on-year crude oil demand growth was 2.3 million bpd in 2022 and is expected to be 1.9 million bpd in 2023. This outlook, however, is subject to greater than usual geopolitical and inflationary risks.

Global Crude Oil Demand Projection (million bbl/d)

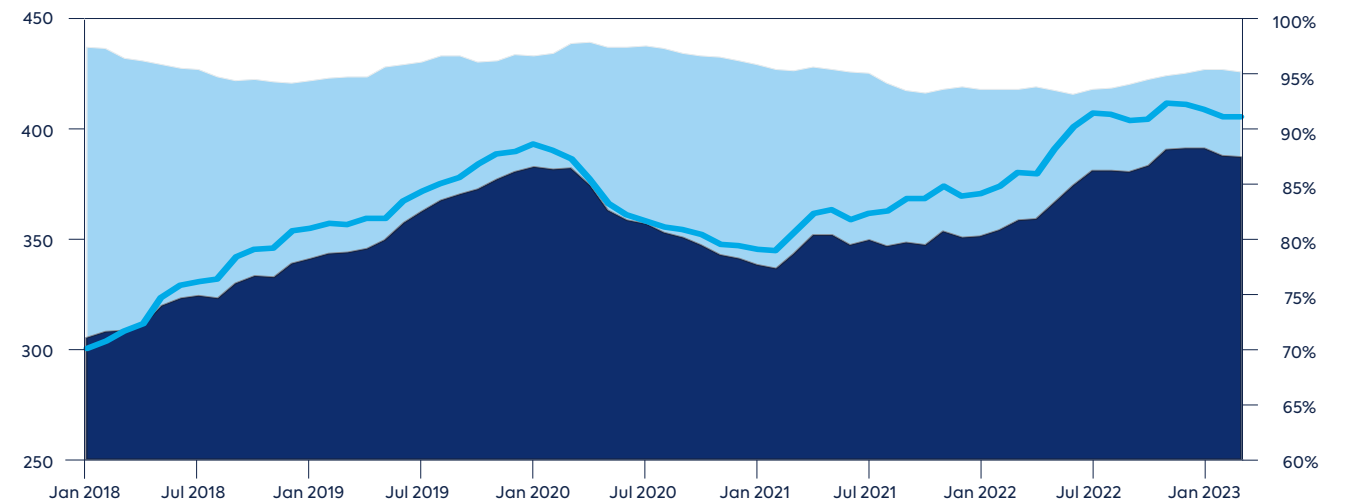


Source: Rystad, February 2023

Jack-up Market & Middle East Impact

The number of contracted jack-up rigs globally increased from 350 in January 2022 to 386 in March 2023, surpassing January 2020's peak of 382 and is fast approaching the all-time high of 429 observed in April 2014. Marketed utilization for jack-up rigs improved further to 91% in March 2023 from 84% in January 2022, to a level we also have not seen since 2014, and nearing full utilization of the global marketed fleet. NOCs in the Middle East have been the primary drivers of jack-up rig demand in 2022, chartering and purchasing rigs from not only in region, but available units from virtually all geographies, including harsh environment rigs in the North Sea. Activity levels outside the Middle East largely held steady throughout 2022, showing marginal increases or declines varying by region. However, customers in India, West Africa and Southeast Asia have awarded increasingly higher dayrates on new contracts towards year end, and are accelerating their tendering processes to fulfill rig demand. Previously stacked and under construction rigs comprised the majority of incremental rigs awarded long-term contracts by NOCs in the Middle East 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.

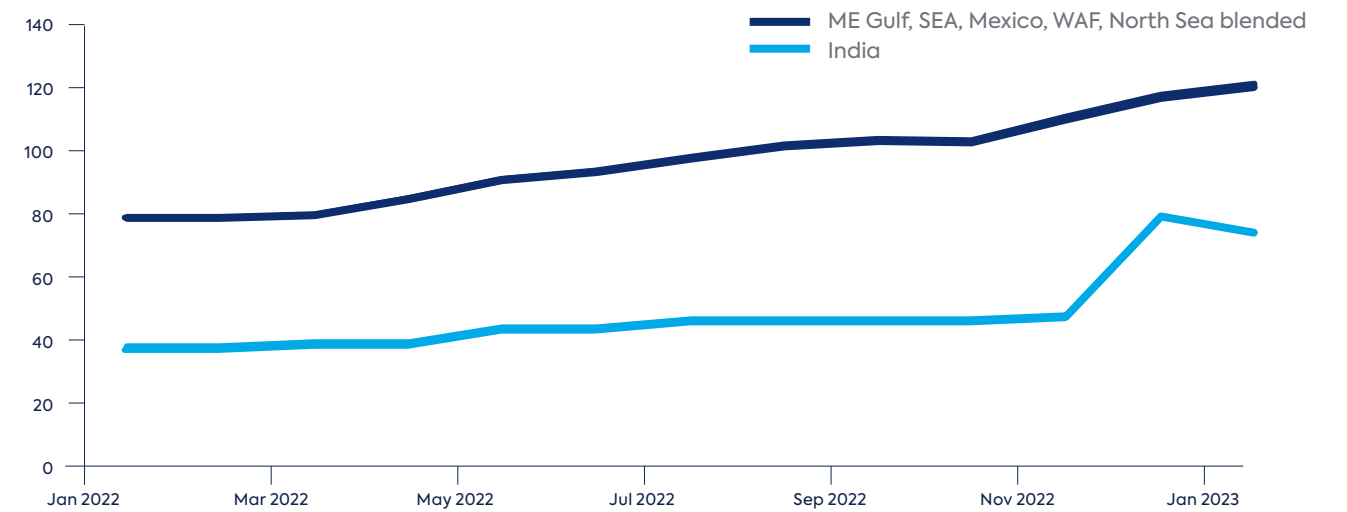
Jack-up Rigs Marketed Supply, Demand & Utilization



Source: IHS Petrodata, March 19, 2023

With marketed utilization rising and spare rig capacity declining, dayrates on new fixtures for jack-up rig services have lifted in a meaningful way across all regions, as E&P companies worldwide compete with NOCs in the Middle East for a smaller and depleting pool of jack-up rig supply, and we expect this trend to continue in 2023.

Average Dayrates on New Contract Fixtures (\$ Thousands)



Source: IHS Petrodata, March 20, 2023

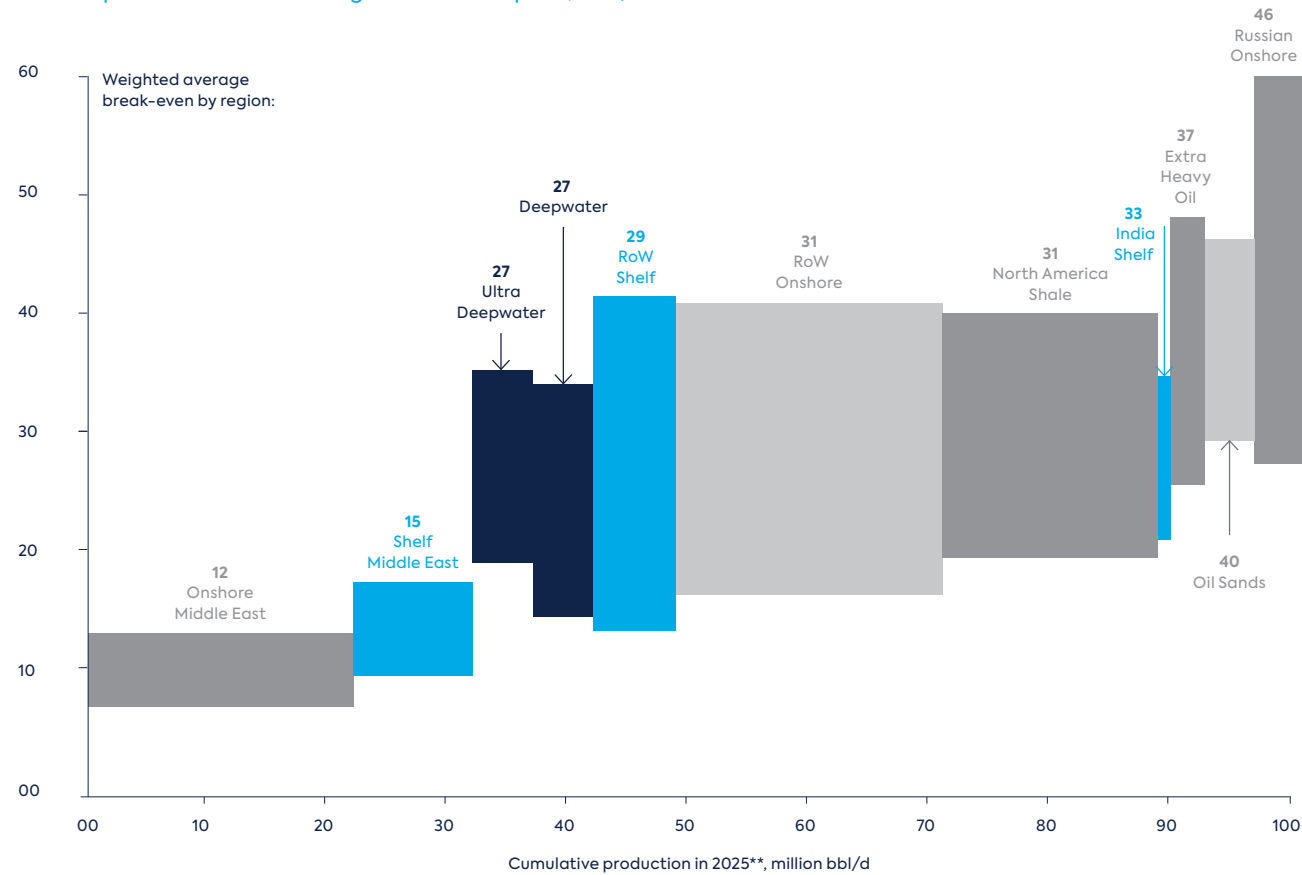
Where We Work

Sole focus on shallow water

Shallow water basins are a key source for global crude production, representing over 18% of total global and 67% of total offshore production in 2022. Low breakeven price and short lead time to production makes shallow water an attractive source as both traditional onshore and the most productive shale producing fields show signs of decline. Aside from growing greenfield drilling activity representing 38% of jack-up activity globally, many lower risk and more resilient brownfield workover projects are also located in shallow water and account for 58% of the work for the global fleet, according to Rystad Energy. As E&P companies continue to carry out their decarbonization pledges, decommissioning or plug & abandonment (P&A) of depleted wells will receive a boost in mature shallow water basins.

Global Liquids Cost Curve (\$/bbl)

Brent equivalent forward looking breakeven oil price, USD/bbl*



*Break-evens calculated as of the current year. All historical cash flows are sunk, 10% NPV **20-80 percentile range
Source: Rystad Energy research and analysis; Rystad Energy Ucube, February 2023

For the first time since inception, Shelf Drilling has expanded its footprint to the North Sea, including Norway, via an acquisition of 5 jack-up rigs from Noble Corporation. This acquisition adds harsh and ultra-harsh environment operations to Shelf Drilling's portfolio of capabilities, without detracting from our sole focus on shallow water activity. All of our key operating regions are among the lowest cost and lowest emission supply sources globally. E&P companies in these regions, predominantly NOCs joined by independents and IOCs, have a proven track record of maintaining a sustainable level of activity throughout commodity price cycles, and have already begun deploying capital to expand investments for future production.

Our industry enjoyed great rig contracting successes accompanied by uplifts in dayrates during 2022, and we expect the jack-up market to further tighten globally as more rigs move onto longer-term contracts and demand for rigs increases across markets.

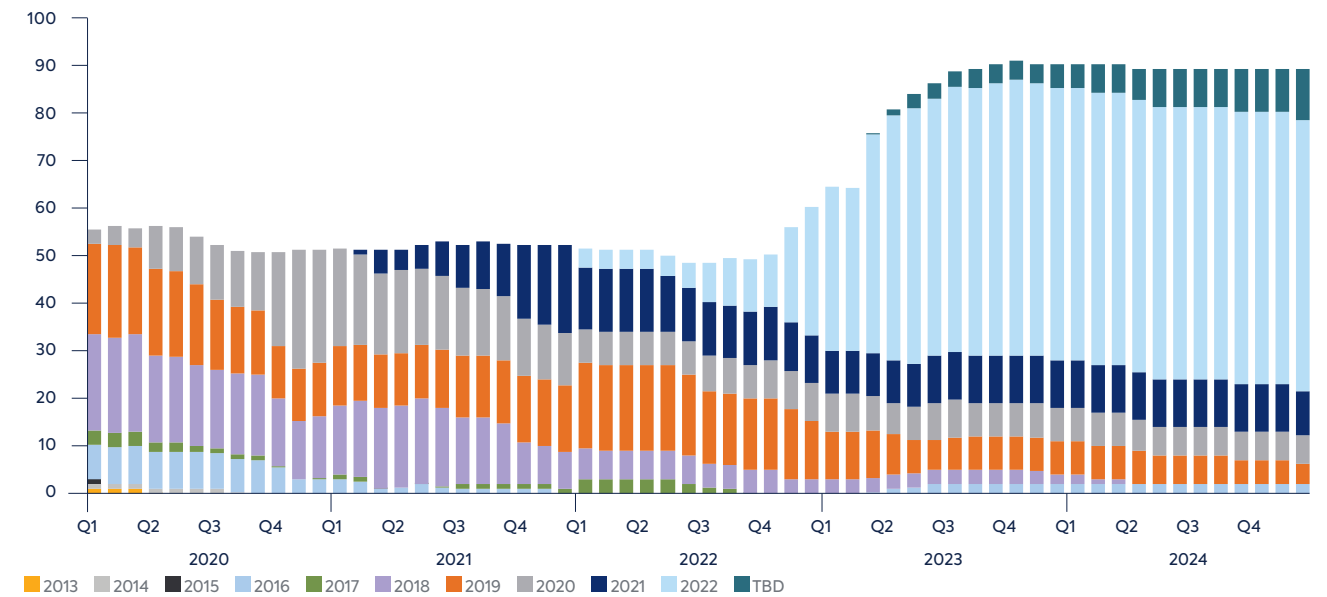
Our Markets

As a leading international pure-play jack-up rig contractor, we have critical mass and significant market share in all our core operating regions, with latest addition of the North Sea. Our sole focus on shallow water operations allows for optimal size, scale, and management of our organization in concentrating our growing fleet of rigs in the most promising markets.

Our five core operating regions – MENAM, India, Southeast Asia, West Africa and North Sea, together make up 70% of the global contracted jack-up fleet.

The Middle East jack-up market, having already been the leader globally in both size and share in the past, has grown substantially in 2022 with multiple rounds of tenders for and awards to more than 40 incremental rigs. While some of these new rigs have commenced their contracts in late 2022, more are expected to begin in the first two quarters of 2023. Our customers in this region are predominantly NOCs and have been the key drivers behind the recent upturn in jack-up rig utilization and dayrates globally. The contracts awarded in this market also tend to be longer term to match long-term projects that span well into the future. We are very well positioned with 10 contracted rigs in this region, of which 2 are among the incremental rigs commencing new contracts in 2023.

Jack-ups on Contract by Fixture Year in Saudi Arabia (# of rigs)



Source: Rystad Energy, March 2023

Though activity levels in India's jack-up market have shown little net change in 2022, dayrate uplifts on new contract fixtures in this region were among the highest globally on a percentage basis. We have observed awards from NOCs and independents at rates double those in the very recent past, or even triple those from recent lows. We continue to maintain our leading position in India with a fleet of 9 rigs fully contracted, following 1 rig departing for the Middle East.

West Africa's jack-up market had begun to show material signs of improvement into year-end 2022, with more IOCs restarting or expanding their development programs. Tendering activity for 2023 has accelerated with both IOCs and independent E&Ps, who also drive a large share of the region's activity. Shelf Drilling is a major jack-up contractor in West Africa with 5 rigs contracted.

Southeast Asia, in contrast to other benign environment markets, has been relatively slower in both tendering activity and uplifts in dayrates. Though rig activity in the region has shown marginal improvements in 2022, we did not observe the NOCs in this region actively competing with customers elsewhere for jack-up rigs, despite the number of market inquiries for available rigs. Shelf Drilling maintains an anchor position in the Gulf of Thailand with 3 rigs on long-term contracts into 2025.

Jack-up demand in the North Sea was strong and growing for much of 2022, owing to renewed concerns in Europe about energy security and self-sufficiency. In addition, rigs had been exiting from the region steadily throughout the year for opportunities in the Middle East, further tightening this harsh environment market. However, sweeping oil & gas windfall taxes imposed by the EU and the UK in late 2022 has temporarily dampened sentiment among E&P companies to further invest in drilling activities. Demand in Norway has likewise been soft going into 2023 but is expected to ramp up in 2024. Shelf Drilling became a major jack-up contractor in the North Sea with 4 rigs, of which 3 are under contract.

Mexico's jack-up market continued to maintain a consistent level of activity in 2022, though rig demand in China took to historic highs, further absorbing previously stranded newbuilds in shipyards across the country. The number of uncontracted newbuilds globally has declined from about 140 in April 2014, to, by our estimate, 12 units, virtually removing the supply overhang of rigs that had been in the jack-up market over the past decade.

Number of Contracted Jack-ups by Region

Regions	Contracted Jack-ups		Change Since Prior Peak
	April 2014	March 2023	
Middle East	127	161	34
India	32	33	1
West Africa	20	11	-9
SE Asia	67	40	-27
North Sea	46	28	-18
Mexico	50	32	-18
US GOM	15	4	-11
China	30	58	28
Sub-Total	387	367	-20
Total Contracted	429	386	-42
Available	24	39	15
Total Active Supply	453	426	-27
% Marketed Utilization	95%	91%	0
Under Construction	141	20	-121

Source: IHS Petrodata, March 13, 2023

Business Review

Our 2022 Key Performance Indicators

0.16

TRIR

99.3%

Uptime

\$2.68B

Backlog

31.0

Average Marketable Rigs

83.5%

Effective Utilization

\$63.4K

Average Dayrate

Safety & Operational Performance

Shelf Drilling achieved a Total Recordable Incident Rate (TRIR) of 0.16 for the year 2022 matching the lowest result in our Company's history. This was an especially notable achievement given the phasing out of COVID-19 protocols in multiple locations early in the year, and the transition and integration of the rigs acquired with the Noble transaction later in the year. The total number of recordable incidents in 2022 was 8 and our TRIR of 0.16 was 76% below the IADC industry average of 0.67, and our Lost Time Incident Rate (LTIR) was 0.04. The entire Shelf Drilling fleet operated for 7 months, 4 of which consecutive, without a recordable incident during the year, while 23 rigs and the entire Nigeria division were recordable incident-free throughout 2022. Our Make it Safer Today program shall continue to evolve and adapt, empowering our crew members with the tools and means in our strive for "Perfect Execution" and incident-free operation.

Our 2022 fleetwide operational uptime was a consistently high 99.3%, in line with what we had achieved in 2021. Although COVID-19 related mobility restrictions fell away during the year, our industry faced unprecedented supply chain challenges due to logistics and a significant upturn in our sector. The progress we made and the success in maintaining the high uptime, despite the integration of high-specification, harsh environment rigs, are testaments to our centralized and fit-for-purpose approach to maintenance, technical support, and procurement.

Three of our rigs recorded less than 5 hours of downtime in 2022, of which two are newly acquired rigs in the North Sea and one rig achieved a full year with 100% uptime. Egypt, Mediterranean, and India were our highest performing regions in 2022 at 99.5% uptime. The Middle East followed closely with a 99.3% uptime.

Of the shipyard projects we initiated in 2022, six have been completed and two are still ongoing. These include three projects for our Thailand fleet (Shelf Drilling Enterprise, Shelf Drilling Chaophraya, and Shelf Drilling Krathong), two projects for rigs renewing contracts in India (F. G. McClintock and Ron Tappmeyer), one project for an incumbent rig in Saudi Arabia (High Island V), and two contract preparation projects to deploy Harvey H. Ward and Shelf Drilling Victory into the Middle East. Despite external challenges on supply chain, through detailed planning and agile project management, our team continues to rise to meet these challenges and deliver outstanding results within budgeted time and costs.

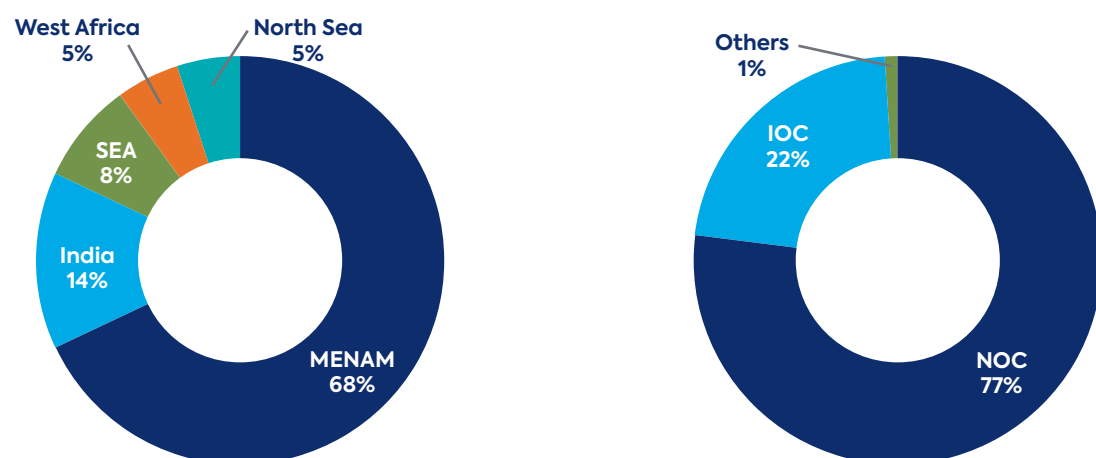
Backlog

Our marketing efforts leveraged upon our performance track record and strong customer relationships boosted by an improved backdrop, whereby Shelf Drilling finished 2022 with contract backlog of \$2,682 million, representing slightly over \$1 billion of net backlog additions compared to \$1,679 million at year end 2021. Building on the momentum in the previous year, we secured twenty-four new contracts, extensions, and option exercises together amounting to an estimated \$1,312 million of backlog, excluding those transferred from acquired rigs and indexed rate adjustments. During the year, we were delighted to add seven new names to our customer base, primarily in West Africa and the North Sea, and to have secured two new contracts with known customers in new locations.

Our customers include NOCs, IOCs, and independent oil & gas operators, including but not limited to Saudi Arabian Oil Company (Saudi Aramco), Oil and Natural Gas Corporation Limited (ONGC), Chevron Corporation (Chevron), Ente Nazionale Idrocarburi S.p.A (ENI), Qatargas, TotalEnergies S.A. (Total), and PTT Exploration and Production (PTTEP).

Within the calendar year 2022, we added 44 rig-years of activity to our fleet, in which 35 out of 36 rigs were contracted at year end, attaining 97% marketed utilization and an average of 974 contracted days per rig. The extraordinary level of marketing performance we enjoyed in 2022 derives not only from an improving market backdrop, but Shelf Drilling's relationships with and reputation among E&P companies as the international jack-up contractor of choice.

Backlog Breakdown by Geography and Customer Type



Other Performance Indicators

Effective utilization (a measure that is impacted by periods off hire and not on full dayrate such as downtime, waiting on weather, or other factors) increased to 84% in 2022 from 73% in 2021. The improvement was largely due to finding more innovative and technically proficient ways to conduct out-of-service projects for rigs rolling onto new contracts with the same customers in India and Saudi Arabia, less idle time on rigs in Nigeria, and fewer rig mobilizations over long distances.

Our average marketable rigs for full year 2022 increased from 30.6 to 31.0 as we closed the acquisition of Shelf Drilling Victory from Aban and the Shelf Drilling Barsk, Shelf Drilling Fortress, Shelf Drilling Odyssey, Shelf Drilling Perseverance, and Shelf Drilling Winner from Noble. Our marketable rigs statistic is expected to rise further in 2023 due to these acquisitions.




Average dayrate for rigs in operation in 2022 increased to \$63.4k per day from \$60.5k per day in 2021, mainly as a result of rigs on indexed dayrates in Saudi Arabia moving higher, a full year contribution from Shelf Drilling Tenacious in Angola, partial contributions from acquired rigs on higher rate contracts and offset by Shelf Drilling Chaophraya and Shelf Drilling Krathong in Thailand completing their maiden contracts and subsequently moving onto lower rate contracts signed in 2021.

Rig Acquisitions in 2022

2022 was a transformational year for Shelf Drilling's fleet composition and geographic footprint. In Q3, we successfully closed the acquisition for Aban's Deep Driller 7 jack-up, which was renamed Shelf Drilling Victory. This acquisition was a highly opportunistic one-off transaction in anticipation of a contract with an existing customer. We were pleased to add a premium rig to our fleet at an appealing cost, and subsequently secure the contract we had anticipated for this rig in the Middle East. In Q4, our majority owned subsidiary, Shelf Drilling North Sea (SDNS), completed the acquisition from Noble Corporation five premium, harsh environment jack-up rigs and their associated shore-based support and infrastructure. This transaction was highly bespoke, and only made possible with support from the teams at both Shelf Drilling and Noble, our equity and debt investors, and other stakeholders involved.

As a result of these strategic transactions, Shelf Drilling entered the North Sea jack-up market with scale, strengthened our presence in the Middle East, and significantly enhanced our fleet profile, all in line with our stated goals and long-held ambitions. We are extremely pleased to welcome a team of seasoned oil & gas experts as well as new investors to our Company.

Rig Acquisitions

	Shelf Drilling North Sea				Shelf Drilling	
	Tier 1 Norway	Tier 1 North Sea and Middle East		Premium High-Spec Harsh	Premium High-Spec Benign	
						
Previous Names	Lloyd Noble	Houston Colbert	Sam Turner	Sam Hartley	Hans Deul	Deep Driller 7
Renamed	SD Barsk	SD Odyssey	SD Winner	SD Fortress	SD Perseverance	SD Victory
Build Year	2016	2014	2014	2014	2008	2008
Build Cost	\$770m	\$235m	\$235m	\$245m	\$153m	\$170m
Rig Design	GustoMSC CJ70	F&G JU3000N	F&G JU3000N	F&G JU3000N	F&G JU2000E	PPL BMC 375
Water Depth	500 ft	400 ft	400 ft	400 ft	400 ft	375 ft
Variable Deck Load	8,800 tons	7,150 tons	7,150 tons	7,150 tons	5,500 tons	3,318 tons
Hook Load	2,000 kips	2,500 kips	2,500 kips	2,500 kips	1,500 kips	1,600 kips
Cantilever Reach	110 ft	75 ft	75 ft	75 ft	75 ft	70 ft
Quarters Capacity	140	150	150	150	118	120

Source: Noble Corporation, Aban Offshore, IHS Petrodata as of March 1, 2023

Financial Review

2022 represented a year of transformation and recovery for Shelf Drilling after two years marked by the COVID-19 pandemic. Our results were positively impacted by the supportive oil and gas price environment on the backdrop of an improving rig supply and demand balance. During the year, we executed on our fleet expansion and enhancement strategy with the acquisition of six high specification jack-up rigs at very attractive entry points. The Shelf Drilling Victory was acquired in July 2022 and will contribute cash flow in 2023, while the harsh environment Shelf Drilling Barsk, Shelf Drilling Fortress, Shelf Drilling Perseverance, Shelf Drilling Winner and Shelf Drilling Odyssey were acquired in October 2022 and were immediately accretive to earnings. In a market environment where fundamentals continue to improve, the investments in 2022 will drive future growth for Shelf Drilling.

Our financial results for 2022 demonstrate a significant improvement from the prior year and reflect a high level of capital investments for new quality assets. In this context, Shelf Drilling delivered in 2022 an Adjusted EBITDA margin of 36% and closed the year with a cash balance of \$141 million.

Financial 2022 Key Performance Indicators



Significant Transactions in 2022

In July 2022, we acquired the high specification jack-up rig Shelf Drilling Victory for \$30 million and executed shortly after a 5-year contract for operations in the Arabian Gulf. The rig is currently under preparation for this contract and is expected to start operations in April 2023. In 2022, a total of \$58 million was invested for the Shelf Drilling Victory.

In October 2022, we finalized the acquisition of five high specification harsh environment rigs from Noble Corporation for \$375 million in cash. This complex transaction was executed via the creation of Shelf Drilling (North Sea), Ltd. ("SDNS"), which now owns the five acquired rigs. To fund the acquisition of the five rigs, SDNS completed the issuance of \$250 million aggregate principal amount of new 10.25% senior secured notes due October 31, 2025, received \$120 million cash contributions from Shelf Drilling Holdings, Ltd., an indirect wholly owned subsidiary of Shelf Drilling, Ltd., and completed a private placement of common shares for gross proceeds of \$80 million. As part of this acquisition, Shelf Drilling, Ltd. also raised gross equity of \$50 million in June 2022 to partially finance the \$120 million contributions to SDNS. SDNS is now owned 60% by Shelf Drilling and 40% by external investors and was listed on Euronext Growth Oslo Exchange in October 2022.

Our tendering and marketing momentum, combined with the overall improvement in dayrate, allowed us to substantially increase our backlog to \$2.7 billion. Several new long-term contracts and extensions were executed during the year at attractive dayrates and will contribute to earnings from 2023, after significant upfront contract preparation expenditures initiated in late 2022 and early 2023.

Laying the foundation for continued success and maximized future earnings and cash flow.

Financial Performance Summary

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

	Year 2022	Year 2021
Statements of Operations		
Revenue	\$695,221	\$526,566
Operating and maintenance	\$385,675	\$323,994
Adjusted EBITDA	\$248,560	\$158,298
Income/(loss) before income taxes	\$9,927	\$(60,167)
Net loss	\$(24,213)	\$(78,637)
Net loss attributable to controlling interest	\$(28,805)	\$(78,637)
Balance Sheets		
Current assets	\$396,262	\$436,646
Long-term assets	\$1,650,076	\$1,180,891
Total assets	\$2,046,338	\$1,617,537
Current liabilities	\$202,002	\$158,881
Long-term liabilities	\$1,528,845	\$1,244,985
Equity	\$315,491	\$213,671
Key Ratios & Statistics		
Net debt/LTM adjusted EBITDA	5.2x	6.1x
Total contract backlog/Net debt	2.1x	1.7x
Adjusted EBITDA margin	36%	30%
Adjusted free cash flow	\$(10,548)	\$(74,811)
Loss per common share	\$(0.18)	\$(0.57)
Number of common shares issued and outstanding	176,369	137,116

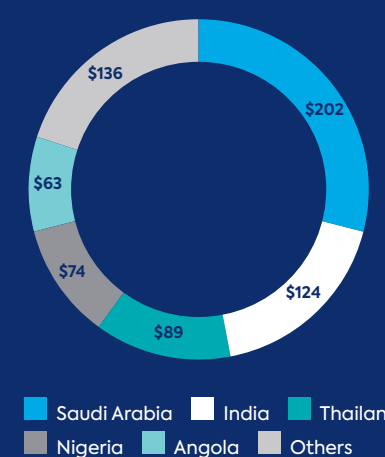
Total revenue for 2022 of \$695 million increased from \$527 million in 2021. Adjusted EBITDA was \$249 million and Adjusted EBITDA margin was 36% in 2022, compared to \$158 million and 30%, respectively, for 2021. Net loss attributable to controlling interest was \$29 million. Effective utilization increased to 83% in 2022 from 73% in 2021 due to the return to operations of several rigs during 2022 as well the consolidation of the SDNS rigs from October 2022. Average earned dayrate increased to \$63.4 thousand in 2022 from \$60.5 thousand in 2021. Year-over-year, our total Operating and maintenance and General and administrative expenses increased by \$73 million, explained by the general increase in activity as well as by the addition of the SDNS rigs. The income tax expense for 2022 was \$34 million or 4.9% of total revenue. Loss per common share was \$(0.18).

Capital expenditures and deferred costs in 2022 of \$587 million included \$418 million for the acquisition of the five SDNS rigs and \$58 million for the acquisition and readiness project of the Shelf Drilling Victory.

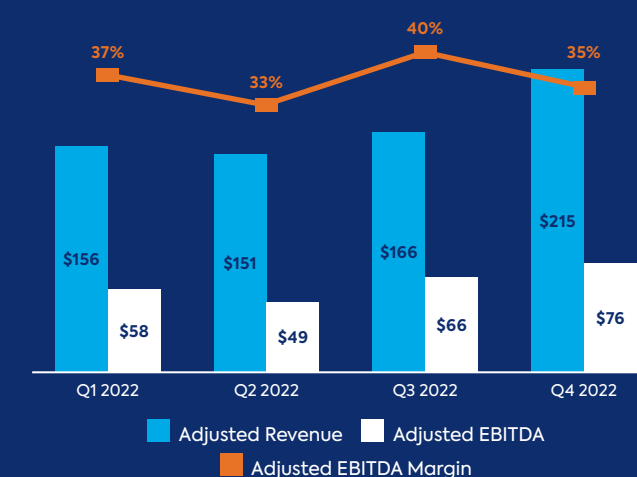
At the end of 2022, Shelf Drilling's cash balance was \$141 million. The net cash provided from operations in 2022 was \$20 million and the total debt principle was \$1.5 billion as of December 31, 2022. Net debt increased by \$250 million during 2022 due to the issuance by SDNS of \$250 million new 10.25% senior secured notes due October 31, 2025 to finance the acquisition of the five rigs from Noble. Our total backlog/net debt ratio was 2.1 as of December 31, 2022, compared to 1.7 in the prior year.

The demand and pricing for jack-up services have continued to recover and, as of December 31, 2022, 35 of our 36 rigs were under contract. Our financial discipline and approach to fleet investments, combined with our unique operating platform, position Shelf Drilling to leverage the improving market backdrop and maximize future earnings and cash flow.

2022 Adjusted Revenue by Country (\$ Millions)



Quarterly 2022 Adjusted Revenues (\$ Millions), Adjusted EBITDA (\$ Millions), and Adjusted EBITDA Margin (%)





Sustainability Report

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CEO Sustainability Statement

Our commitment to achieving incident-free operations remains unwavering and we achieved a Total Recordable Incident Rate (TRIR) of 0.16, delivering the best safety performance in our Company's history.



Our COVID-19 protocols and vaccination campaigns helped keep our employees safe and minimized operational downtime across our fleet throughout 2022. The gradual removal of most of the restrictions by governments, airlines and our customers ensured that our crews were able to go back to a more regular crew change schedule as the year progressed. Since the onset of the COVID-19 pandemic, our crews and their families have demonstrated an extraordinary commitment to comply with the demands imposed on them by the various protocols, and I would like to thank them for their strong and unwavering dedication to the Company.

The challenges of the last few years have highlighted the importance of mental health. Consequently, we worked with recognized experts to develop a Mental Health First Aid program that was rolled out to key employees during 2022. We are continuing to enhance this program as a result of the positive feedback received.

Our commitment to achieving incident-free operations remains unwavering and we achieved a Total Recordable Incident Rate (TRIR) of 0.16, matching the lowest in our Company's history. Our Make It Safer Today campaign continued to generate real engagement by our crews to identify potential incidents or hazards which contributed to this result.

We remain committed to reducing emissions from our operations and have set a goal to reduce our per-rig, per-day Scope 1 emissions by 20% over 5 years. We added key sustainability goals to our annual bonus program in 2022 to incentivize all participants throughout the Company. Our progress on these goals is summarized below and more fully described later in this report.

While we saw a reduction in our per-rig, per-day Scope 1 emissions of 5.5% in 2022 from the 2021 baseline, our fourth quarter emissions did not meet the 4% reduction target due to an increase in the number of rigs working in drilling operations versus workover or plug and abandonment. To set meaningful reduction targets for our rig-crews, we are continuing to look for ways to establish an activity-based metric and further enhance our measurement platform in 2023.

We also performed a detailed analysis in line with the Greenhouse Gas Protocol to identify further areas for assessment and inclusion in our reported Scope 3 data. Initial estimates for relevant categories have been included in this report.

We performed a comprehensive assessment of the salient human rights issues for our business and established action plans and metrics that will be further refined this year to ensure our compliance with the relevant requirements.

We formalized our Corporate Social Responsibilities program to support the communities in which we work with a focus on educational support.

We achieved an A- rating when benchmarked against the ESG 100 report produced by Position Green and a B- rating from the Carbon Disclosure Project, demonstrating that our sustainability program and reporting is considered upper quartile when compared to the benchmarked peers for our sector.

The acquisition of the five high specification, premium jack-up rigs from Noble Corporation allowed us to enter the North Sea market with scale. This transaction fits with our overall sustainability program and presents an opportunity to work with customers in a highly regulated market that aligns with our commitment to reducing the emissions from our operations. This also provides potential opportunities in carbon-capture and storage, a market that is further advanced in this region than the other areas where we work.

In 2023, we aim to enhance the quality, breadth, and reliability of our Scope 1 data capture through the assessment of several pilots launched last year to automate data capture for engine, fuel, and emissions parameters. Our Scope 1 reduction target continues to be included in our annual bonus program for all participants to drive down our emissions in line with our long-term goals.

This sustainability report is prepared in line with the recommendations of the Sustainability Accounting Standards Board (SASB), the Carbon Disclosure Project (CDP), the Task Force on Climate-related Financial Disclosure (TCFD) and, where relevant, is aligned with the Global Reporting Initiative (GRI) standards.

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

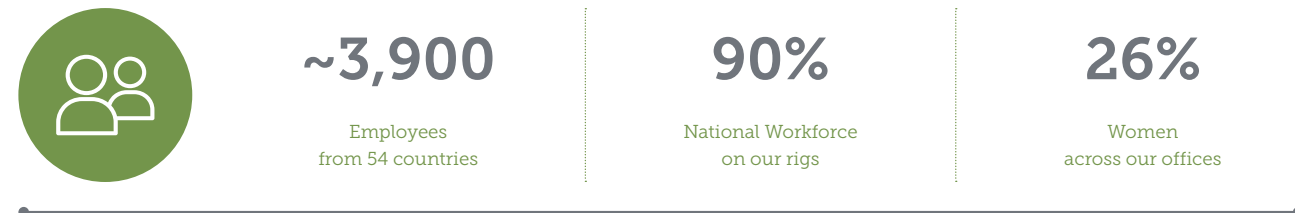
David Mullen
Chief Executive Officer

Sustainability Highlights

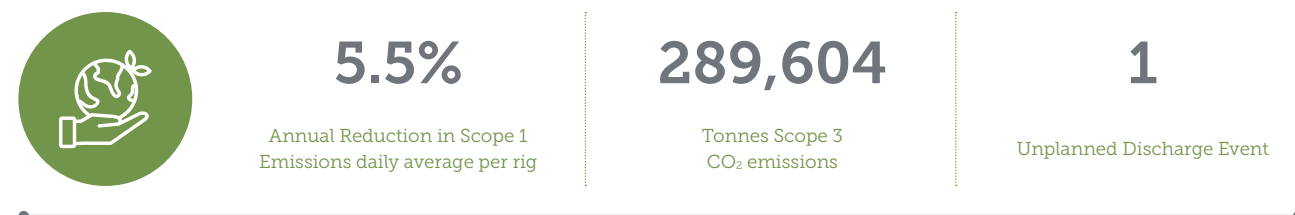
Health & Safety



People & Society



Climate & Environment



Responsible Business Conduct



Grade B-  **CDP**
for CDP
DRIVING SUSTAINABLE ECONOMIES

Grade A-  **ESG 100**
for ESG100

Sustainability at Shelf Drilling


At Shelf Drilling, sustainability is at the core of everything we do. We define sustainability as achieving commercial profitability in a way that is consistent with our fundamental ethical values and with respect for individuals, the environment, and society. Our core values – Protect, Lead, and Execute – align with this commitment and guide us in achieving our strategic priorities of Focus, Reliability, and Relationships with integrity and ethics.

We have three strategic priorities

Focus
Jack-up operations are our sole focus

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

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



Our business is based on three essential values

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

Lead
We conduct business ethically, with responsibility and accountability.

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

Who We Are

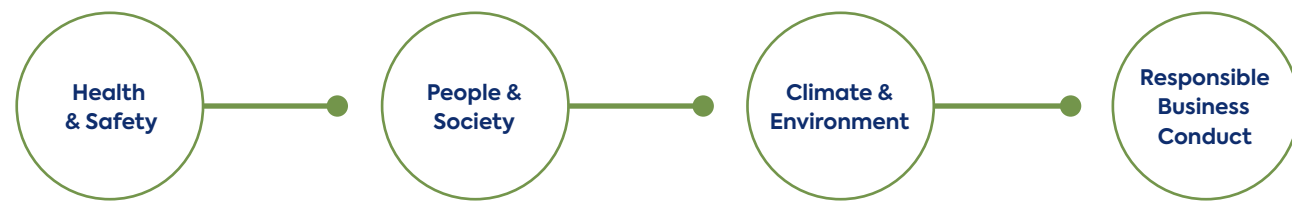
Shelf Drilling is a leading international shallow water offshore drilling contractor with rig operations across Middle East, Southeast Asia, India, West Africa, Mediterranean and North Sea. The Company was founded in 2012 and has established itself as a leader within its industry through its fit-for-purpose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

Our Impact

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

However, we are also aware of our responsibility and potential to make significant positive contributions by providing society with essential energy, contributing to socio-economic development through job creation, and empowering our people with opportunities to grow in a professional, safe, and trusted working environment. We remain committed to upholding human rights across our value chain and mitigating any potential negative impact. As a global company operating in various regions, we take our responsibility seriously to ensure compliance with a variety of regulatory frameworks. This ensures that we deliver success in the right way and win the trust and confidence of our customers and stakeholders, including the governments and the communities in which we operate.

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



How We Manage Sustainability

Sustainability Policy

Our commitment to sustainability is anchored in our overarching [Sustainability Policy](#). The policy sets forth the basic principles for business practices, management approach and personal behavior for Shelf Drilling. Drawing on key existing policies, requirements and standards, the sustainability policy provides stakeholders with a clear overview of how we are committed to sustainability and how we put it into action. The policy applies to all employees, as well as consultants acting on our behalf, and was approved by our Board in 2020. It is anchored on corporate level in our Company Management System, and publicly available on our website, reflecting our commitment to transparency and accountability. By setting clear policies and expectations, we aim to integrate sustainability into every aspect of our operations and culture.

Other Policies & Procedures

Shelf Drilling has adopted, and regularly updates, several other policies, procedures and controls to ensure compliant management of sustainability-related activities. These include **Code of Business Conduct and Ethics**, **Global Anti-Corruption Policy**, and **Vendor Code of Conduct** which were updated in 2020 to include key sustainability matters. Further, our **Rig Recycling Policy** outlines the procedures we follow to ensure that all rig disposal activities are conducted in compliance with relevant laws and regulations, and in a manner that minimizes risk to people and the environment.

Our employees are required to abide by the established policies in conducting their activities for Shelf Drilling and we have implemented training as well as a system for monitoring compliance. We continuously review and improve our policies and procedures to ensure that we are achieving our goals and complying with evolving regulations. For additional information on our policies and how we manage sustainability at Shelf Drilling please visit our website www.shelfdrilling.com.

Corporate Governance of Sustainability

At Shelf Drilling, we believe that effective governance structures are critical to ensuring that sustainability is integrated into all aspects of our business, from strategy development to risk management to day-to-day operations. Our governance approach is designed to promote accountability, transparency, and stakeholder engagement, and it involves multiple layers of oversight and management. An overview of our governance framework for sustainability is outlined below.

- **Board of Directors** of Shelf Drilling regularly engages with management and external advisors to discuss, review and approve (where required) the Company's sustainability-related strategy, risk management, and performance.
- **Audit Committee of the Board** oversees the Company's risk management programs, including Enterprise Risk Management (ERM), that fully incorporates risks associated with climate-change and other sustainability related matters.
- **ERM Steering Committee**, which is chaired by the CEO and includes all executive management and other key management within the Company, owns and drives the ERM process including an annual review of the Company's risks and mitigation priorities.
- **Chief Executive Officer** is responsible for operationally driving the Company's sustainability strategy and performance. The CEO chairs the Company's ERM Steering Committee and has the ultimate responsibility for ensuring that the Company's risks (including sustainability-related) are assessed and appropriate mitigation and monitoring measures implemented.
- **Management Sustainability Steering Committee**, which is chaired by the Executive Vice President, oversees the development and implementation of our sustainability goals, including those approved by the Board. The committee meets regularly to propose and monitor the progress of various sustainability initiatives and efforts.
- **Rig Steering Committees** on each rig uphold our sustainability standards offshore, including monitoring of environmental and safety efforts, and sharing best practices and lessons learned across our fleet.

We also recently added Sustainability Manager position to our team. This role is responsible for leading the development and implementation of our sustainability plans, ensuring alignment with global best practices and industry standards. By dedicating a specific role to sustainability management, we aim to strengthen our commitment to sustainability and drive meaningful progress towards our goals.

Performance Assessment

Our annual bonus program rewards company performance for the year based on a comprehensive set of performance indicators which include sustainability-related goals including Scope 1 emission reduction and safety. This bonus program applies to our OIM's on the rig and all management position across the Company, including our executive management team further integrating sustainability into our Company culture and operations.






Risk Management

Shelf Drilling established a comprehensive ERM process in 2014 that has continued to be refined and enhanced over the years. The ERM framework helps identify and assess the likelihood and impact of all risks, hazards, or other threats to our business activities, and to define specific mitigation and monitoring measures to reduce their potential impact. We re-assess all identified risks annually and discuss the top risks with the ERM Steering Committee, the Audit Committee, and the Board. Our ERM outcomes help establish the Internal Audit plan, which is approved by the Audit Committee each year. In 2022, we refreshed our ERM approach by integrating a management readiness assessment to our consolidated risk framework, which further helped us identify and prioritize the top risks and streamline our action planning and tracking.

Climate Risks

Shelf Drilling recognizes that climate change brings regulatory, reputational and/or market risks and opportunities for us. To manage these risks, we conducted a climate risk review in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD). The review identified several physical and transitional climate-related risks and opportunities relevant to Shelf Drilling which were integrated into our ERM process. Like all other risks, we developed mitigation measures for these risks, assigned responsibility to management team members, and monitor regulatory developments and customer requirements on an ongoing basis.

The following table provides a summary of the climate risks review and management actions.

Risk Category	Risks Identified	Management Action
 Physical Risks	<ul style="list-style-type: none"> - Extreme weather, floods, and drought affecting employee safety and wellbeing and causing damage to assets, suspension of operations and/or disruption of supply chains 	<ul style="list-style-type: none"> - Robust measures to ensure employee health, safety and wellbeing in case of extreme heat - Education of employees on how to recognize and mitigate effects of extreme heat - Localization of supply chains/ development of "national content" where possible
 Regulatory & Liability Risks	<ul style="list-style-type: none"> - Potential for carbon tax, or other regulations, leading to increased cost of operations, cost of compliance or restriction of activity - Potential for lawsuits from parties who suffer damage leading to increased costs 	<ul style="list-style-type: none"> - Monitor policy and regulatory developments - Investments in emissions reduction measures, targets and technology
 Technology Risks	<ul style="list-style-type: none"> - Breakthroughs or incremental improvements requiring investments - Existing technologies becoming obsolete leading to write-offs 	<ul style="list-style-type: none"> - Investments in plug & abandonment projects, pursuing carbon capture - Collaboration with external stakeholders, industry associations to collaborate and drive innovation
 Market Risks	<ul style="list-style-type: none"> - Change in consumer and investor behavior causing change in company valuation and access to capital - New production models affecting viability of business model 	<ul style="list-style-type: none"> - Scenario analysis and consultation with industry experts to demonstrate business resilience - Enhanced transparency and disclosures in sustainability reporting - Stakeholder engagement and communication
 Reputational Risks	<ul style="list-style-type: none"> - Concerns surrounding the nature of the Company's activities and impacts damaging brand value - Talent attraction and retention 	<ul style="list-style-type: none"> - Stakeholder engagement and communication - Competitive compensation and benefits and focus on employee wellbeing

The table on page 85 an overview of Shelf Drilling's responses to the 11 TCFD reporting recommendations as cross-referenced to various sections of this Sustainability Report, our [2022 Form 10-k Equivalent](#), and our [2022 CDP disclosure](#). We believe these details will help our investors and all other stakeholders better understand how Shelf Drilling is positioned to manage the risks and opportunities associated with climate change.

Scenario Analysis & Consultation with Industry Experts Demonstrates Business Resilience

In 2021, the Board reviewed with Rystad Energy and the management team the potential impact of climate change on oil and gas demand across a number of scenarios as part of a review on opportunities associated with the energy transition – this was an update to a similar review conducted in 2019. Based on the outcomes of this review combined with the following factors (also covered in the subsequent section), the Company sees continued long-term demand for its services across all of the scenarios considered.

We believe our operating footprint makes us resilient to climate change risks, and includes:

- Our sole focus on jack-up operations and core operating areas which have relatively lower emissions compared to other regions and offshore rig types.
- The shallow water areas where jack-ups operate represented approximately 18% of the world’s total liquids production in 2022.
- In 2022, 42% of our total operations (by number of wells) were in brownfield projects while 56% were from P&A. These activities are more resilient across all climate change scenarios.

To demonstrate our commitment to a net-zero economy, we have introduced emissions reduction targets for 2022 onwards that are based on a methodology consistent with the Science Based Targets initiative (SBTi).

Our Contribution to Energy Transition

As the world pursues the objectives of the Paris agreement, oil and gas will remain a significant part of the global energy mix for many years to come. While we recognize the imperative of reducing greenhouse gas emissions, we also acknowledge the reality that hydrocarbons will continue to be needed to meet the growing energy demand, especially in emerging economies.

Shallow water operations, which are our sole focus, deliver hydrocarbons at lower cost and lower CO2 per barrel than most other areas, making them a key source of oil and gas supply. Shallow water fields, and the Middle East in particular, are significant contributors to the oil and gas supply and are projected to deliver an increasing percentage of the world’s supply under most climate change scenarios. Our role is to support our customers’ oil and gas drilling, workover, and abandonment programs in a safe, reliable, and environmentally responsible way. We have implemented measures to track and reduce the emissions from our activities, as described in this report.

In addition to our core services, Shelf Drilling has invested heavily to develop a strong expertise in plug and abandonment (P&A) operations, an area with significant activity in Thailand where we partnered with a major customer to develop a unique, highly customized approach that delivered results that exceeded expectations. As more fields reach the end of their productive life, the demand for P&A services is expected to increase, creating new opportunities for us to grow our business in a significant area for the circular economy.

Our recent acquisition in the North Sea presents a strategic opportunity for us to further expand this service offering in a region with a demonstrated potential for decommissioning projects. We also see a growing market for Carbon Capture and Storage (CCS) projects, where the North Sea is more established than other regions where we operate. Leveraging our proven P&A capabilities, we aim to participate in CCS projects and contribute to the global efforts to achieve net-zero emissions.

In summary, Shelf Drilling is committed to playing a constructive role in the energy transition, recognizing the need to balance the imperatives of energy security, affordability, and sustainability. We will continue to innovate, collaborate, and invest in our people, assets, and technologies to serve our customers and contribute to a better future for all.

Our Approach to Sustainability Reporting

Our Material Topics Contribute to the UN Sustainable Development Goals

Within our four sustainability priorities – health & safety, people & society, climate & environment, and responsible business – we have identified 13 material topics as (listed on next page) through a materiality assessment performed in 2020 that included an outreach to key stakeholders. We validated in 2022 that these remain relevant for our business. In this report, you will find information on these material topics, why they are material to Shelf Drilling, and how we manage them. Corresponding key performance indicators measuring our progress against each of the material topics is included in the table of disclosures on page 86.

Further, we recognize the responsibility of our business and our sector to support the achievement of the UN Sustainable Development Goals (SDGs). Our operations and material topics present particularly strong opportunities to have a meaningful and sustainable impact on the attainment of several SDGs to our business.

Stakeholder Engagement

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

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

Our Material Topics & SDG Framework

Sustainability Focus Areas	Material Topics	Why it Matters	Selected SDGs	Our Ambitions
Health & Safety	Health and Safety	Our greatest responsibility given the inherent risks in our operations and footprint	3 GOOD HEALTH AND WELL-BEING	- Providing a safe working environment through prevention, continuous improvement, and innovation
	Employee Security		8 DECENT WORK AND ECONOMIC GROWTH	
People & Society	Local Employment	Long-term sustainability and resilience of our operations, inclusive growth	1 NO POVERTY	- Develop strong and competent local leadership wherever we operate - Building strong partnerships with local communities - Building an inclusive workplace, free from discrimination - Work collaboratively with all stakeholders to promote respect for human rights across our value chain
	Local Community Development		3 GOOD HEALTH AND WELL-BEING	
	Employee Development & Retention	Builds skilled, motivated, and engaged workforce	8 DECENT WORK AND ECONOMIC GROWTH	
	Employee Wellbeing	Our ethical responsibility	9 INDUSTRY, INNOVATION AND INFRASTRUCTURE	
Climate & Environment	Human Rights	Fundamental to the dignity and well-being of every person working directly or indirectly in our operations		
	Greenhouse Gas Emissions	Our operations are resource-intensive and have a significant GHG profile	13 CLIMATE ACTION	- Reduce our daily per rig Scope 1 emissions by 20% over 5 years - Partner with stakeholders on innovative technologies to reduce GHG profile - Promote behavioral changes of employees in support of our climate & environment goals
	Environmental Impact – Spills & Releases		14 LIFE BELOW WATER	
Recycling & Waste Management				
Responsible Business Conduct	Anti-corruption and Bribery	Ensure ethical and legal compliance mitigating the reputational and financial risks to our business	8 DECENT WORK AND ECONOMIC GROWTH	- Promote ethical practices across value chain - Strengthen business continuity plans re cybersecurity incidents
	Responsible Procurement		16 PEACE, JUSTICE AND STRONG INSTITUTIONS	
	Information Security			

Industry Initiatives

As a member of the International Association of Drilling Contractors (IADC), Shelf Drilling closely monitors industry developments and the future of oil and gas companies in relation to sustainability. We actively participate in the IADC’s Sustainability Committee, which facilitates the exchange of information on sustainability-related standards, definitions, and best practices among its members and standards organizations. Through this collaboration, we work to improve consistency in sustainability reporting across our sector.



Sustainability Recognition

We recognize the importance of sustainability ratings and reports as sources of information for investors, analysts, and other stakeholders. Therefore, we engage with various agencies to gather feedback continually. By doing so, we aim to better understand stakeholder expectations and identify areas where we can enhance our sustainability performance reporting.

Key 2022 Ratings



ESG100 Rating 2022
(Position Green¹)
Grade “A-”
Score 3.03

Shelf Drilling's total ESG score ranks within the top 30 of the 100 largest companies² on the Oslo Stock Exchange



Carbon Disclosure Project (CDP)
Grade “B-”

Shelf Drilling's Climate Change rating for 2022

Note (1): Annual review of the sustainability reporting of the 100 largest companies by market value listed on the Oslo Stock Exchange by Position Green

Note (2): By Market Cap

About This Report

Reporting Framework and Disclosures

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

The disclosures on page 86 are based on the SASB recommendations for the oil and gas exploration and production and services sectors^{2,3}. We have previously reached out to SASB to discuss the applicability of the recommendations to our business and operations and, based on their feedback, we have included relevant indicators from the two different recommendations to best match Company characteristics.

To provide relevant information related to areas identified as material to Shelf Drilling, additional indicators are included, based on the Global Reporting Initiative (GRI) Standards⁴ and the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD)⁵. Customized indicators are also included.

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

Reporting Period & External Assurance

The Sustainability Report covers the period of the 2022 calendar year. The Sustainability Report is published annually, as part of the Annual Report and as a standalone report. The Company's previous Sustainability Report was published in March 2021. Sustainability disclosures contained in this report have not been externally assured.

Contact Point

Ian Clark

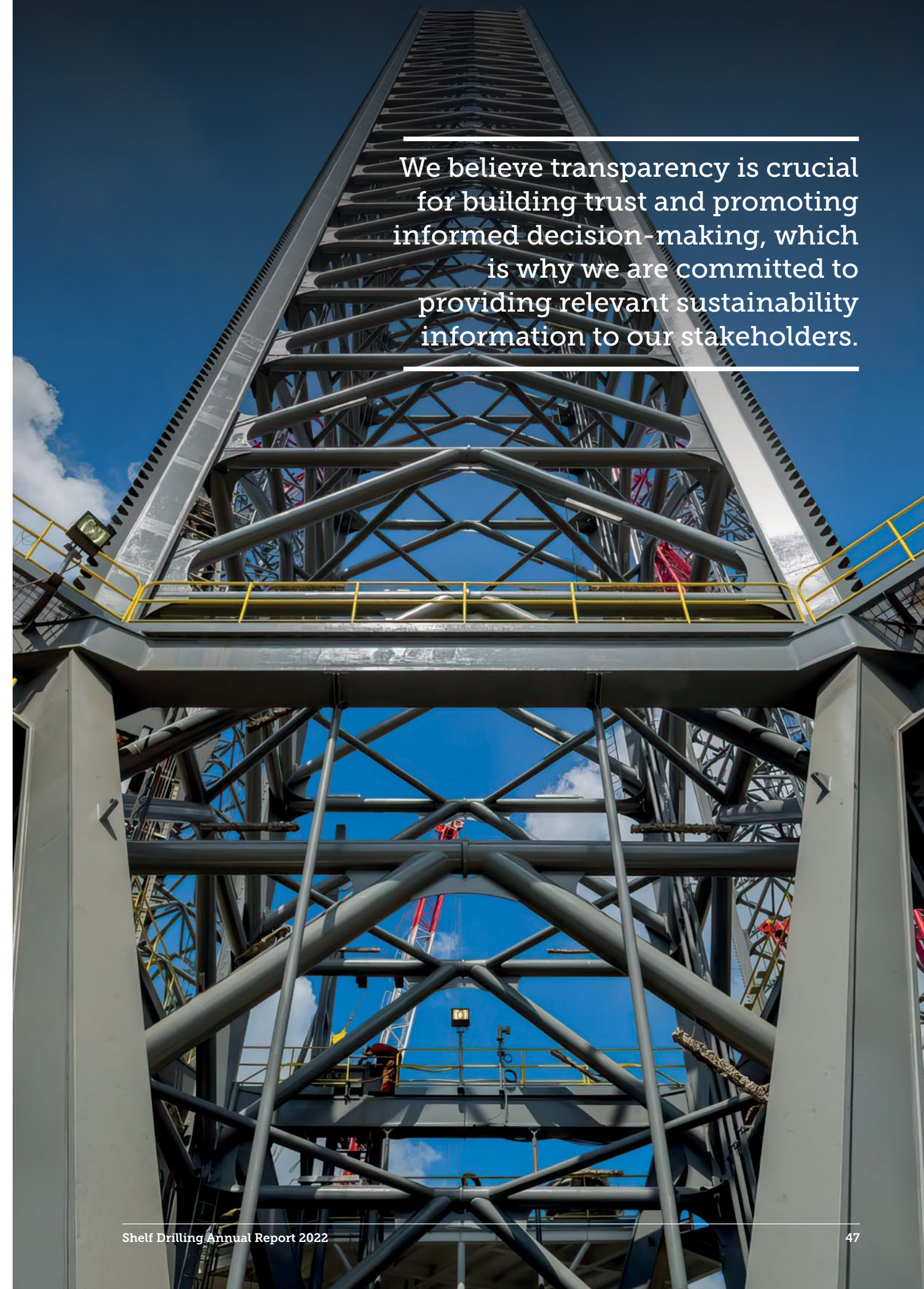
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² https://www.sasb.org/wp-content/uploads/2018/11/Oil_Gas_Exploration_Production_Standard_2018.pdf

³ https://www.sasb.org/wp-content/uploads/2014/06/NR0104_ProvisionalStandard_OGServices.pdf

⁴ <https://www.globalreporting.org/>

⁵ <https://www.fsb-tcf.org/>



We believe transparency is crucial for building trust and promoting informed decision-making, which is why we are committed to providing relevant sustainability information to our stakeholders.

Health and Safety

2022 Highlights

0.16

Total Recordable Incident Rate

0.04

Lost Time Incident Rate

6.31

Total Potential Severity Rate

~71,000

Hours of safety training performed

Material Topics

- Health & Safety
- Employee Security



Our Three Pillars of HSE



01

PROTECT YOURSELF



02

PROTECT OUR TEAM



03

PROTECT ASSETS & ENVIRONMENT



At Shelf Drilling, the safety of our employees, contractors, customer representatives, and other service providers is our greatest responsibility. A safe and healthy workplace not only protects our employees from harm but also enhances productivity, efficiency, and morale. Our safety approach includes identifying potential risks, implementing measures to prevent incidents, and educating our employees and partners on best practices. We are committed to operating in a manner that protects all stakeholders, and our safety practices are constantly evaluated and improved to ensure that we maintain the highest standards.

Our commitment to safety goes beyond meeting regulatory requirements. We aim to foster a safety culture that empowers all of our employees to actively contribute to safety and to take responsibility for their actions. All employees at Shelf Drilling are given the necessary training, tools, and empowerment to take individual responsibility for their safety, the safety of their colleagues, and the environment. **We believe that safety is a shared responsibility**, and we encourage open communication and feedback to continuously improve our safety practices. We are proud of our safety record and remain committed to maintaining safety standards as we strive to achieve our vision of incident-free operations.

HSE Policy

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

HSE Management System

Shelf Drilling HSE Management System is a comprehensive set of policies, processes, and procedures aligned with industry best practices and implemented across our operations. The system provides a framework for identifying, assessing, and controlling health, safety, and environment risks throughout our operations. The system monitors our HSE performance and continuously improves the necessary safeguards to protect our employees, assets, service providers and customers. Our HSE system is regularly reviewed and updated to ensure that it remains effective in mitigating risks and improving our safety performance.

Management Commitment

As a company, we are committed to providing robust and demonstrable leadership in the area of health and safety. The Chief Executive Officer (CEO) bears the ultimate responsibility for the health, safety, and welfare of all personnel working at Company installations, facilities, and offices. Our Senior Management regularly participates in meetings with customers, staff, and contractors, and conducts inspections and audits to ensure our HSE programs are effective. A robust HSE organization and a committed and focused workforce further support and control the health and safety aspect of our operations.

The Quality Management Steering Committee (QMSC), consisting of the Executive and Senior Management, meets annually to discuss the Company's HSE-related performance, action items, and goals. Through this committee, we ensure that the Company's leadership remains informed about HSE matters and can make informed decisions about how to improve our HSE programs.

Why it matters

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

Anchoring Our Safety Culture

 Visible Safety Leadership	 Planning First
 Self-Audits & Debriefs	 Time Out for Safety
 Employee Training	 Safety Observations & Awareness
 Continuous Improvement	

Planning First

Planning is the first step to create a working environment where no one gets hurt as well as for the successful management of risks. Two key policies focused on the analysis of potential hazards and risks within the HSE system are the **Risk Assessment Process** and **Safety Conversations**. The Risk Assessment Process requires personnel to think about everything they do before actually doing it, plan, risk assess and monitor the task. Good planning ensures the task is done right, the first time. Safety Conversations reinforce safe behavior while correcting any unsafe acts or conditions and are vital to ensure we maintain and improve safe behavior. The use of a **Time Out for Safety** and Safety Conversations is our first line of defense and is an obligation for every Shelf Drilling employee to use when they see unsafe conditions or acts or want to promote good behaviors.

Performance Monitoring

We track key HSE performance indicators, trends and investigations using a monthly HSE Report and our custom designed safety database called “Dashboard”. The Company’s Board of Directors maintains oversight of HSE performance, and they receive regular reports on our HSE performance and plans. Our Senior Management sets the overall HSE objectives and improvement actions for the year which are signed-off by the Board of Directors at the beginning of the year. We also share the safety performance data with employees to drive safety improvements. As a member company of the International Association of Drilling Contractors (IADC), we participate in their Incident Statistics Program to assist in the industry’s efforts to improve safety on oil and gas rigs by providing data on incident trends and rates.

We have established clear and simple processes for reporting incidents, near-misses, and hazards, and provide training to employees on how to report and to ensure that they understand the importance of reporting. We conduct thorough investigations of all incidents to determine the root causes and contributing factors followed by the development and implementation of corrective and preventive actions.

We conduct regular safety audits and inspections to identify areas for improvement and ensure compliance with regulatory requirements and industry standards. Our installation managers perform monthly Self-Verification Audits (SVA), and a team of corporate assessors conducts a Management System Assessment (MSA) on each installation every two years to identify areas for improvement.

HSE Results

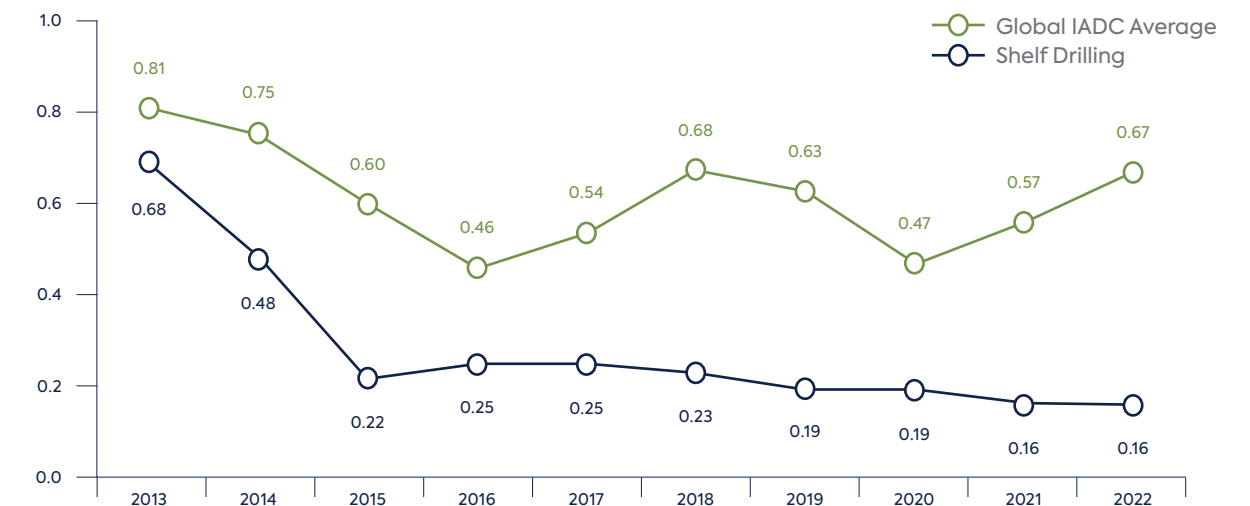
In 2022, we achieved an outstanding safety performance with a Total Recordable Incident Rate (TRIR) of 0.16 against a target of 0.15, and a lost-time incident rate (LTIR) of 0.04. TRIR matched the lowest in our Company’s history. Moreover, our entire fleet operated for a total of seven months in 2022 without any recordable incidents, with four of those months being consecutive. These accomplishments demonstrate that our vision of incident-free operations is achievable, and we remain committed to continuously improving our safety performance. In 2022, 23 of our active and project rigs operated with no recordable incident all year. As of the end of 2022, 24 rigs had successfully operated for over 5 years without experiencing a Lost-Time Incident (LTI). Our TRIR continues to be significantly lower than the worldwide industry average as reported by IADC, as illustrated in the chart below.

23 Rigs
had **ZERO**
Recordable
Incidents
in 2022



Safety Track Record (TRIR)

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



Source: International Association of Drilling Contractors (IADC) website and Company figures as of December 31, 2022.

Goal	Indicators	2023 Target	2022 Target	Results		
				2022	2021	2020
Creating an environment that results in an incident free workplace where nobody gets hurt	Fatalities	Zero	Zero	0	1	0
	Total Recordable Incident Rate (TRIR)	<=0.15	<=0.15	0.16	0.16	0.19
	Lost Time Incident Rate (LTIR)	<=0.03	<=0.03	0.04	0.02	0.00
	Total Potential Severity Rate (TPSR)	No Target	No Target	6.31	4.92	2.91



Make It Safer Today (MIST)

At Shelf Drilling, we reinforce our safety culture through active safety awareness communications and targeted campaigns. As an example, to support us in striving for Perfect Execution, we launched the Make It Safer Today – MIST Program in 2022. MIST incentivizes identification and reporting of any unsafe condition or situation that may have otherwise led to an incident, as well as encouraging every initiative taken by our crews to improve the overall safety of our operations. The program includes awards and recognition tiers for the crews, from local level all the way to the CEO level, who is the ultimate program sponsor.

The ongoing program is already a major success across the organization and has received an overwhelming response and participation from our employees. A number of potential incidents were prevented by way of reporting 14,955 “good catches” under the program in 2022.

Good Catches in 2022

14,995
Total 2022

1,246
Per Month

482
Per Rig

>1
Daily Per Rig



Emergency Preparedness

Risk Assessments

The first step to ensure emergency preparedness is to identify and evaluate our operational risks and potential major hazards. Therefore, all our rigs undertake a MHRA – Major Hazards and Risks Assessment – which involves identifying potential hazards and their consequences, assessing the likelihood of occurrence and the severity of their impact, and implementing appropriate measures to minimize the risk of harm. Major hazards include incidents such as blowouts, fires, helicopter crashes and boat collisions. MHRA is a key part of our Hazard and Integrity Management system.

Our ambition is to reduce the risks to As Low as Reasonably Practicable (ALARP) levels. However, we also have the following extensive strategies in place to respond to emergency situations.

1. Emergency Response Procedures

We have well-defined emergency response procedures, including Emergency Response Plans and Medical Emergency Response Plans, that are communicated to all employees, contractors, and customers. These procedures cover a wide range of emergency situations, including the major hazards identified in our MHRA.

4. Emergency Drills

Regular emergency drills are conducted to ensure that all personnel are trained and prepared to respond to any emergency situation. These drills are also an opportunity to evaluate the effectiveness of our emergency response procedures and make necessary improvements.

2. Equipment and Resources

We have equipped our rigs and shore-based facilities with the necessary equipment and resources to respond to emergency situations. This includes fire-fighting equipment, personal protective equipment, medical equipment, and emergency generators.

5. Continuous Improvement

We continuously review and improve our emergency preparedness plan, including our MHRA approach, to ensure that it is up to date with the latest best practices and technologies.

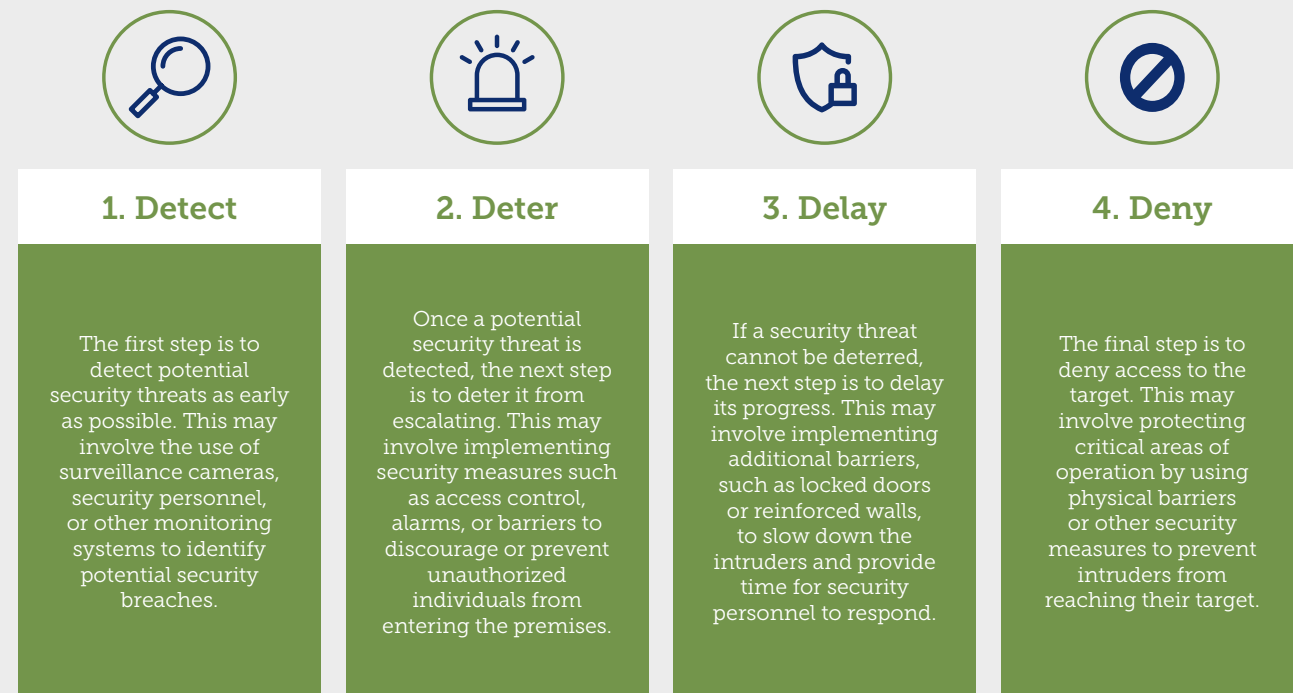
3. Communication and Coordination

We have established communication and coordination procedures to ensure that all parties involved in an emergency response are on the same page. This includes communication protocols with local authorities and emergency services.

Employee Security

In some operational jurisdictions, physical security risks exist for our people and rigs. We work closely with global security experts in high-risk countries to assess and mitigate the security risks associated with our operations. We have implemented comprehensive security plans based on a 4D security strategy which utilizes a combination of physical and procedural security measures to minimize the risk of harm to our personnel.

The four steps of the 4D Security Strategy are as follows:



Further, all supervisors and/or selected crew members assigned to Company installations in high-risk jurisdictions are provided with extensive training by third-party providers covering a wide range of topics such as personal safety, situational awareness, anti-piracy, kidnap response awareness, emergency response procedures, and communication protocols.

HSE Training

As a drilling contractor company, it is crucial to ensure that all employees receive adequate HSE training, including those working on rigs, in offices, and at project sites. Comprehensive HSE and Emergency Response Training is delivered to all our offshore and onshore employees and contractors. We understand that different roles require varying levels of training, which is why our training content and extent are tailored to each employee's job responsibilities. The content and extent of the training provided is role-dependent and more extensive for those holding emergency response responsibilities. Competency is also evaluated through the On Job Training (OJT) system.

We go a step further in ensuring that every person visiting our rigs or shore-based facilities undergoes training on our HSE management system. For personnel assigned to a new customer or a prolonged out-of-service project, specific shore-based training is provided. For high-risk offshore positions, such as Driller and Crane Operator, we offer IADC-endorsed Competency Assessments to guarantee that we have the most trained and skilled personnel in such key roles.

We regularly organize Safety Leadership Training and HSE Supervisor Trainings for our offshore employees, while our One Team, One Goal workshops include everyone who works on our rigs, including customer representatives and third-party service providers. These workshops are an excellent opportunity for rig supervisors and junior crews to refresh and strengthen their knowledge of the Shelf Drilling Safety Management System and its application, which ultimately ensures the safety of all involved in our operations.

2022 HSE Training Records	Offshore	Onshore	Total
HSE Training Hours	70,345	632	70,977
Number of Employees	3,430	437	3,867
Average HSE Training Hours Per Employee	20.5	1.4	18.4

Looking Ahead

We are committed to continuously improving our health and safety performance through a strategic approach that focuses on prevention, continuous improvement, and innovation. We will remain vigilant in identifying potential hazards and implementing controls to prevent accidents and injuries. We will continue to foster a safety culture that empowers all employees to take an active role in safety and to contribute to the continuous improvement of our health and safety management system. We will also remain abreast of the latest developments in health and safety practices and technologies and implement them where appropriate.

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

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



People and Society



2022 Highlights

13

Locations

~3,900

Employees

54

Nationalities

26%

Total Females
Onshore

90%

Offshore
National Content

Material Topics

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



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

As a global company operating in various regions, we take our responsibility seriously to ensure compliance with labor laws and maintain good working conditions for our employees worldwide. In 2022, we expanded our operations into the North Sea region and welcomed over 400 new employees into our team at Shelf Drilling. Our Company culture values open communication, collaboration, and regular feedback and recognition, and we believe that these values will help us to build a stronger, engaged and more successful team as we move forward.

We remain committed to upholding human rights across our value chain and mitigating any potential negative impact. It is critical for us that we succeed as a diverse, inclusive, people-centric company while making positive contributions to the development of local communities where we operate.

Local Employment

Nationalization is a key element of our Company's strategy. We prioritize local employment and work closely with local stakeholders to foster mutually beneficial partnerships that support our business goals, personal development for our employees and positively contributing to the communities in which we operate.

Since our inception, we have been committed to hiring and developing nationals from the countries where we operate, including in our leadership teams, to build high national content. As of December 31, 2022, our offshore workforce consists of 90% nationals, a testament to our sustained focus on increasing national representation in our workforce.

Our high national content has resulted in numerous benefits, including stronger relationships with customers and government entities, especially National Oil Companies (NOCs). It has also helped to lower our cost base and reduce employee turnover, which enhances the stability and continuity of our operations. Furthermore, our nationalization strategy has had a significant positive impact on local economies, creating employment opportunities and increasing income, which directly aligns with our commitment to UN SDG 8 (Decent Work and Economic Growth) and SDG 9 (Industry, Innovation and Infrastructure).

With 54 different nationalities represented across our Company's corporate headquarters, 13 field locations, and 36 active rigs, we are fostering a culture of inclusivity and diversity that drives innovation and growth in our industry.

Why it matters

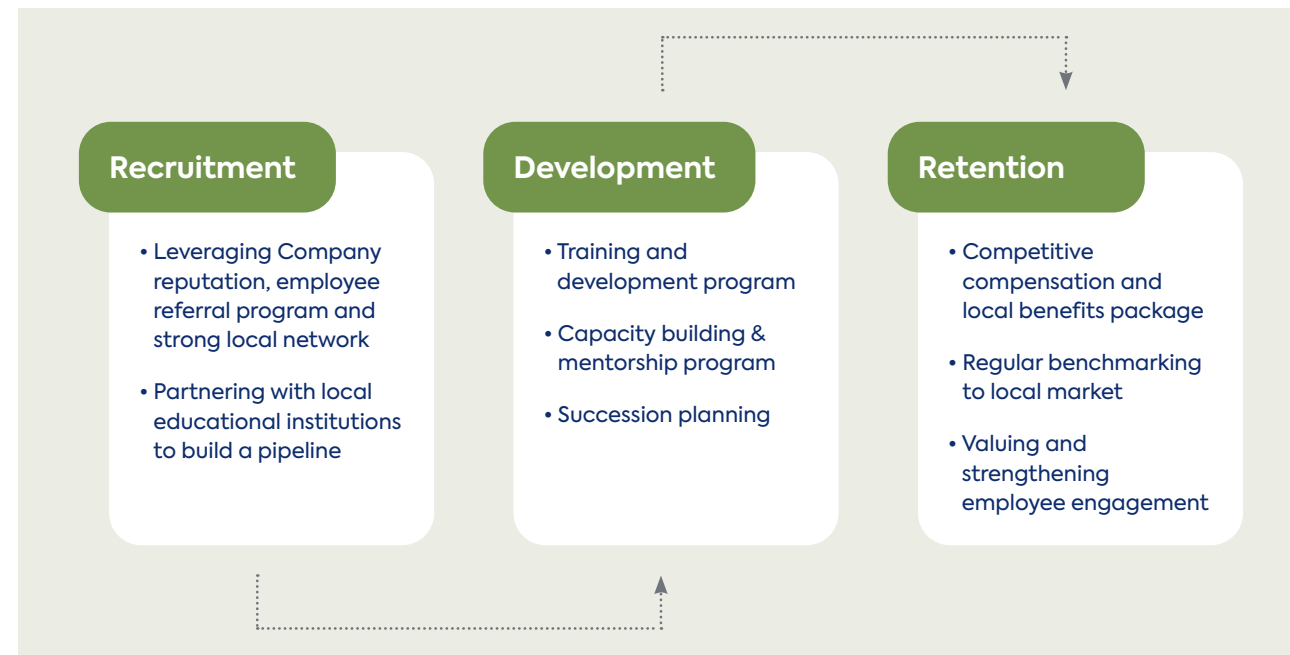
- Strong customer and governmental relationships
- Lower employee turnover
- Competitive operating costs
- Long-term sustainability & resilience

Our Approach

Our ongoing nationalization efforts include our commitment to hiring and training local talent, partnering with local educational institutions to build a pipeline of skilled workers, providing opportunities for career growth and development, and ensuring the long-term retention of our employees through competitive compensation and benefits, robust employee engagement programs, and a supportive workplace culture.

Our **Offshore Development Program** aims at accelerating the development of nationals into roles with more responsibility. The program has been instrumental in achieving 95% nationalization in Thailand as of the end of 2022, resulting in a competent and capable local workforce that is equipped with the skills and expertise to drive our business forward. Building on this success, we are now focused on strengthening the program in Saudi Arabia and Angola, with a particular emphasis on the development of local Supervisors and Managers.

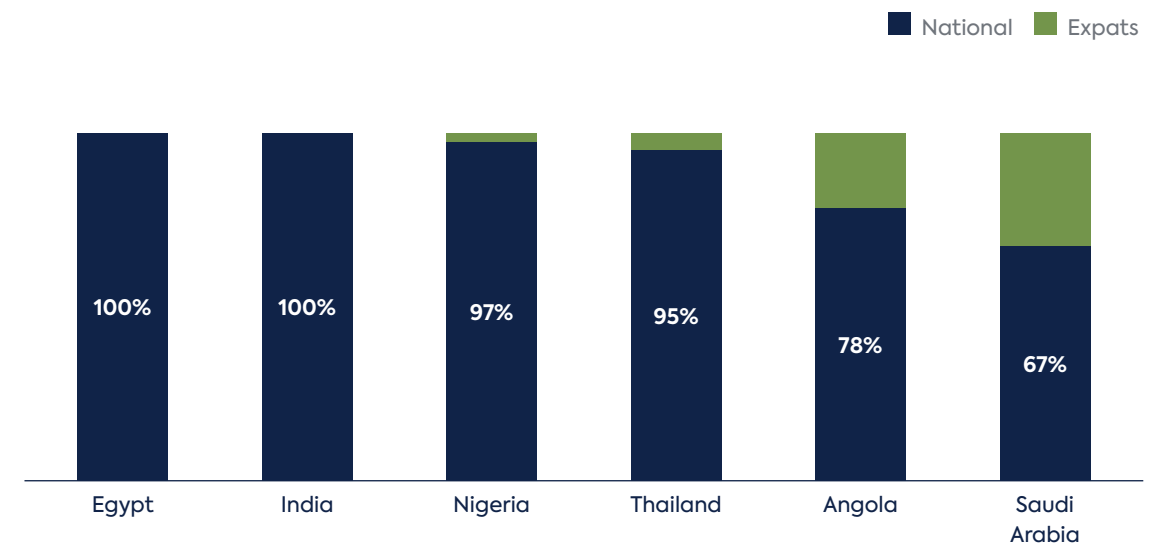
Key elements of our nationalization strategy include:



Our Performance

Today, Egypt, India and Nigeria are, or are close to, full nationalization, Thailand has improved while good progress has been achieved Saudi Arabia and Angola. Our nationalization in Angola increased from 58% in 2021 to approximately 78% in 2022, demonstrating our ability to develop national talent.

Offshore Nationalization Percentage in Main Countries of Operations



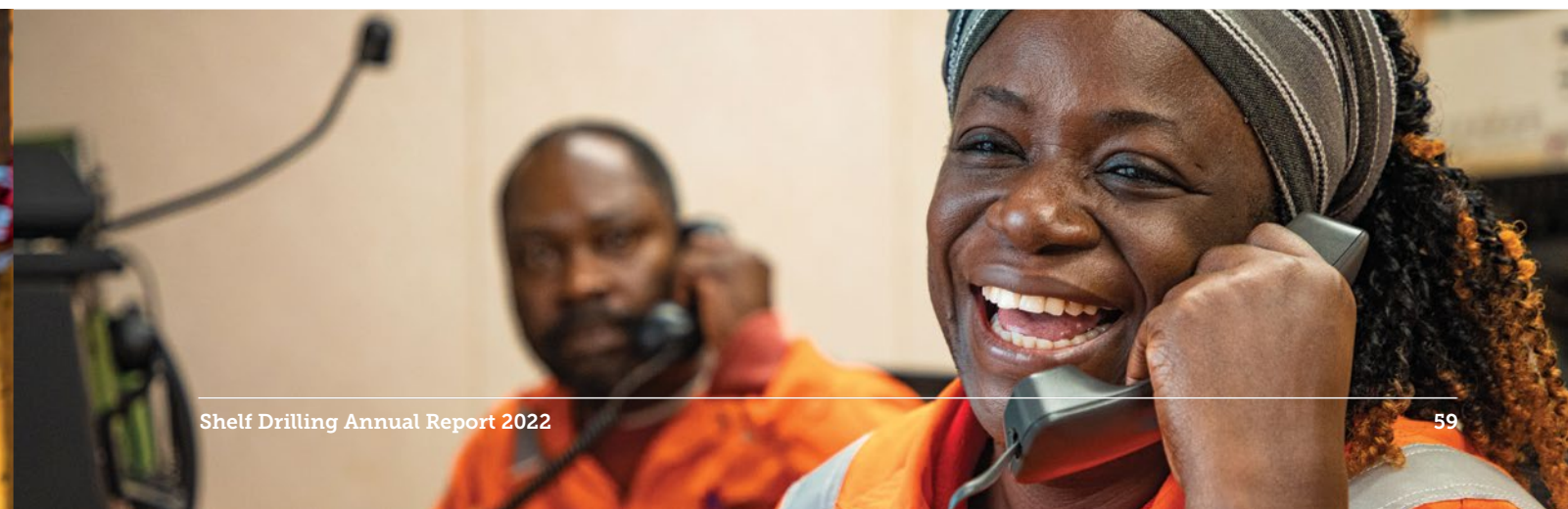
Looking Ahead

Developing National Leaders

Our nationalization efforts are focused on the overall workforce including the leadership positions. It is our ambition to develop local leaders with more responsibility for our overall local business growth.

Building Stronger Partnerships

We recognize that building strong partnerships with local communities and stakeholders is essential to our success. To that end, we'll be working closely with local organizations and leaders to identify opportunities for collaboration and support initiatives that benefit both our business and the local communities.



Employee Development & Retention

At Shelf Drilling, we believe that investing in our employees is essential to building a strong and sustainable business. That's why we prioritize employee development by focusing on three key elements: Training & Development, Performance Management, and Talent Attraction & Employee Retention. Through this approach, we equip our employees with the tools and support they need to succeed while contributing to our shared success – creating a win-win situation that benefits both the Company and our employees.



Why it matters

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

Training & Development

Shelf Drilling actively encourages employee development through a variety of internal programs and provides resources to support external education.

For offshore employees, Shelf Drilling offers a comprehensive training and development program that covers progress from entry-level to senior-level positions. Our highly structured training matrix specifies the required training for each role, and progress is tracked through an online reporting system. We also have specific programs, such as the Offshore Development Program, to fast-track high-potential candidates. Regular reviews ensure progress towards nationalization objectives as well as the development of adequate bench strength for key positions.

87%

Training Compliance
(Including shipyards and project rigs)



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



Performance Management

Shelf Drilling believes in ongoing, open feedback between onshore employees and supervisors for performance and development. Our lean organizational structure means that development plans for shore-based employees are tailored to individuals and their roles, rather than a broad, Company-wide approach. We encourage constant appraisal and improvement, rather than just an annual process, which we believe is more effective in promoting agility and adapting to changes in the rapidly evolving business environment. Our approach includes customized performance management guides for onshore employees, with compliance training being the only Company-wide training provided. We believe that our employee performance management and development philosophy, which we established from our Company's inception, has been a significant contributing factor to our success throughout industry cycles.

Talent Attraction & Employee Retention

Attracting and retaining top talent is a priority at Shelf Drilling. To attract and retain the best, we invest in our employees and prioritize their well-being. We believe that by creating an environment where our employees feel valued, supported, and empowered, we can retain top talent and continue to build a strong and sustainable workforce. Our strong local presence, demonstrated commitment to developing our people and brand reputation has enabled us to attract and retain top talent.

Looking Ahead

The oil and gas industry has traditionally faced challenges in employee retention due to its cyclical nature and high competition for top talent. With the industry facing a transformation as well as prioritizing sustainability, Shelf Drilling will focus on investing in employee development programs to prepare our workforce for the future.

412

Promotions
in 2022



1,495
New Employees
Hired in 2022

9%
Total Voluntary
Turnover

8.7%
Offshore Voluntary
Turnover

10.5%
Onshore Voluntary
Turnover



Fast Track Program (FTP)

In 2022, Shelf Drilling launched the Fast Track Program (FTP), designed to accelerate offshore career progression within the organization. The purpose of the program is to identify high-potential internal and external candidates and develop these candidates for supervisory positions on board the rig. FTP encourages our offshore employees to take ownership of their career growth and development, providing them with the chance to expand their knowledge base and enhance their skills to thrive in the offshore setting.

Key Features of Fast Track Program

-  Advanced professional training
-  Hands-on experience
-  Mentorship and support

While the program is still in its early stages, the intention of the FTP is to groom high-performing candidates for future leadership positions within the Company. By providing participants with the necessary training, exposure, and support, we aim to enhance our workforce and create a pipeline of talent for key positions. Currently 35 employees are enrolled in the program, including 2 women employees in Nigeria, while 50+ are in the admission process. Our target is to enroll 150+ candidates in 2023. The success of the program will be measured in the future as we see the growth and development of our employees.



Employee Wellbeing

At Shelf Drilling, we are committed to investing in our employees and creating a workplace that values their contributions and supports their growth, creating a more resilient and adaptable organization, capable of thriving in a rapidly changing and uncertain environment. We take deliberate steps to foster a culture of respect, belonging and inclusion, supported by our Code of Business Conduct and employment practices.

Why it matters

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

Diversity & Equal Opportunity

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

While gender diversity has been a long-standing challenge for our industry, increased diversity is an ongoing priority for Shelf Drilling as evidenced by the increasing representation of women in our shore-based management positions. Over the coming years, we aim to further develop our diversity and inclusion initiatives.

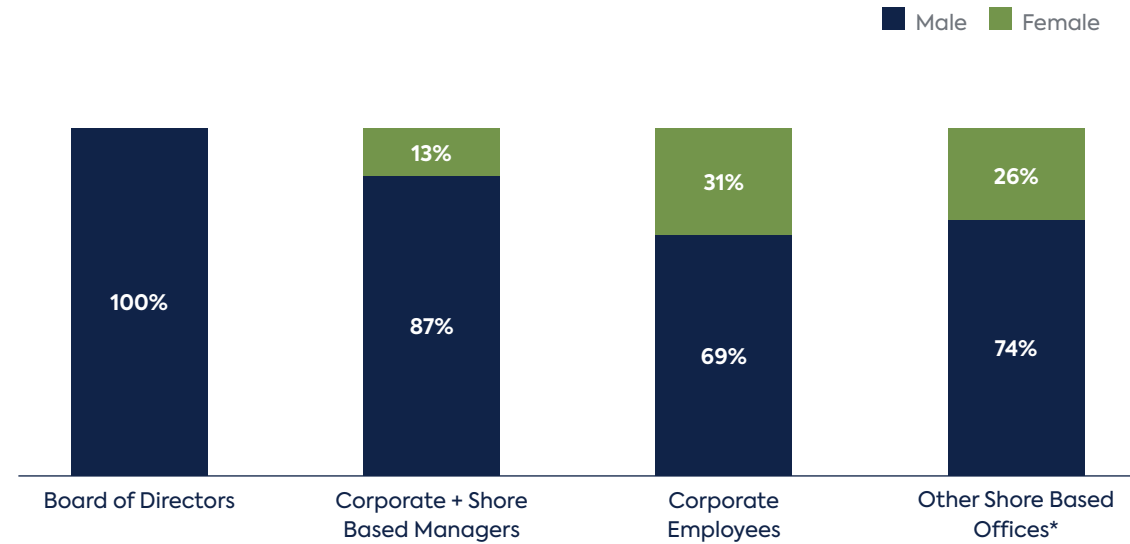
Non-Discrimination

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

We recognize that discrimination can be indirect or unintentional, and as such, we have taken deliberate steps to educate our employees and raise awareness to develop and maintain a truly inclusive and high performing culture. These include mandatory training for select employees on Unconscious Bias, Diversity & Inclusion, Workplace Harassment, Reporting and Non-Retaliation, and awareness posters on what a truly inclusive workplace culture is. We encourage open dialogue between employees and supervisors but understand that it can be difficult to raise issues related to discrimination. The Company has established various channels through which employees can raise concerns and report actual or suspected wrongdoings, including discrimination, without any fear of retaliation. See section "Whistleblowing/Speak Up" on page 80.

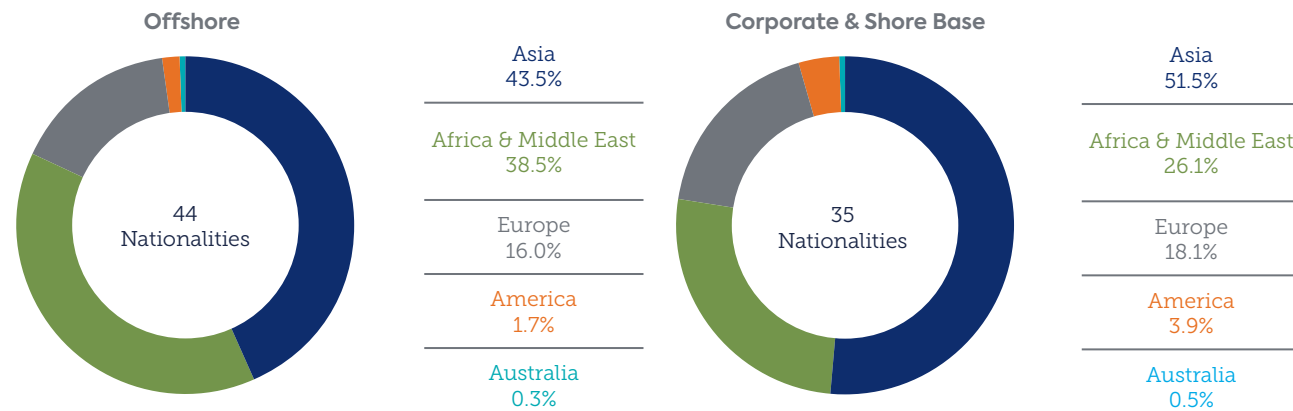
Our Performance

Gender Distribution



* Excluding Corporate Employees

Nationality Distribution



Looking Ahead

We recognize that building a strong and inclusive workplace culture is an ongoing effort, and we are committed to regularly evaluating our initiatives and making adjustments as needed to ensure they remain effective and aligned with our employees' needs and expectations. Our future plans include expansion of our employee well-being programs, including health and wellness initiatives and flexible work arrangements, to support the physical and mental health of our employees.

Prioritizing Mental Health

The COVID-19 pandemic has had far-reaching and long-lasting implications for individuals across all aspects of life – health, family, work, and more. At Shelf Drilling, we have worked diligently to address the impact of the pandemic on our employees and their families. We have continued to provide comprehensive health insurance and benefits and flexible work arrangements committed to supporting our employees' work-life balance and overall well-being. But we recognized early on that special attention was required to support the psychological and emotional well-being of our employees and their families.

In 2022, in collaboration with a team of expert clinicians, Shelf Drilling launched the Mental Health First Aid (MHFA) program for select employees in managerial and/or employee-facing roles. The aim is to improve mental health awareness and equip employees with skills to identify and assist persons with mental health challenges.

Over 150 employees have received MHFA training, and we will continue to develop mental health champions across the organization, with a primary focus on increasing training for rig-based personnel. After the initial training, some key personnel are receiving Advanced MHFA training, which provides more in-depth knowledge and formal accreditation as Mental Health First Aiders.

By developing capable in-house resources trained in Mental Health First Aid, we create a culture of awareness and psychological safety within the Shelf Drilling community to support the emotional wellbeing of our employees

Employee Assistance Program

In 2023, we are partnering with a global Employee Assistance Program (EAP) vendor to provide global wellbeing services to our people. The EAP will offer 24/7/365 emotional and psychological support & solutions to our employees and their families to address a range of personal and work-related issues and other life challenges that may impact their wellbeing and/or job performance. The program will be available in all our locations and languages, inclusive of cultural and national differences.



Human Rights

Shelf Drilling is committed to respecting fundamental human rights as set out in the International Bill of Rights and the ILO's Fundamental Conventions, both internally and with business partners, suppliers, customers and others who are directly affected by the Company's activities. We follow the UN Guiding Principles on Business and Human Rights, and recognize that upholding human rights is not only a responsibility within our own operations, but also extends to our value chain. We therefore actively seek to identify and address human rights risks and impacts across our business and are committed to ensuring that our suppliers and business partners share our commitment to human rights.

Our Approach

Our commitment to respecting human rights is anchored in our Sustainability Policy, Vendor Code of Conduct and ongoing salient human rights mapping project as part of our goal that was initiated in 2022 to achieve compliance with the Norwegian Transparency Act.

Salient Human Rights Assessment

Shelf Drilling has performed a salient Human Rights assessment consistent with the requirements of the Norwegian Transparency Act. We are committed to fulfilling our reporting obligations under it, and we view the law as an important tool for promoting human rights and responsible business practices.

Why it matters

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

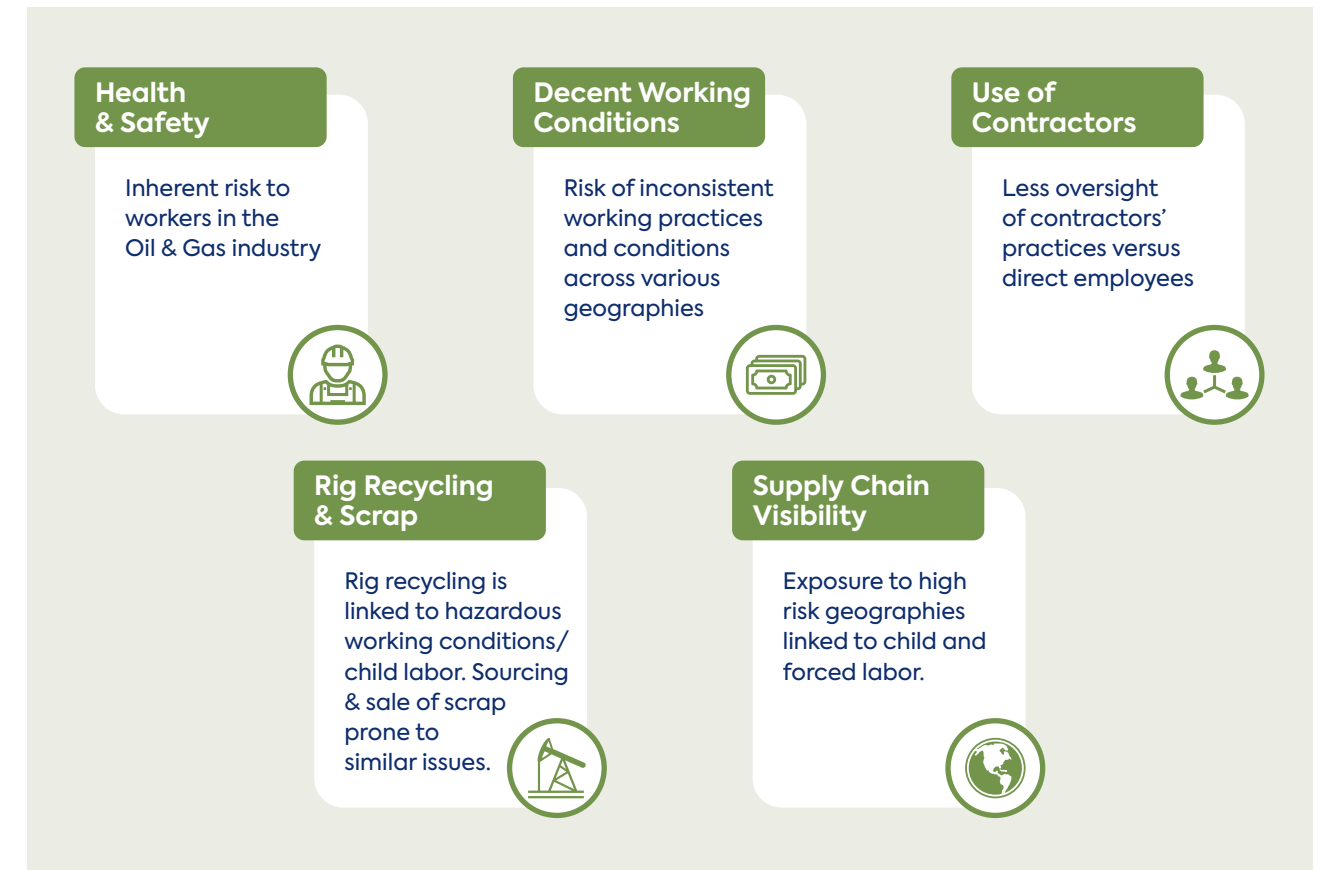
Salient human rights issues are defined by the UN Guiding Principles on Business and Human Rights as those issues in which a company is most likely to severely negatively impact people. The intention is to prioritize the management of the human rights issues that are most pressing and relevant to us.

Methodology

Phase 1

In 2022, we carried out phase 1 of human rights due diligence. We created an initial list of salient issues through an extensive internal and external review process performed with the support of our external sustainability advisors. This included a mapping of our operations, policies, and past incidents, stakeholder analysis, as well as a review of our peers and international human rights standards. We further calibrated this list based on severity, likelihood of occurrence, and the scope and scale of the impact to create the following prioritized list of our human rights risks and impacts.

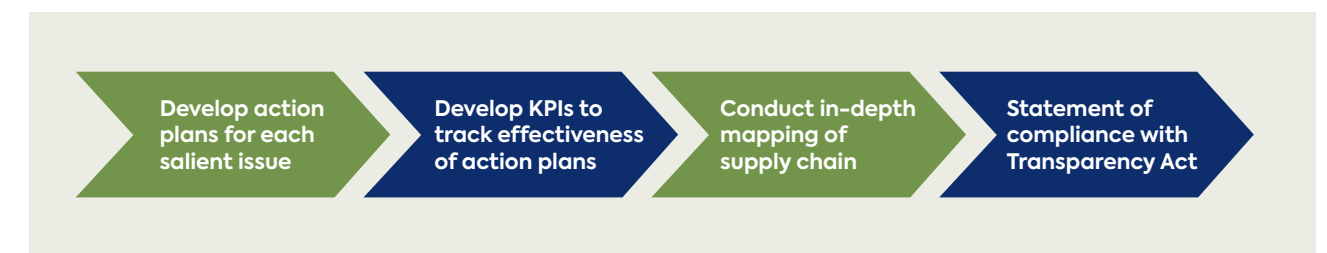
Phase 1, Completed: Identified Our Salient Human Rights Issues



Phase 2

Our planned next step is to refine action plans for each salient issue that will work towards ceasing, preventing or mitigating the impacts associated with those issues, including the development of processes or procedures that address these impacts, or adapting current systems to include them.

Phase 2, Underway: Addressing Our Salient Human Rights Issues



Supply Chain Mapping

The human rights due diligence process revealed the importance and complexity of mapping our supply chain to understand the social and environmental conditions of our operations. Though challenging, supply chain mapping is critical to promoting responsible business practices and upholding our commitment to human rights.

We are committed in investing in supply chain mapping beyond tier 1 suppliers to understand our overall human rights impact and improve transparency and accountability. We are systematically screening high-risk vendors and prioritizing based on geography, category, and spend-classification. We are also exploring technology and best practices for data management and enhancing our vendor onboarding platform with enhanced capabilities/questionnaires to screen for potential human rights risks. Following the mapping process, we will enhance collaboration with suppliers and improve their ability to address human rights risks and impacts.

Employee Awareness

In 2023, we are launching human rights training for specific employees globally to raise awareness and highlight the specific salient human rights issues for the Company. Through this, our managers and supervisors will be better equipped to identify and respond to potential human rights issues and risks across our operations in order to uphold the Company's commitments.

Looking Ahead

Going forward, we will continue to engage with stakeholders, monitor and report on our progress, and update our salient human rights assessment to ensure that we remain current and effective in addressing human rights risks and impacts in our operations and supply chain. We are committed to working collaboratively with our suppliers, stakeholders, and industry partners to create a more sustainable and just supply chain, where human rights are respected and upheld for all.

Local Community Development

At Shelf Drilling, we believe that our long-term success is linked with the well-being and prosperity of the communities in which we operate.

Shelf Drilling's operations and footprint present particularly strong opportunities to have a meaningful and sustainable impact on these communities.

Why it matters

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

Our Approach

We invest in local communities through direct employment and skill development, and local sourcing of goods and services generating opportunities for the overall economic growth of the communities where we work.

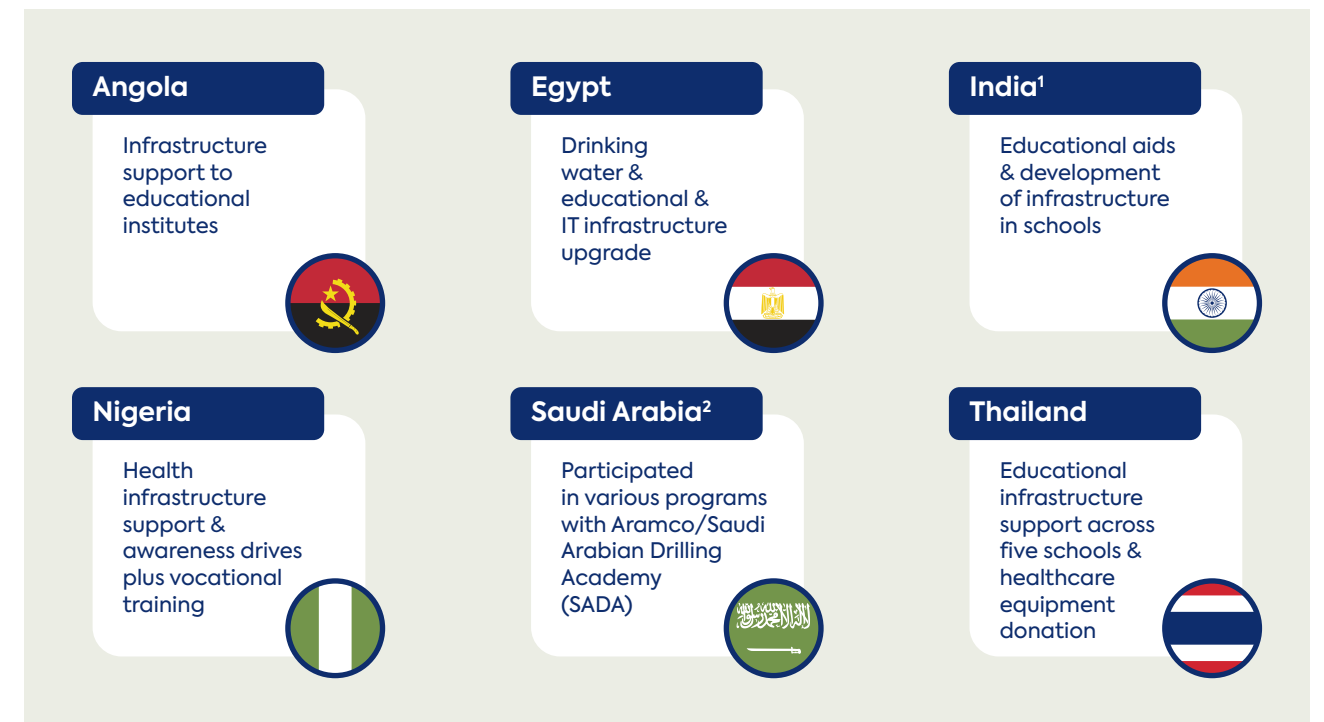
Further, in 2022, as part of our sustainability goals, we formalized a Corporate Social Responsibility program aligned with the UN Sustainability goals relevant to our business, operations and footprint. Under this program, our key CSR focus areas include health and education support for local communities, charitable donations, and environmental impact & waste reduction. Our CSR programs include partnerships with local organizations, community development projects, and employee volunteering programs aimed at making a meaningful and lasting impact on the communities we serve. Our CSR programs are backed by senior management and led by our regional CSR champions, who work closely with local communities to ensure we are making a meaningful difference.

Key CSR Focus Areas



Our Performance

Our commitment to CSR has resulted in a range of engaging and impactful initiatives throughout our communities in Angola, Egypt, India, Nigeria, Saudi Arabia, and Thailand, with enthusiastic participation from our employees. Our focus in 2022 has been on upgrading education infrastructure, providing learning tools, offering scholarships, and implementing IT solutions to support training and development within our communities. Additionally, our employees have been actively involved in enhancing healthcare infrastructure to benefit local communities.



Note (1): Section 135 of India's Companies Act 2013 makes it mandatory for companies of a certain turnover and profitability to spend 2% of their average net profit for the past three years on CSR.

Note (2): As per the SADA Charter.

Looking Ahead

Going forward, Shelf Drilling will continue to prioritize our commitment to Corporate Social Responsibility and sustainability, aligning our efforts with the UN Sustainable Development Goals. We aim to build on the success of our current CSR initiatives and expand our reach to more communities, with a focus on education, health, and environmental sustainability. We will work towards building long-term partnerships with NGOs and other organizations and leverage the expertise of our employees to make a meaningful and lasting impact. By investing in our communities and prioritizing the well-being of those around us, we can build a better future for all.

Knowledge for All in India

Shelf Drilling India's GYAN SAARTHI (Knowledge Support) CSR initiative improves basic education quality for financially disadvantaged students through partnerships with NGOs. The team provides education kits and learning opportunities to government-aided schools in Mumbai slums and districts in Maharashtra, India. Education kits were distributed to approximately 1800 students from 13 government-aided schools between the ages of 4 and 16, with a focus on age-appropriate learning tools. Our India team is collaborating with local authorities to upgrade essential facilities like science labs, computer rooms, classrooms, drinking water amenities and toilets.



Empowering Communities in Nigeria

Shelf Drilling's Nigeria CSR team supports education initiatives including development of school infrastructure in underserved communities through partnerships with NGOs. In addition, in 2022, the team provided skill acquisition training to 20 young women from four states. An external training and capacity development organization facilitated the program, which included entrepreneurial skills like social media marketing and make-up artistry. Upon completion, all participants received a starter pack/kit to commence business. Nigeria team also endeavored to improve healthcare infrastructure and awareness in underserved communities. A 110 KVA generator was donated to the University of Port Harcourt's emergency unit, and a Cancer Awareness Campaign was launched in Lagos engaging employees, customers, vendors, and stakeholders to raise awareness about early detection.



Climate & Environment

2022 Highlights

252,942

Tonnes Scope 1 CO2 Emissions

5.5%

Reduction in average per rig per day Scope 1 emissions

289,604

Tonnes Scope 3 CO2 Emissions

1

Unplanned Discharge Event

As one of the world's leading drilling contractors, Shelf Drilling recognizes the crucial role we play in driving progress towards a sustainable future. We understand that our operations may have a significant impact on the climate and environment, and we are committed to managing our operations in a responsible and sustainable manner, with a focus on emissions reduction through employee engagement, collaboration, and innovation. We prioritize behavioral changes among our employees to promote responsible environmental practices and collaborates with industry experts to identify new solutions and technologies to reduce our environmental footprint.

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

Material Topics

- Greenhouse Gas Emissions
- Environmental Impact – Spills & Releases
- Recycling & Waste Management



Greenhouse Gas Emissions

The offshore drilling industry is energy-intensive, with significant fuel consumption required for operating drilling rigs and support vessels. As a result, drilling contractor companies have a material carbon footprint and are subject to increasing regulatory and stakeholder pressure to reduce their GHG emissions. Furthermore, reducing emissions can also provide cost savings through increased operational efficiency and lower fuel consumption.

Why it matters

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

More than 95% of our Scope 1 emissions are attributed to fuel burnt by our engines to develop the power required by the rig. Each rig has between 3 and 6 engines installed and the number online at any time is driven by the type of activity that the rig is performing. Shelf Drilling has historically focused on "brownfield" activities in workover and plug and abandonment versus "greenfield" activities in exploration or development drilling. The power requirements for brownfield activities are generally lower than other types and as a result, emissions are lower for these activities too.

The rig program is determined by the Customer, therefore the power requirements and hence number of engines online at any time is a collaborative agreement between the Shelf Drilling OIM and Customer representative on board.

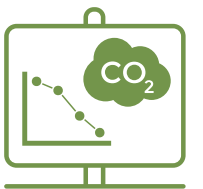
Engine Emissions Tracking System

While Shelf Drilling's ability to significantly reduce fuel consumption is limited by the customer well program, in 2022 we developed an innovative online tool for tracking engine emissions on our fleet of rigs to support our reduction efforts. This near real-time engine emissions tracking system enables us to capture each engine's key readings and fuel consumption, which are automatically synchronized and consolidated in the cloud server. With this central repository of information, we can easily track & monitor our greenhouse gas emissions. This platform's flexibility and user-friendly visualizations have made it easier to share operational information across teams, promoting alignment around our sustainability goals.



Energy & Emissions Management System

As part of our ongoing efforts to improve our sustainability performance, we are currently developing a pilot project for a real-time energy and emissions management system. The goal of this project is to enable real-time monitoring of our engine usage, fuel consumption and actual engine emissions, which will help us identify opportunities for improvement and take proactive measures to reduce our emissions.



The pilots for this project are currently underway on rigs across various operating regions. By automating our data collection process, including the collection of actual emissions, we can eliminate the potential for human error and increase the accuracy and reliability of our carbon footprint measurements. By monitoring our performance in real-time, we will be able to identify areas where we can make changes to run our engines more efficiently and reduce our emissions. We are also exploring the use of fuel additives and alternative fuels on our rigs.

By testing and evaluating different options, we hope to identify solutions that can help us minimize our environmental impact, while maintaining a high level of operational efficiency and reliability across our entire fleet of rigs.

Scope 3 Emissions

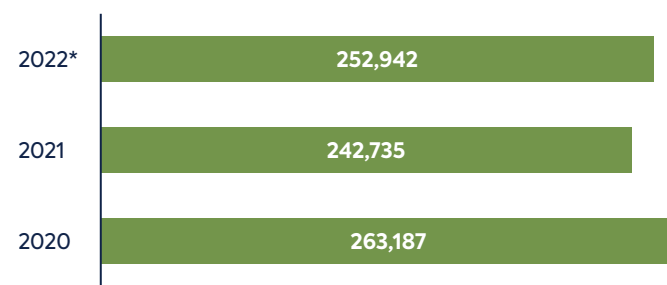
In prior years, Shelf Drilling estimated our Scope 3 emissions working with our service providers to capture relevant data for logistics (both air and sea), business air travel, transportation of rigs, and waste generated in operations. In 2022, we conducted a thorough analysis of our Scope 3 emissions in line with the Greenhouse Gas Protocol to identify additional categories that are material to our operations. As a result, estimates for Capital Goods, Purchased Goods & Services, Fuel & energy related activities, and Employee Commuting are included in our Scope 3 estimate for 2022 in addition to those categories previously reported. In 2023, we will continue to refine our Scope 3 data capture and analysis process, and with a more comprehensive understanding of our emissions profile, we will be better prepared to identify areas for improvement.

Performance & Targets

Shelf Drilling had set an ambitious target to reduce our 2021 average daily per rig Scope 1 emissions by 20% over the next five years and by 4% in the fourth quarter of 2022. For the full year 2022, Shelf Drilling 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 P&A. Further, our absolute Scope 1 GHG emissions for 2022 increased due to the higher number of working rigs in our fleet.

Shelf Drilling has taken several steps to ensure we have the systems, processes and necessary understanding within our crews and management teams to drive meaningful reductions in our emissions. Based on the results seen in 2022, while retaining the overall Scope 1 intensity reduction goal, we will look to establish activity-based emissions data and set corresponding activity-linked reduction targets to establish more meaningful goals for our rig crews.

Scope 1 Emissions



* Including rigs acquired in 2022

5.5%
Reduction in
average per rig
per day Scope 1
emissions

Environmental Impact – Spills & Releases

Unplanned spills of contaminated fluids, including oils and diesel, and releases of air-borne pollutants such as cooling refrigerants can have devastating impacts on the environment and ecosystems. Shelf Drilling is committed to managing our business in a manner that reduces negative impacts on the environment with an ambition to eliminate all unplanned spills and releases through a comprehensive set of policies, procedures, and training for employees.

Shelf Drilling's environmental policies are designed in alignment with the ISO 14001 standard. Our rigs as well as our office in India are certified under this standard. Although our other rigs, yards, and offices are not independently certified, they also operate under the same environmental management system. Our rigs operate within the requirements of the International Air Pollution Prevention (IAPP) Certificate, as outlined in the MARPOL Annex VI. This certificate assures that our rigs are not emitting harmful pollutants into the air, reducing our impact on the environment.

We maintain an International Register of Environmental Legislation and Other Requirements and a Country Environmental Guidance Document (CEGD) that identifies country-specific regulations and requirements in addition to those in the International Register. These documents are continually reviewed for new and revised environmental regulations to ensure that we are updated with applicable new or revised regulations, as identified.

Why it matters

- Environmental stewardship
- Protecting all life forms
- Mitigate legal & financial risks
- Regulatory compliance

We also maintain an Environmental Aspects and Impacts Register on all our Rigs and shore-based facilities that outlines the process for identifying and evaluating environmental aspects and impacts related to the Company's activities and operations. Environmental aspects are elements that can interact with the environment, while environmental impacts are changes resulting from the Company's activities. Control measures are applied to reduce the likelihood or consequence of identified impacts, with installation-specific procedures developed as needed.

Shelf Drilling has several policies, included under overarching HSE policy, to manage various aspects of our operations in line with the environmental impact. These policies include preventing unplanned discharges from mud systems and managing deck drainage to eliminate contaminated drainage. Additionally, we have a policy to prevent loss of containment during bulk transfer operations and monitor effluents from operational activities, to achieve zero discharges of environmentally sensitive substances. We ensure that our decks are clean and monitored daily to avoid any drainage into the sea. There is also a policy in place to manage hazardous chemicals to reduce personnel exposure. This policy covers personnel training, maintaining Material Safety Data Sheets (MSDS), proper marking and storage.

Releases to Air

Shelf Drilling tracks & monitors the release of Ozone Depleting Substances (ODS) released through leaks in air conditioning systems. We have established a target to ensure 100% of our Rigs are ODS-free and use green freon by 2025. In 2022, 93% of our Rigs were ODS-free and we had one discharge event wherein approximately 1 kg ODS was released into the atmosphere.

Releases to the Sea

In the event of unplanned discharges of drilling mud or other fluids, estimated volumes are recorded and reported within the HSE Management System. In 2022, there was one unplanned discharge event that resulted in an estimated overboard oil spill of 4.8 liters of diesel. Additionally, there were four minor loss of containment events, wherein all fluids & chemicals were retained and captured onboard the Rig.

While we have made progress in reducing the negative impact on the environment from our operations, we continue to look for ways to improve our processes with a particular focus on eliminating human error, and to achieve our objective of incident free operations.

93%
Rigs ODS-
free in 2022



Recycling and Waste Reduction

Equipment Recycling & Reuse

Shelf Drilling recognizes that the production of the equipment and parts we require for our business relies heavily on natural resources, including energy and raw materials. By adopting circular and sustainable practices, Shelf Drilling aims to reduce its reliance on these resources, minimize waste generation, thereby reducing our impact on the environment.

Why it matters

- Protecting ecosystems
- Efficiency & cost savings
- Regulatory compliance

Fit For (Re) Purpose

Shelf Drilling has developed a highly centralized procurement, sourcing, and technical support model to ensure consistent, reliable, and cost-effective maintenance of our fleet. This has allowed us to develop innovative solutions for the repair and overhaul of parts and equipment required by either our internal maintenance program or regulatory or customer requirements.

Shelf Drilling has actively sourced critical spare parts and equipment from decommissioned rigs that were then refurbished and recertified in cooperation with the original equipment manufacturer or certifying authority. This process has eliminated significant quantities of waste and the consumption of energy and natural resources to manufacture new items that would have otherwise been required. In 2022, Shelf Drilling prevented approximately 130,700 tonnes of CO2e emissions by purchasing second-hand equipment. GHG emissions for refurbishing, repairing, and transporting these items were incorporated into the calculation of Scope 3 GHG emissions from sources controlled or owned by Shelf Drilling.

Through our inventory of “ready-to-go” equipment, we now, in many cases, exchange complete major items such as engines, mud-pumps, and draw-works rather than disassembling and overhauling onsite. The item being exchanged is then brought back to shore for overhaul and refurbishment, and made ready for another rig in the fleet. Our exchange process is efficient, requires less resources and provides a more predictable and reliable outcome than overhauling onsite.

Shelf Drilling pioneered a new sustainable solution in their supply chain process by refurbishing components which were recertified by ABS thereby lowering emissions.

– American Bureau of Shipping (ABS)

Rig Recycling

At Shelf Drilling, we prioritize responsible rig recycling in adherence to international standards, such as the Hong Kong Convention, to minimize potential risks to human rights, health, safety, and the environment. Our Rig Recycling Policy encompasses a holistic approach to managing the entire recycling process, from documentation to selection and supervision. Whenever possible and feasible, we remove equipment that can be refurbished and reused by our operating fleet prior to recycling any rig.

In 2021, the Randolph Yost, was sold for recycling in accordance with our policy. The recycling process was overseen by a Shelf Drilling appointed representative and a certificate of completion obtained in June 2022. There are no rigs currently held for sale or recycling within our fleet.

Waste Reduction

Shelf Drilling has established a range of waste management plans and processes that prioritize both environmental sustainability and regulatory compliance. While the management and disposal of production waste generated during drilling operations is usually handled by customers, Shelf Drilling is committed to reducing the general business waste it generates offshore. The top contributors to this general waste include metal, oil, food, wood, plastic, and paper, and Shelf Drilling is continuously evaluating opportunities to reduce waste across all categories.

In 2022, Shelf Drilling implemented a fleet-wide initiative to install water filtration and dispensation units across our rigs, with the goal of providing safe drinking water and reducing plastic waste from disposable bottles. By the end of 2023, we plan to have approximately 100 water filtration and dispensation units installed across our fleet. This is expected to eliminate 1,800 kg of plastics per rig per year in the form of small plastic drinking water bottles, equivalent to reducing 10,800 kgs of GHG emissions.

In addition, Shelf Drilling launched a Food Waste Monitoring Program as a pilot project to reduce the food waste generated by the catering service onboard our rigs. The program utilized a digital tool that tracked and monitored food waste, identifying areas for improvement. The program yielded encouraging results and we are currently exploring options to roll out the solution to other rigs in the fleet. By reducing food waste, Shelf Drilling is taking proactive steps towards minimizing our environmental impact and promoting sustainability.

Training & Awareness

Shelf Drilling recognizes that successful implementation of sustainable practices requires more than just technical solutions. That’s why we emphasize the importance of training and educating our employees to ensure they understand the importance of sustainability and how they can contribute to our goals. By providing training and education, we equip our employees with the necessary knowledge and skills to implement sustainable practices across our fleet. Furthermore, we share the lessons learned through our rig and shore-based sustainability committees to embed these best practices into our business operations.

Looking Ahead

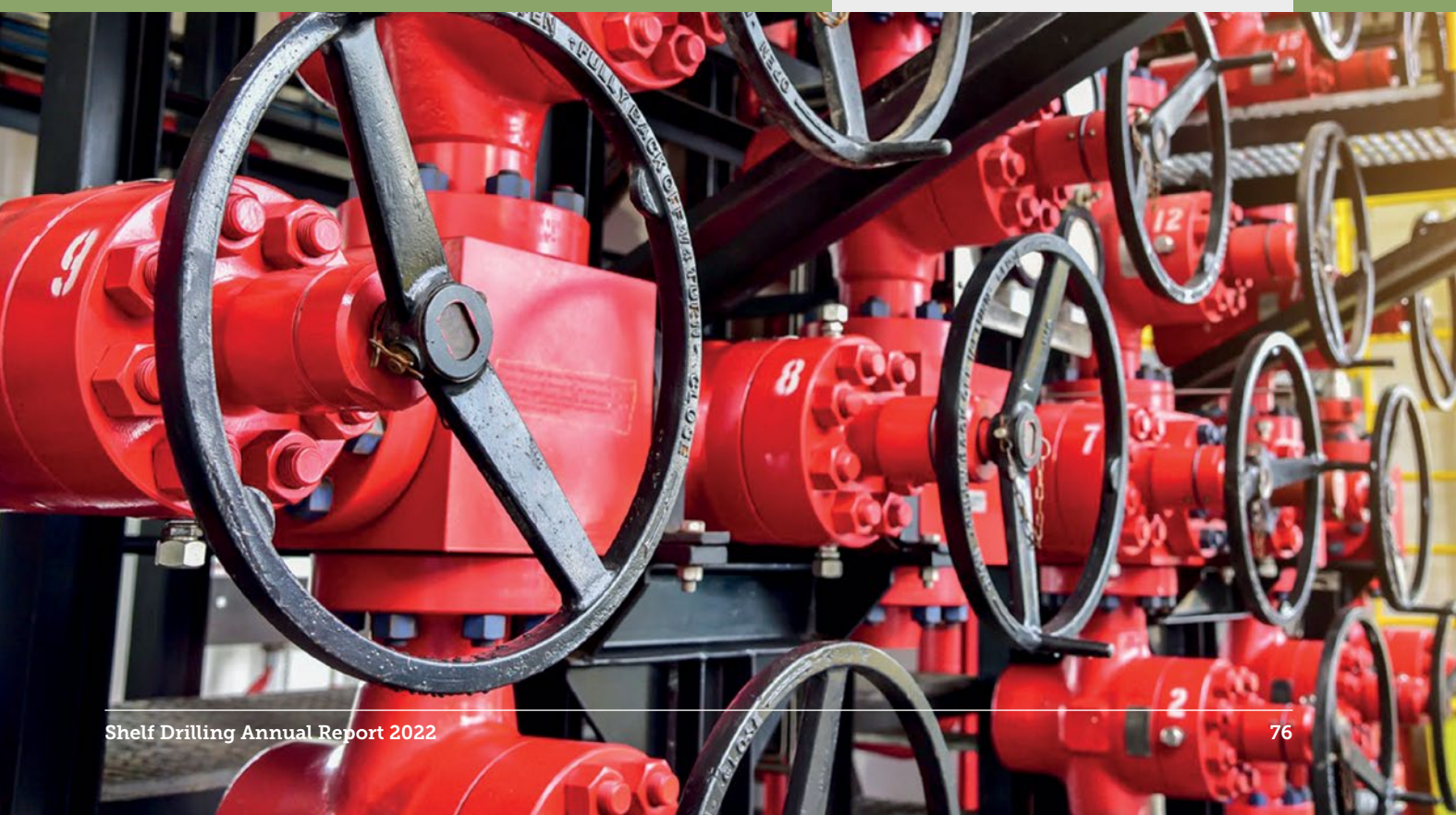
Shelf Drilling’s commitment to circularity and responsible waste management practices has resulted in significant progress in reducing waste and emissions and promoting the reuse and recycling of materials. We will continue to work with industry partners and stakeholders to find innovative technologies and solutions to further improve our waste management practices and promote these across our industry.

Shelf Drilling is committed to adopting a proactive approach to climate change and environmental management. The Company plans to reduce its environmental footprint and promote sustainable operations by implementing energy efficiency measures, adopting clean technologies, and effective waste management practices. To ensure success, the Company plans to provide regular employee training and collaborate with industry partners, and other stakeholders to identify innovative solutions and develop new technologies that can help to address environmental challenges.

2023 Plan to install
100
Water Filtration &
Dispensation Units

Eliminating
1,800 Kg
Plastic Per Rig
Per Year

Reducing
10,800Kg
GHG Emission



Responsible Business Conduct

Shelf Drilling is committed to conducting its business with honesty, fairness and transparency, recognizing its importance for long-term success, reputation, and sustainability. These values are ingrained in everything we do, including our interactions with customers, suppliers, employees, shareholders, and communities where we operate. We have adopted a risk-based approach to monitor and oversee our compliance activities, including due diligence processes and periodic monitoring of third parties to forge a long-term relationship based on shared values across our value chain. As a global company, we adhere to relevant regulatory frameworks and good business practices. We invest in our employees through awareness and training programs to ensure they understand our policy expectations and comply with legal and regulatory obligations. We have established and maintain effective channels enabling anyone to report a violation, ask questions, or express concerns in relation to our business and operations.

Within the Responsible Business Conduct focus area, we operate with the following material topics.

Material Topics

- Anti-Corruption & Bribery
- Responsible Procurement
- Information Security



Anti-Corruption & Bribery

Shelf Drilling has zero tolerance for bribery and corruption, enforced by our Code of Business Conduct and Ethics (Corporate Code) and Global Anti-corruption Policy, both of which are anchored on corporate level in our Company Management System.

Why it matters

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

Code of Business Conduct & Ethics

Our Corporate Code sets the standards for responsible business conduct, based on the following fundamental themes and in compliance with local laws and regulations.

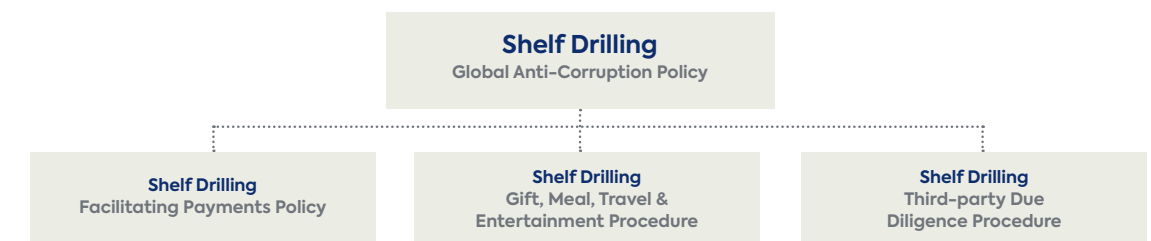


Shelf Drilling's Board of Directors has specifically directed the issuance and implementation of our Code of Business Conduct and Ethics and retains ultimate responsibility.

Our Board of Directors takes ultimate responsibility for the Corporate Code and its implementation, and any exceptions must be approved by them. Everyone who represents or works for us, including employees, contractors, and partners, is expected to uphold these ethical principles. Our Corporate Code is periodically reviewed and updated to ensure we stay at the forefront of national and international best practices. All changes are duly communicated to employees, who must complete recertification of the Corporate Code and its supporting policies on an annual basis. Our Corporate Code is available on our Company website.

Global Anti-corruption Policy

Shelf Drilling's Global Anti-corruption Policy mandates compliance with applicable anti-corruption laws and regulations in all countries where we operate, including the U.S. Foreign Corrupt Practices Act (FCPA) and UK Bribery Act. This is supplemented by our robust internal controls and regular training to identified employees and third-party representatives to raise awareness. The policy is supported by the following three documents which provide detailed guidance regarding key risk areas below.



Facilitating Payments

Facilitating payments are small payments to government officials to expedite routine, non-discretionary government functions. Under the Shelf Drilling Anti-Corruption Facilitating Payments Policy, these payments are strictly prohibited, except in rare cases of imminent threat to health or safety, which must be internally reviewed and approved. In 2022, no facilitating payments were recorded.

Compliance Training & Awareness

Shelf Drilling requires all employees to complete annual training programs in relation to the Corporate Code, Global Anti-corruption Policy and its supporting policies. For annual recertification on Corporate Code, we aim for 95% completion rate (with 100% completion for Managers and above). For other targeted mandatory courses, we aim for 100% completion rate. Our training program is regularly updated and includes e-learning, virtual and in-person sessions, as well as email updates, posters, and newsletters. In 2022, we provided targeted training to employees and vendors on the following topics.

2022 Online Training Focus Areas

Module/Course	Employees Trained
Recertification of Code of Business Conduct & Ethics	2,424
Anti-corruption	506
Conflicts of Interest	447
Cybersecurity module	725

Speak Up

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

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

We offer various reporting channels, including confidential reporting through the Shelf Drilling EthicsPoint Helpline, available in multiple languages and formats and accessible to employees and external stakeholders. The helpline is open 24/7 in multiple languages, and an independent third-party provider operates it to ensure confidentiality and, if requested, anonymity. In 2022, we expanded our helpline network to cover Denmark, Ghana and United Kingdom. To learn more about the helpline, please visit [Shelf Drilling EthicsPoint Helpline](#).



All incidents are thoroughly reviewed and investigated with strict confidentiality. Any resulting actions, including disciplinary action, are reported to the Audit Committee. In 2022, 7 new incidents were reported and resolved with appropriate follow-up.

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

Responsible Procurement

At Shelf Drilling, we believe in a responsible and sustainable supply chain. We ensure effective supply chain governance through clear policies, proactive risk management, and monitoring of suppliers' performance. Collaboration, communication, and continuous improvement are essential elements of our approach.

Why it matters

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

Onboarding New Vendors

The first step to cultivating a sustainable supply chain is partnering with the right vendors or third parties who are aligned with our corporate values and policies. The following policies and procedures ensure responsible vendor onboarding at Shelf Drilling.

1. Vendor Code of Conduct:

Shelf Drilling Vendor Code of Conduct (Vendor Code) sets out ethical performance requirements for all third parties, including agents, suppliers, and business partners, who conduct business on behalf of Shelf Drilling. During the onboarding process, third parties must comply with or explain deviations from the Vendor Code. We also require third parties to ensure that their own vendors and sub-contractors are given notice of our Vendor Code, promoting sustainability management throughout our supply chain. The Vendor Code is available on our website.

2. Due Diligence and Onboarding:

We conduct appropriate due diligence when onboarding vendors, following our Supply Chain Procedures Manual and Third-Party Due Diligence Procedure. The onboarding process levels depend on the nature of service provided and location. Our vendor onboarding process has the capability of mapping 29 risk areas, including sustainability-related risks.

3. Master Service Agreements:

We may require vendors to enter into a Master Service Agreement (MSA) based on the nature of vendor engagement, and we offer various templates for different arrangements, such as onshore and offshore services and staff augmentation.

Vendor Code of Conduct

Core Expectations

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

Prioritizing Human Rights in Supply Chains

We actively seek to identify and address human rights risks and impacts throughout our value chain and are committed to ensuring that our suppliers and business partners share our commitment to human rights as outlined in the Vendor Code. For more details, see page 66.

Tracking Compliance – HSE and Quality Audits

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



High-Risk Vendor Categories

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

Contractors

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

Shipyards

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

Information Security

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

Why it matters

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

Management Approach

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

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

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

Confidentiality: to ensure that information is accessible only to authorized individuals

Integrity: to safeguard the accuracy and completeness of information and processing methods

Availability: to ensure that authorized users have access to relevant information when required



CONFIDENTIALITY

INTEGRITY

AVAILABILITY

Information Security Policy

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

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

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

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

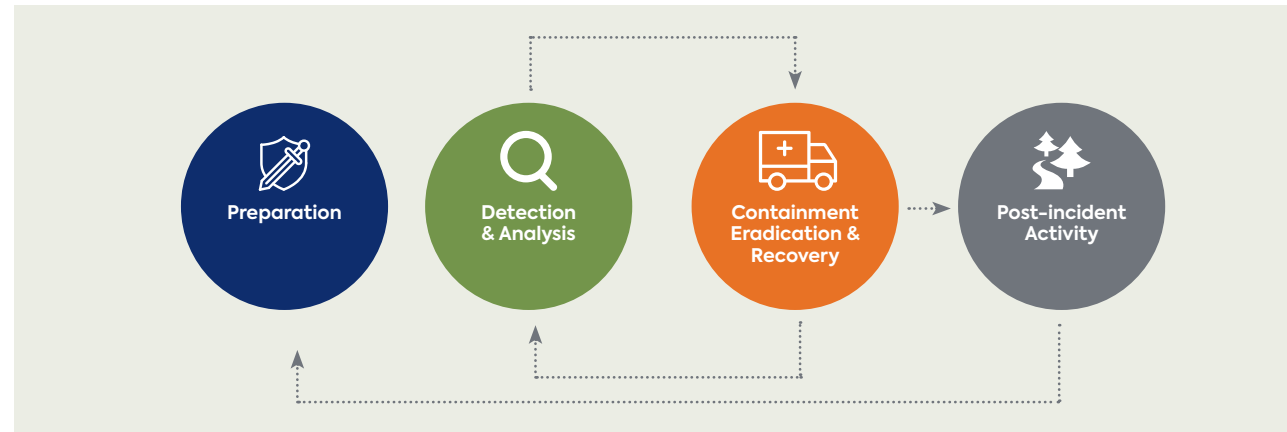
Data Privacy

Shelf Drilling has implemented a privacy program adopting the EU General Data Protection Regulation (GDPR) standards, and other relevant privacy standards that apply to our business. The Company regularly updates its privacy policies and program to keep up to date with the existing and new privacy laws and regulations in various jurisdictions in addition to raising awareness and providing related training to our employees. Given the expanding global nature of our business, in 2022, we updated our privacy policy framework to ensure a consistent approach to privacy across countries, duly supplemented by local law implementation requirements. Also in 2022, as part of policy alignment with NIST framework, we updated the Information Security policy to outline specific responsibilities for data privacy at the executive and management level. We continue to monitor the evolving privacy regulations to ensure we comply with them promptly and effectively. We invest in our cybersecurity team through skilled personnel, ongoing training, and support for tools and technologies to manage cybersecurity risks.

Incident Management

Shelf Drilling Incident Management Policy provides the overarching framework to ensure efficient incident management, minimize the impact on our business operations, and enable quick restoration of service operations. To maintain business continuity, we create, maintain, and test business continuity plans. We ensure that all employees, contractors, and third-party users are equipped with the necessary guidance to identify information security incidents and are aware of the procedures for reporting security incidents or vulnerabilities. All breaches of information security, whether actual or suspected, are promptly reported and investigated. In 2022, There were no reported data breaches in 2022.

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



Physical & Environmental Security

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

Training & Awareness

Employee awareness and training on information security is a critical aspect of ensuring the confidentiality, integrity, and availability of our information assets. By providing regular education and training to our staff, we equip them with the knowledge and skills to identify and respond to security threats, reducing the risk of a breach or unauthorized access to sensitive information. Employees are required to take part in information security and cybersecurity threat education and training on an annual basis. In 2022, our cybersecurity training covered a range of topics, including phishing and social engineering, insider threat awareness, incident response, protecting Company equipment and devices, and password management.

Looking Ahead

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

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

Shelf Drilling's Response to 11 TCFD Reporting Recommendations

This table provides an overview of Shelf Drilling's responses to the 11 TCFD reporting recommendations as cross-referenced to various sections of this Sustainability Report, our [2022 Form 10-k Equivalent](#), and our [2022 CDP disclosure](#). We believe these details will help our investors and all other stakeholders better understand how Shelf Drilling is positioned to manage the risks and opportunities associated with climate change.

TCFD Recommendation	Shelf Drilling 2022 CDP Disclosure/ Sustainability Report (SR) Reference/ 2022 Form 10-K Equivalent Reference
Governance	
Describe the board's oversight of climate-related risks and opportunities	SR – Corporate Governance of Sustainability – Page 42 CDP C1 – Governance CDP C2 – Risks & Opportunities
Describe management's role in assessing and managing climate-related risks and opportunities	SR – Corporate Governance of Sustainability – Page 42 CDP C1 – Governance CDP C2 – Risks & Opportunities
Strategy	
Describe the climate-related risks and opportunities the organization has identified over the short, medium, and long term	SR – Climate Risks – Page 43 SR – Our Contribution to Energy Transition – Page 44 Form 10-K Equivalent – Risk Factors – Page 16 CDP C2 – Risks & Opportunities
Describe the impact of climate-related risks and opportunities on the organization's businesses, strategy, and financial planning	SR – Our Contribution to Energy Transition – Page 44 CDP C2 – Risks & Opportunities CDP C3 – Business Strategy
Describe the resilience of the organization's strategy, taking into consideration different climate-related scenarios, including a 2°C or lower scenario	SR – Our Contribution to Energy Transition – Page 44 CDP C3 – Business Strategy CDP C3 – Business Strategy
Risk Management	
Describe the organization's processes for identifying and assessing climate-related risks	SR – Corporate Governance of Sustainability – Page 42 SR – Climate Risks – Page 43 CDP C1 – Governance CDP C2 – Risks & Opportunities
Describe the organization's processes for managing climate-related risks	
Describe how processes for identifying, assessing, and managing climate-related risks are integrated into the organization's overall risk management	
Metrics & Targets	
Disclose the metrics used by the organization to assess climate-related risks and opportunities in line with its strategy and risk management process	SR – Greenhouse Gas Emissions – Page 73 SR – Environmental Impact – Spills & Releases – Page 74 SR – Recycling and Waste Reduction – Page 75 CDP – C4 – Targets & Performance CDP – C6 – Emissions Data
Disclose Scope 1, Scope 2, and, if appropriate, Scope 3 greenhouse gas (GHG) emissions, and the related risks	
Describe the targets used by the organization to manage climate-related risks and opportunities and performance against targets	

2022 Disclosures

Topic	Metric	2022	2021	2020	Code
Health & Safety	HSE Performance 1) Number of recordable incidents, (2) Total recordable incident rate (TRIR), (3) Lost Time Incident Rate (LTIR), (4) number of fatalities, (5) near miss frequency rate (NMFR), and (5) serious near miss frequency rate (SNMFR), (6) Total Potential Severity Rate (TPSR).	#Recordable Incidents: 8 TRIR: 0.16 LTIR: 0.04 Fatalities: 0 NMFR: 0.36 SNMFR: 0.10 TPSR: 6.31	#Recordable Incidents: 7 TRIR: 0.16 LTIR: 0.02 Fatalities: 1 NMFR: 0.09 SNMFR: 0.09 TPSR: 4.92	#Recordable Incidents: 9 TRIR: 0.19 LTIR: 0.00 Fatalities: 0 NMFR: 0.19 SNMFR: 0.04 TPSR: 2.91	EM-EP-320a.1 (Customized) GRI 403-9
	Health & Safety Management Discussion of management systems used to integrate a culture of safety throughout the exploration and production lifecycle.	See pages 48-52	-	-	EM-EP-320a.2 GRI 403-1
	Emergency Preparedness Management Systems Description of management systems used to identify and mitigate catastrophic and tail-end risks.	See pages 53-54	-	-	EM-EP-540a.2 GRI 403-2
	HSE Training Average hours of HSE training provided to onshore and offshore personnel employees plus contractors. Description of occupational health and safety training.	Offshore: 20.5 Onshore: 1.4 See page 55	Offshore: 20.9 Onshore: 0.8	Offshore: 10.9 Onshore: 0.9	EM-EP-320a.1 (Customized) GRI 403-5

Topic	Metric	2022	2021	2020	Code
People	Labour rights – Freedom of Association & Collective Bargaining Percentage of total employees covered by collective bargaining agreements.	2.53%	2.67%	3.05%	GRI 102-41 GRI 2-30
	Local Employment Description of how Shelf Drilling build national content through hiring and developing nationals from the countries of operation, including across leadership teams.	See pages 57-59	-	-	Custom
	Gender Diversity of Management & Board Percentage of individuals within the organization's management and governance bodies according to gender	Board: 0% female Management: 13% female	Board: 0% female Management: 14% female	Board: 0% female Management: 15% female	GRI 405-1
	Training & Development Overall compliance to requirements of training matrix (percentage).	87%	88%	87.5%	Custom
	Recruitment Annual talent attraction.	Offshore: 464 direct employees, 909 contractors Onshore: 70 direct employees, 52 contractors	Offshore: 251 direct employees, 443 contractors Onshore: 15 direct employees, 41 contractors	Offshore: 236 direct employees, 365 contractors Onshore: 23 direct employees, 15 contractors	Custom GRI 401-1
	Retention Annual retention in terms of annual voluntary turnover (percentage).	Offshore: 8.7% Onshore: 10.5%	Offshore: 8.5% Onshore: 5.5%	Offshore: 5.1% Onshore: 7.6%	Custom GRI 401-1

Topic	Metric	2022	2021	2020	Code
Climate & Environment	Scope 1 GHG Emissions Gross global Scope 1 emissions (Fuel in Metric tons, Emissions in tCO2e).	Fuel Consumption: 77,828.5 ¹ CO ₂ -e: 252,941.9 ² CO ₂ : 249,517.5 ² CH4: 63.0 ² N2O: 3,361.4 ²	Fuel Consumption: 74,687.8 CO ₂ -e: 242,734.6 ² CO ₂ : 239,448.3 ² CH4: 60.5 ² N2O: 3,225.8 ²	Fuel Consumption: 80,981.0 CO ₂ -e: 263,187.4 ² CO ₂ : 259,624.3 ² CH4: 65.6 ² N2O: 3,498.4 ²	EM-EP-110a.1 GRI 305-1
	Scope 2 GHG Emissions Gross global Scope 2 emissions (Emissions in tCO2e).	CO ₂ -e: 680.0 ³	CO ₂ -e: 565.1 ³	CO ₂ -e: 693.6 ³	EM-EP-110a.1 GRI 305-2
	Scope 3 GHG Emissions Gross global Scope 3 emissions (Emissions in tCO2e).	CO ₂ -e: 289,604.3 ⁴	CO ₂ -e: 58,995.9 ⁴	CO ₂ -e: 34,949.3 ⁵	EM-EP-110a.1 GRI 305-3
	Emissions Management Discussion of long-term and short-term strategy or plan to manage Scope 1 emissions, emissions reduction targets, and an analysis of performance against those targets.	See pages 73-74	-	-	EM-EP-110a.3 GRI 3-3
	Air Emissions Emissions of the following pollutants: (1) NO _x , (2) SO _x , (3) volatile organic compounds (VOCs), and (4) particulate matter (PM10). (Emissions in Metric tons).	(1) NO _x : 4,623.0 ⁶ (2) SO _x : 77.8 ⁶ (3) VOC: 155.7 ⁶ (4) PM10: Shelf Drilling does not calculate this number	(1) NO _x : 4,436.5 ⁶ (2) SO _x : 74.7 ⁶ (3) VOC: 149.4 ⁶ (4) PM10: Shelf Drilling does not calculate this number	(1) NO _x : 4,810.3 ⁶ (2) SO _x : 81.0 ⁶ (3) VOC: 162.0 ⁶ (4) PM10: Shelf Drilling does not calculate this number	EM-EP-120a.1 GRI 305-7
	TCFD Reporting Reporting on climate related risks and opportunities in line with the recommendations of the Task force on Climate-related Financial Disclosures (TCFD).	See page 43	-	-	TCFD GRI 201-2
	Biodiversity Management Description of environmental management Policies and practices for active sites.	See pages 74-75	-	-	EM-EP-160a.1 GRI 3-3
	Spills & Releases to the Environment Number and aggregate volume of spills and releases to the environment.	Overboard Releases: Number of spills: 1 Aggregate volume: 0.03 bbls Releases to air: Number of ODS releases: 1 Aggregate volume: 1 Kg	Overboard Releases: Number of spills: 0 Aggregate volume: 0 bbls Releases to air: Number of ODS releases: 12 Aggregate volume: 42 Kg	Overboard Releases: Number of spills: 2 Aggregate volume: 103.1 bbls Releases to air: Number of ODS releases: 29 Aggregate volume: 215.6 Kg	GRI 306-3

Topic	Metric	2022	2021	2020	Code
Climate & Environment continued	Fresh Water Consumption & Recycling (1) Total volume of fresh water (non-drinking) handled in operations (2) Percentage recycled.	All fresh water used on the rigs is converted from seawater. Volume not measured, 100% recycled.	All fresh water used on the rigs is converted from seawater. Volume not measured, 100% recycled.	All fresh water used on the rigs is converted from seawater. Volume not measured, 100% recycled.	EM-SV-140a.1 GRI 303-5
	Water Management Discussion of strategy or plans to address water consumption and disposal-related risks, opportunities, and impacts.	See pages 74-77	-	-	EM-SV-140a.2 GRI 303-2
Responsible Business Conduct	Corruption Risk Amount of net revenue in countries that have the 20 lowest rankings in Transparency International's Corruption Perception Index.	0	0	0	M-SV-510a.1
	Anti-corruption & Bribery Management Description of the management system for prevention of corruption and bribery throughout the value chain.	See pages 79-80	-	-	EM-EP-510a.2
	Ethics Number of reported incidents.	7	8	8	Custom
	Fines Total monetary value of significant fines and total number of nonmonetary sanctions for non-compliance with laws and/or regulations in the social and economic area.	0	0	0	GRI 419-1 GRI 2-27
	Responsible Vendor Management Processes and policies guiding the selection and monitoring of vendors and agents.	See pages 81-82	-	-	Custom
	Human Rights Percentage of (1) proved and (2) probable reserves in or near areas of conflict.	0%	0%	0%	EM-EP-210a.1
	Human Rights Percentage of (1) proved and (2) probable reserves in or near indigenous land.	0%	0%	0%	EM-EP-210a.2

¹ Includes fuel consumed by rigs acquired in 2022. Excluding the rigs acquired, Scope 1 GHG emissions were 239,749.4 tCO2e.
² Scope 1 GHG Emissions are calculated using DEFRA 2022 Emissions Conversion Factors for Fuels – Marine Gas Oil (MGO), available [here](#). This represents a change from prior years to better align with general industry practice.
³ Scope 2 GHG Emissions are calculated by both location-based and market-based methods, using AIB 2022 emissions factors, climate transparency report 2022, and IGES 2022 factors.
⁴ Scope 3 GHG Emissions for 2022 include capital goods, purchased goods & services, fuel & energy related activities, and employee commuting categories in addition to those reported in prior years.
⁵ Scope 3 GHG Emissions for 2020 & 2021 include upstream transportation & distribution, business travel, and waste generated in operations categories only.
⁶ Air Emissions are calculated from Table 8.2 - Engine of the EEMS Atmospheric Emissions Calculations Report, available [here](#). SO_x emissions accounts for SO₂ emissions and has been adjusted for MGO sulfur weight composition of 0.05%.

GRI Content Index

Statement of Use	Shelf Drilling has reported the information cited in this GRI content index for the period January 1, 2022 to December 31, 2022 with reference to the GRI Standards.
GRI 1 Used	GRI 1: Foundation 2021

GRI Standard	Disclosure	Location
GRI 2: General Disclosures 2021	2-1 Organizational details	Page 4 of 2022 Form 10-K Equivalent
	2-2 Entities included in the organization's sustainability reporting	Page 4 of 2022 Form 10-K Equivalent
	2-3 Reporting period, frequency and contact point	Page 46
	2-5 External assurance	Page 46
	2-6 Activities, value chain and other business relationships	Pages 5-6 of 2022 Form 10-K Equivalent
	2-7 Employees	Pages 56-71
	2-9 Governance structure and composition	Pages 92-97 of 2022 Annual Report
	2-10 Nomination and selection of the highest governance body	Pages 92-97 of 2022 Annual Report
	2-11 Chair of the highest governance body	Pages 92-97 of 2022 Annual Report
	2-12 Role of the highest governance body in overseeing the management of impacts	Page 42
	2-13 Delegation of responsibility for managing impacts	Page 42
	2-14 Role of the highest governance body in sustainability reporting	Page 42
	2-16 Communication of critical concerns	Page 80
	2-19 Remuneration policies	Page 92 of 2022 Annual Report
	2-20 Process to determine remuneration	Page 92 of 2022 Annual Report
	2-22 Statement on sustainable development strategy	Pages 38-39
	2-23 Policy commitments	Pages 66-68
	2-24 Embedding policy commitments	Pages 78-80
	2-26 Mechanisms for seeking advice and raising concerns	Page 80
	2-27 Compliance with laws and regulations	Page 89
2-28 Membership associations	Page 45	
2-29 Approach to stakeholder engagement	Page 44	
2-30 Collective bargaining agreements	Page 87	
GRI 2: General Disclosures 2021	3-1 Process to determine material topics	Page 44
	3-2 List of material topics	Page 45
	3-3 Management of material topics	Pages 48-76
GRI 201: Economic Performance 2016	201-2 Financial implications and other risks and opportunities due to climate change	Page 43, 85

GRI Standard	Disclosure	Location
GRI 205: Anti-corruption 2016	205-1 Operations assessed for risks related to corruption	Page 89
	205-2 Communication and training about anti-corruption policies and procedures	Pages 78-80
GRI 302: Energy 2016	302-1 Energy consumption within the organization	Page 88
	302-2 Energy consumption outside of the organization	Page 88
	302-4 Reduction of energy consumption	Page 88
GRI 303: Water and Effluents 2018	303-2 Management of water discharge-related impacts	Page 74-75
	303-5 Water consumption	Page 89
GRI 305: Emissions 2016	305-1 Direct (Scope 1) GHG emissions	Page 88
	305-2 Energy indirect (Scope 2) GHG emissions	Page 88
	305-3 Other indirect (Scope 3) GHG emissions	Page 88
	305-4 GHG emissions intensity	Page 88
	305-5 Reduction of GHG emissions	Page 88
	305-6 Emissions of ozone-depleting substances (ODS)	Page 88
	305-7 Nitrogen oxides (NOx), sulfur oxides (SOx), and other significant air emissions	Page 88
GRI 306: Waste 2020	306-1 Waste generation and significant waste-related impacts	Pages 75-77
	306-2 Management of significant waste-related impacts	Pages 75-77
	306-3 Waste generated	Pages 75-77
GRI 401: Employment 2016	401-1 New employee hires and employee turnover	Page 87
GRI 403: Occupational Health and Safety 2018	403-1 Occupational health and safety management system	Pages 48-55
	403-2 Hazard identification, risk assessment, and incident investigation	Pages 53-54
	403-3 Occupational health services	Pages 48-55
	403-4 Worker participation, consultation, and communication on occupational health and safety	Pages 48-55
	403-5 Worker training on occupational health and safety	Pages 48-55
	403-6 Promotion of worker health	Page 65
	403-8 Workers covered by an occupational health and safety management system	Pages 48-55
	403-9 Work-related injuries	Pages 86
	403-10 Work-related ill health	Page 86
	GRI 404: Training and Education 2016	404-1 Average hours of training per year per employee
404-2 Programs for upgrading employee skills and transition assistance programs		Pages 60-62
GRI 405: Diversity and Equal Opportunity 2016	405-1 Diversity of governance bodies and employees	Pages 63-64
GRI 413: Local Communities 2016	413-1 Operations with local community engagement, impact assessments, and development programs	Pages 68-71
GRI 414: Supplier Social Assessment 2016	414-1 New suppliers that were screened using social criteria	Pages 81-82

Corporate Governance

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

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

1. Implementation and Reporting on Corporate Governance

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

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

2. Business

Shelf Drilling was incorporated under the laws of the Cayman Islands on August 14, 2012 and is a holding company. The operations of the Company and its subsidiaries (together the “Group”) are entirely carried out by the Company’s operating subsidiaries. The Group is a leading international shallow water offshore drilling contractor providing equipment and services for the drilling, completion, maintenance and decommissioning

of oil and natural gas wells. The Group is solely focused on shallow water operations in depths of up to 500 feet and owns 36 independent-leg cantilever jack-up rigs, making us one of the world’s largest owners and operators of jack-up rigs by number of active shallow water rigs.

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

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

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

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

3. Equity and Dividends

Capital Structure

As of December 31, 2022, the total issued share capital of the Company amounted to \$1,763,687.67, divided into 176,368,767 common shares, each with a par value of \$0.01. This excludes the recent private placement of 17,636,876 common shares of the Company announced on February 1, 2023. The Board considers the Company’s capital structure to be appropriate with regard to the Company’s objectives, strategy and risk profile.

The Group’s financing arrangements as of December 31, 2022 were comprised of \$900 million 8.25% senior unsecured notes due February 2025, \$310 million 8.875% Senior Secured First Lien Notes due November 2024 and \$250 million 10.25% Senior Secured Notes due October 2025.

As of December 31, 2022, the Company had a total indebtedness of \$1.46 billion. The Company did not distribute any dividends for the financial year ended December 31, 2022.

Dividend Policy

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

Authorization to the Board

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

4. Equal Treatment of Shareholders

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

5. Shares and Negotiability

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

6. General Meetings

In respect of general meetings, the Board ensures that:

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

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

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

7. Nomination Committee

The Board has established a Nomination Committee which, as of December 31, 2022, comprised the directors John K. Castle (Chairman), J. William Franklin, Jr. and David Williams. In line with common practice for Cayman Islands incorporated companies, the Articles do not include provisions specific to a nomination committee and the members are not independent of the Board which represents a deviation from section 7 of the Code.

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

8. Board of Directors: Composition and Independence

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

As of December 31, 2022, the Board comprised the following persons:

- **Ernie Danner/Chairman**
- **David Mullen/Director**
- **John K. Castle/Director**
- **J. William Franklin, Jr./Director**
- **Dongyang Lou/Director**
- **David Pittaway/Director**
- **John Reynolds/Director**
- **Benjamin Sebel/Director**
- **Usama Trabulsi/Director**
- **David Williams/Director**

Further information on each of the above directors, including information about their expertise is included on www.shelfdrilling.com and in their biographies on pages 12-14 of this annual report.

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

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

Attendance by the directors at meetings during 2022 is reflected in the table below:

Board Member	Board	Audit Committee	Compensation Committee	Nomination Committee
Ernie Danner	11/11	7/8		
David Mullen	11/11			
John K. Castle	11/11		4/4	1/1
J. William Franklin, Jr.	10/11		4/4	1/1 ¹
Dongyang Lou	2/11			
David Pittaway	11/11			
John Reynolds	9/11			
Benjamin Sebel	11/11 ²	8/8 ¹	4/4	
Usama Trabulsi	11/11	8/8		
David Williams	11/11 ¹	8/8 ¹		1/1

¹ one of which by proxy

² three of which by proxy

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

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

Directors are not required to own any shares in the Company. As of December 31, 2022, David Mullen owned 1,098,942 shares in the Company, Ernie Danner owned 527,977 shares in the Company, John K. Castle owned 500,000 shares in the Company, Benjamin Sebel (partly through a close associate) owned 177,543 shares in the Company and Usama Trabulsi and David Williams each owned 77,543 shares in the Company.

9. The Work of the Board of Directors

General

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

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

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

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

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

The Audit Committee

The Board has elected an Audit Committee among the members of the Board. As of December 31, 2022, the audit committee comprised David Williams (Chairman), Ernie Danner, Benjamin Sebel and Usama Trabulsi, all of whom are independent.

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

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

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

The Compensation Committee

The Board has established a Compensation Committee which, as of December 31, 2022, comprised the directors J. William Franklin, Jr. (chairman), John K. Castle and Benjamin Sebel, all of whom are independent of the Company's executive management.

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

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

The Nomination Committee

Please see section 7. Nomination Committee on page 93.

10. Risk Management and Internal Control

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

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

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

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

The Company has adopted a separate code of conduct, sustainability policy and HSE policy and uses its best efforts to have a comprehensive set of relevant corporate manuals and procedures, which provide detailed descriptions of procedures covering all aspects of the management of the Company's operational business. These procedures and manuals are continually revised to reflect best practice, derived from experience or adopted through regulations. The Company has adopted a separate code of conduct, sustainability policy and HSE policy and Health, Safety and Environment and Maintenance and Certifications, in the Form 10-K Equivalent included in this report.

Shelf Drilling complies with the laws and regulations that apply to the Company's operations.

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

11. Remuneration of the Board of Directors

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

In November 2022, Ernie Danner received 232,630 common shares of the Company and the other non-executive directors ("NEDs") or the shareholder firms they represent received 77,543 common shares of the Company per NED, in each case in settlement of the RSU awards granted in November 2021 as part of their compensation as Chairman of the Board and NEDs, respectively. Mr. Danner also

received an award of 95,092 RSUs in November 2022 as part of his compensation as Chairman of the Board, representing an annual equity award with a targeted value of \$150,000 per year. For each of the other NEDs, the Board also approved in November 2022 an annual equity award targeted at \$50,000 in the form of 31,697 RSUs. For further details please see page F-38 Note 19 – Share-based Compensation to the Consolidated Financial Statements in the Form 10-K Equivalent included in this report.

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

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

12. Remuneration of Executive Personnel

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

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

The Company provides for performance-related remuneration of the executive management in the form of an annual bonus program, cash retention and share based long-term incentives, which are linked to the Company's profit over time and value creation for shareholders. Such arrangements are based on quantifiable factors that the employee may influence. Performance-related remuneration is subject to a cap.

In accordance with the above, the Company does not deviate from section 12 of the Code other than with regard to provisions that are of a Norwegian company law specific nature.

13. Information and Communications

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

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

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

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

14. Take-Overs

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

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

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

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

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

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

Shelf Drilling was not subject to any takeover bids in 2022.

15. Auditor

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

At least once a year, the Audit Committee of the Board reviews the Company's internal control procedures with the auditor, including weaknesses identified by the auditor and proposals for improvement.

In order to ensure the auditor's independence of the Company's executive management, the Board has specified the executive management's right to use the auditor for purposes other than auditing.

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

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

Responsibility Statement

We confirm that, to the best of our knowledge, the consolidated financial statements for the year ended December 31, 2022, have been prepared in accordance with accounting principles generally accepted in the United States of America, and give a true and fair view of the assets, liabilities, financial position and results of the Company and the Group taken as a whole.

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

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

March 20, 2023



Ernie Danner
Chairman



David Mullen
Director & Chief Executive Officer



Glossary

Adjusted EBITDA	Adjusted earnings before interest, taxes, depreciation and amortization, which consists of net loss plus interest expense and financing charges, net of interest income, income tax expense, depreciation, amortization of deferred costs, loss on impairment of assets, loss/(gain) on disposal of assets, amortization of intangible liability, acquired rig reactivation costs, one-time corporate transaction costs and other specific items in certain periods.
Adjusted EBITDA Margin	Adjusted EBITDA divided by Adjusted Revenues.
Adjusted Free Cash Flow	Adjusted EBITDA less capital and deferred expenditures excluding rig acquisitions, interest expense (excluding loss on debt extinguishment), net of interest income and income tax expense.
Average Dayrate	The average contract day rate earned by marketable rigs over the reporting period excluding mobilization fees, contract preparation, capital expenditure reimbursements, demobilization, recharges, bonuses and other revenues. Average day rate can be calculated related to historical revenues or contract backlog.
Adjusted Revenues	Revenues less the amortization of intangible liability.
Bbls	Barrels
Bbls/d	Barrels per day
Board	The Company's Board of Directors
Capital expenditures & deferred costs	Acquisition, other fixed asset purchases, construction expenditures on newbuild rigs and certain expenditures associated with regulatory inspections, major equipment overhauls, contract preparation (including rig upgrades), mobilization and stacked rig reactivations.
Corporate Code	The Company's Code of Business Conduct and Ethics
Code/Corporate Governance Code	The Norwegian Code of Practice for Corporate Governance, dated October 14, 2021.
Company	Shelf Drilling, Ltd. together with its consolidated subsidiaries. Also referred to as Shelf Drilling or SHLF.
Effective Utilization	The number of calendar days during which marketable rigs generate dayrate revenues divided by the maximum number of calendar days during which those rigs could have generated dayrate revenues. Effective utilization measures the dayrate revenue efficiency of our marketable rigs.
ESG	Environmental, Social and Governance
Group	Shelf Drilling, Ltd./Shelf Drilling/SHLF together with its consolidated subsidiaries.
Harsh Environment Rigs/ Jack-ups	Categorization of rigs designed to operate in harsh weather and sea conditions, typically with high winds, rough seas and cold temperatures, such as those found in the North Sea and other harsh climate regions.
HSE	Health, Safety and Environment
IADC	International Association of Drilling Contractors
IOCs	International Oil Companies

LTM	Last twelve months
LTIR	The Lost Time Incident Rate which is calculated as the number of lost time incidents per 200,000 man-hours.
Marketable Rigs	The total number of rigs that are operating or are available to operate, but excluding rigs under bareboat charter agreements, stacked rigs, rigs under contract for activities other than drilling, plug and abandonment or associated services, as applicable.
Net Debt	Represents Total Debt less cash and cash equivalents.
NOCs	National Oil Companies
Operating Position/ Market Position	Ranking of a company in terms of number of jack-ups deployed in a region, excludes owner-operators, for example ONGC in India, ADNOC in UAE.
OPITO	Offshore Petroleum Industry Training Organization, which is a global, not-for profit, training, and skills body for the energy industry.
Premium Rigs/Premium Jack-ups	Categorization of rigs based on specifications and capabilities, typically with 1.5-million-pound hook load capacity, 120 persons of accommodation capacity, and 350-foot water depth capability.
Rystad/Rystad Energy	An independent energy research and business intelligence company.
TPSR	The Total Potential Severity Rate which is calculated as the number of incidents per 200,000 man-hours.
TRIR	The Total Recordable Incident Rate which is calculated as the sum of the potential severity values of all events (incidents and near/serious near hits) per 200,000 man-hours.
Uptime	The period during which the Company performs well operations without stoppage due to mechanical, procedural, or other operational events that result in non-productive well operations time. Uptime is expressed as a percentage measured daily, monthly, or yearly. Uptime performance is a key customer contracting criterion, an indication of the Company's operational efficiency and directly related to current and future revenues and profit generation.
Form 10-K Equivalent	With certain exceptions, the Form 10-K Equivalent provided as part of this Annual Report is provided pursuant to the Indenture for the Company's 8.25% Senior 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.
Note to EBITDA/Adjusted EBITDA	In addition to terms under US GAAP, the Company presents non-GAAP financial measures, including EBITDA and Adjusted EBITDA. The Company believes that Adjusted EBITDA and Adjusted EBITDA Margin are useful non-GAAP financial measures because they are widely used to measure a company's operating performance without regard to the excluded items, which can vary substantially from company to company, and are also useful to an investor in evaluating the performance of the business over time. In addition, the Company's management uses Adjusted EBITDA and Adjusted EBITDA Margin in presentations to its Board to provide a consistent basis to measure the operating performance of the business, as a measure for planning and forecasting overall expectations, for evaluation of actual results against such expectations and in communications with shareholders, lenders, noteholders, rating agencies and others concerning the Company's financial performance. Adjusted EBITDA and Adjusted EBITDA Margin may not be comparable to similarly titled measures employed by other companies and should not be considered in isolation or as a substitute for net income (loss) or other data prepared in accordance with US GAAP. Adjusted EBITDA and Adjusted EBITDA margin have significant limitations, including but not limited to the exclusion from these numbers of various cash requirements to operate our business.



Form-10K Equivalent

In this Section

Form 10-K Equivalent
(including consolidated financial statements
and independent auditor's report)

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SHELF DRILLING, LTD.

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

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. Similar information can also be found on the Euronext website at live.euronext.com. Euronext is an exchange group operating regulated markets in seven European countries including the OSE in Norway.

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:

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

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:

	National employees and contractors
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
NORTH SEA					
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
MENAM					
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 ⁽¹⁾	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
India					
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
West Africa					
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
Southeast Asia					
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:

	As of December 31,		
	2022	2021	2020
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:

	2023	2024	2025	Thereafter	Total
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
Net loss	\$ (24,213)	\$ (78,637)	\$ (274,859)
Add back:			
Interest expense and financing charges, net of interest income ⁽¹⁾	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)	—	—
EBITDA	\$ 246,280	\$ 157,713	\$ 196,962
Acquired rig reactivation costs ⁽²⁾	—	—	816
One-time corporate transaction costs ⁽³⁾	2,280	585	2,483
Adjusted EBITDA	\$ 248,560	\$ 158,298	\$ 200,261
Adjusted EBITDA Margin ⁽⁴⁾	36 %	30 %	34 %

(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		
Revenues				
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>
Operating costs and expenses				
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>
Operating income	<u>122,495</u>	<u>51,362</u>	<u>71,133</u>	<u>138 %</u>
Other (expense) / income, net				
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>
Income / (loss) before income taxes	<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%
Net loss	<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:

	Years ended December 31,	
	2022	2021
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 ⁽¹⁾	\$ 66,084	\$ 67,321
Contract preparation ⁽²⁾	32,699	28,710
Fleet spares and other ⁽³⁾	12,052	15,628
	\$ 110,835	\$ 111,659
Rig acquisitions ⁽⁴⁾	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
Revenues						
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
Operating costs and expenses						
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
Operating income	122,495	2,219	124,714	18,648	—	106,066
Other (expense) / income, net						
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)
Income before income taxes	9,927	2,231	12,158	10,441	—	1,717
Income tax expense	34,140	—	34,140	1,150	—	32,990
Net (loss) / income	\$ (24,213)	\$ 2,231	\$ (21,982)	\$ 9,291	\$ —	\$ (31,273)
Net income attributable to non-controlling interest ⁽¹⁾	4,592	—	4,592	—	(4,592)	—
Net (loss) / income attributable to controlling interest	\$ (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)

	SDL	Adjustments	SDHL	SDNS	Other adjustments	SDHL excluding SDNS
	A	B	A + B = C	D	E	C - D + E
Assets						
Cash and cash equivalents	\$ 140,841	\$ (2,039)	\$ 138,802	\$ 52,487	\$ —	\$ 86,315
Accounts and other receivables, net ⁽¹⁾ ..	175,657	3,558	179,215	32,305	1,577	148,487
Other current assets	79,764	—	79,764	240	—	79,524
Total current assets	396,262	1,519	397,781	85,032	1,577	314,326
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 ⁽²⁾	168,847	—	168,847	6,761	120,000	282,086
Total assets	\$ 2,046,338	\$ 1,519	\$ 2,047,857	\$ 510,465	\$ 121,577	\$ 1,658,969
Liabilities and equity						
Accounts payable	\$ 114,288	\$ (174)	\$ 114,114	\$ 16,944	\$ —	\$ 97,170
Account payable - related party ⁽³⁾	—	—	—	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
Total current liabilities	202,002	(174)	201,828	30,036	1,577	173,369
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
Total long-term liabilities	1,528,845	—	1,528,845	275,820	—	1,253,025
Commitments and contingencies						—
Common shares ⁽⁴⁾	1,764	(1,764)	—	1,000	1,000	—
Additional paid-in capital ⁽⁵⁾	1,056,571	(92,070)	964,501	194,324	194,319	964,496
Accumulated losses ⁽⁶⁾	(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 ⁽⁷⁾	79,911	—	79,911	—	(79,911)	—
Total equity	315,491	1,693	317,184	204,609	120,000	232,575
Total liabilities and equity	\$ 2,046,338	\$ 1,519	\$ 2,047,857	\$ 510,465	\$ 121,577	\$ 1,658,969

(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>
Cash flows from operating activities						
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
Cash flows from investing activities						—
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)
Cash flows from financing activities						
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 ⁽¹⁾	75,433	—	75,433	—	(75,433)	—
Investment by SDHL to subsidiaries ⁽²⁾	—	—	—	—	(120,000)	(120,000)
Proceeds from issuance of common shares, net of issuance costs ⁽³⁾	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
Cash, cash equivalents and restricted cash at end of year	\$ 177,347	\$ (2,038)	\$ 175,309	\$ 57,057	\$ —	\$ 118,252

- (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.
Revenues			
Operating revenues	\$ 515,069	\$ —	\$ 515,069
Other revenues	11,497	—	11,497
	<u>526,566</u>	<u>—</u>	<u>526,566</u>
Operating costs and expenses			
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
	<u>475,204</u>	<u>(1,319)</u>	<u>473,885</u>
Operating income	<u>51,362</u>	<u>1,319</u>	<u>52,681</u>
Other (expense) / income, net			
Interest income	47	—	47
Interest expense and financing charges	(113,124)	—	(113,124)
Other, net	1,548	3	1,551
	<u>(111,529)</u>	<u>3</u>	<u>(111,526)</u>
Loss before income taxes	<u>(60,167)</u>	<u>1,322</u>	<u>(58,845)</u>
Income tax expense	18,470	—	18,470
Net loss and net loss attributable to common shares	<u>\$ (78,637)</u>	<u>\$ 1,322</u>	<u>\$ (77,315)</u>

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

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.
Assets			
Cash and cash equivalents	\$ 232,315	\$ (3,503)	\$ 228,812
Accounts and other receivables, net ⁽¹⁾	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
Total assets	\$ 1,617,537	\$ (1,886)	\$ 1,615,651
Liabilities and equity			
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 ⁽²⁾	1,371	(1,371)	—
Additional paid-in capital ⁽³⁾	1,006,250	(93,663)	912,587
Accumulated losses ⁽⁴⁾	(793,950)	93,295	(700,655)
Total equity	213,671	(1,739)	211,932
Total liabilities and equity	\$ 1,617,537	\$ (1,886)	\$ 1,615,651

(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.
Cash flows from operating activities			
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)
Cash flows from investing activities			
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
Cash flows from financing activities			
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
Cash, cash equivalents and restricted cash at end of year	\$ 253,218	\$ (3,503)	\$ 249,715

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

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.
Revenues			
Operating revenues	\$ 570,343	\$ —	\$ 570,343
Other revenues	14,833	—	14,833
	585,176	—	585,176
Operating costs and expenses			
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
Operating loss	(164,697)	208	(164,489)
Other (expense) / income, net			
Interest income	175	—	175
Interest expense and financing charges	(89,703)	—	(89,703)
Other, net	(939)	(8)	(947)
	(90,467)	(8)	(90,475)
Loss before income taxes	(255,164)	200	(254,964)
Income tax expense	19,695	—	19,695
Net loss and net loss attributable to common shares	\$ (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.
Assets			
Cash and cash equivalents	\$ 73,408	\$ (3,514)	\$ 69,894
Accounts and other receivables, net ⁽¹⁾	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
Total assets	\$ 1,516,353	\$ (2,920)	\$ 1,513,433
Liabilities and equity			
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 ⁽²⁾	1,362	(1,362)	—
Additional paid-in capital ⁽³⁾	1,002,914	(93,528)	909,386
Accumulated losses ⁽⁴⁾	(715,313)	91,973	(623,340)
Total equity	288,963	(2,917)	286,046
Total liabilities and equity	\$ 1,516,353	\$ (2,920)	\$ 1,513,433

(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.
Cash flows from operating activities			
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
Cash flows from investing activities			
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)
Cash flows from financing activities			
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 ⁽¹⁾	(1,639)	1,639	—
Ordinary shares dividend paid ⁽²⁾	—	(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
Cash, cash equivalents and restricted cash at end of year	\$ 88,963	\$ (3,514)	\$ 85,449

(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:

	Years
Rigs	30
Equipment and spares	9 - 13
Building	30
Other	3 - 5

The Company periodically reviews and adjusts, as appropriate, the remaining useful lives and salvage values of rigs when certain events occur that directly impact such estimates. This includes changes in operating condition, functional capability and market and economic factors. 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. ⁽¹⁾	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 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
Revenues			
Operating revenues	\$ 662,119	\$ 515,069	\$ 570,343
Other revenues	33,102	11,497	14,833
	<u>695,221</u>	<u>526,566</u>	<u>585,176</u>
Operating costs and expenses			
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)
	<u>572,726</u>	<u>475,204</u>	<u>749,873</u>
Operating income / (loss)	<u>122,495</u>	<u>51,362</u>	<u>(164,697)</u>
Other (expense) / income, net			
Interest income	683	47	175
Interest expense and financing charges	(114,816)	(113,124)	(89,703)
Other, net	1,565	1,548	(939)
	<u>(112,568)</u>	<u>(111,529)</u>	<u>(90,467)</u>
Income / (loss) before income taxes	<u>9,927</u>	<u>(60,167)</u>	<u>(255,164)</u>
Income tax expense	34,140	18,470	19,695
Net loss	<u>\$ (24,213)</u>	<u>\$ (78,637)</u>	<u>\$ (274,859)</u>
Net income attributable to non-controlling interest	4,592	—	—
Net loss attributable to controlling interest	<u>\$ (28,805)</u>	<u>\$ (78,637)</u>	<u>\$ (274,859)</u>
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)

	Years ended December 31,		
	2022	2021	2020
Net loss	\$ (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)
Total comprehensive loss	\$ (24,213)	\$ (78,637)	\$ (275,099)
Total comprehensive income attributable to non-controlling interest	4,592	—	—
Total comprehensive loss attributable to controlling interest	\$ (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
Assets		
Cash and cash equivalents.....	\$ 140,841	\$ 232,315
Accounts and other receivables, net.....	175,657	136,251
Other current assets.....	79,764	68,080
Total current assets	396,262	436,646
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
Total assets	\$ 2,046,338	\$ 1,617,537
Liabilities and equity		
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
Total current liabilities	202,002	158,881
Long-term debt.....	1,436,668	1,192,529
Deferred tax liabilities.....	10,023	7,469
Other long-term liabilities.....	82,154	44,987
Total long-term liabilities	1,528,845	1,244,985
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)
Total controlling interest shareholders' equity	235,580	213,671
Non-controlling interest.....	79,911	—
Total equity	315,491	213,671
Total liabilities and equity	\$ 2,046,338	\$ 1,617,537

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
Cash flows from operating activities			
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
Cash flows from investing activities			
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)
Cash flows from financing activities			
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
Cash, cash equivalents and restricted cash at end of year*	\$ 177,347	\$ 253,218	\$ 88,963

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

Revenue Recognition

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

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

Operating Revenues

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

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

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

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

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:

	Years
Rigs	30
Equipment and spares	9 - 13
Building	30
Other	3 - 5

The Company periodically reviews and adjusts, as appropriate, the remaining useful lives and salvage values of rigs when certain events occur that directly impact such estimates. This includes changes in operating condition, functional capability and market and economic factors. 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

SHELF DRILLING, LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS



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):

	As of October 5, 2022
Total consideration	\$ 375,000
Assets acquired and liabilities assumed	
Jack-up rigs ⁽¹⁾	\$ 417,678
Intangible liability, current ⁽²⁾	(7,711)
Intangible liability, non-current ⁽²⁾	(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 trued-up at periodic intervals for revenues and expenses per the terms of the agreement. The Company is accounting for this operating lease and these variable lease payments under 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 ⁽¹⁾	\$ 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
	<u>\$ 32,127</u>	<u>\$ 36,690</u>

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	<u>\$ 32,127</u>	<u>\$ 36,690</u>

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	<u>\$ 3,844</u>	<u>\$ 3,186</u>

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 ⁽¹⁾	\$ 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	<u>\$ 43,064</u>	<u>\$ (7,600)</u>	<u>\$ 35,464</u>

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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	As of December 31, 2022
Intangible liability	
Current portion ⁽¹⁾	\$ 2,152
Non-current portion ⁽²⁾	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):

	As of December 31, 2022
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:

	Third party country of incorporation	Third party ownership percentage	
		As of December 31,	
		2022	2021
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>
December 31, 2022:						
Revenues	\$ —	—	42,505	—	11,692	\$ 54,197
Operating costs and expenses	\$ 55	297	37,684	5,664	12,522	\$ 56,222
December 31, 2021:						
Revenues	\$ —	—	29,202	—	—	\$ 29,202
Operating costs and expenses	\$ 260	469	29,159	5,236	320	\$ 35,444
December 31, 2020:						
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>
Assets						
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
Total current assets	33	220	20,091	1,069	3,173	24,586
Property and equipment, net	—	—	2,069	—	7	2,076
Other long-term assets	5	19	3,173	377	55	3,629
Total non-current assets	5	19	5,242	377	62	5,705
Total assets	\$ 38	\$ 239	\$ 25,333	\$ 1,446	\$ 3,235	\$ 30,291
Liabilities						
Accounts payable	\$ 17	\$ 26	\$ 8,075	\$ 271	\$ 984	\$ 9,373
Other current liabilities	56	57	3,732	666	595	5,106
Total current liabilities	73	83	11,807	937	1,579	14,479
Other long-term liabilities	107	125	532	766	1,809	3,339
Total long-term liabilities	107	125	532	766	1,809	3,339
Total liabilities	180	208	12,339	1,703	3,388	17,818
Carrying amount, net	\$ (142)	\$ 31	\$ 12,994	\$ (257)	\$ (153)	\$ 12,473

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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>
Assets						
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
Total current assets	9	253	11,369	725	47	12,403
Property and equipment, net	—	—	2,120	—	16	2,136
Other long-term assets	7	53	3,785	900	136	4,881
Total non-current assets	7	53	5,905	900	152	7,017
Total assets	\$ 16	\$ 306	\$ 17,274	\$ 1,625	\$ 199	\$ 19,420
Liabilities						
Accounts payable	\$ 71	\$ 146	\$ 4,565	\$ 84	\$ 228	\$ 5,094
Other current liabilities	53	88	3,477	599	117	4,334
Total current liabilities	124	234	8,042	683	345	9,428
Other long-term liabilities	220	202	2,063	569	69	3,123
Total long-term liabilities	220	202	2,063	569	69	3,123
Total liabilities	344	436	10,105	1,252	414	12,551
Carrying amount, net	\$ (328)	\$ (130)	\$ 7,169	\$ 373	\$ (215)	\$ 6,869

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
Total property and equipment	\$ 2,087,942	\$ 1,588,062
Less: Accumulated depreciation	611,557	555,975
Total property and equipment, net	\$ 1,476,385	\$ 1,032,087

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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	As of December 31, 2022
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
Deferred tax assets		
Net operating loss carry-forwards of subsidiaries	\$ 2,665	\$ 5,244
Depreciation	2,090	—
Valuation allowance	—	(2,003)
Other	89	—
	\$ 4,844	\$ 3,241
Deferred tax liabilities		
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
8.875% Senior Secured First Lien Notes, due November 2024		
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
8.25% Senior Unsecured Notes, due February 2025		
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
10.25% Senior Secured Notes, due October 2025		
Principal amount	\$ 250,000	\$ —
Unamortized debt issuance costs	(4,295)	—
Unamortized discount	(6,925)	—
Carrying value	\$ 238,780	\$ —
Total	\$ 1,436,668	\$ 1,192,529

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

	As of December 31, 2022
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):

	<u>As of December 31,</u>		<u>As of December 31,</u>	
	<u>2022</u>		<u>2021</u>	
	<u>Carrying</u>	<u>Estimated fair</u>	<u>Carrying</u>	<u>Estimated fair</u>
	<u>value</u>	<u>value</u>	<u>value</u>	<u>value</u>
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:

	Years ended December 31,		
	2022	2021	2020
Largest customer	29%	32%	26%
Second largest customer	13%	27%	26%
Third largest customer	11%	13%	14%
Others	47%	28%	34%
	100%	100%	100%

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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:

	As of December 31, 2021
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:

	Shares	Weighted average exercise price	Weighted average remaining contractual term (in years)	Aggregate intrinsic value
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.

	Cash Flow Hedges		
	Years ended December 31,		
	2022	2021	2020
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)
	\$ —	\$ —	\$ (240)

Note 21 – Supplemental Balance Sheet Information

Accounts and other receivables consisted of the following (in thousands):

	As of December 31,	
	2022	2021
Accounts receivables	\$ 169,326	\$ 130,900
Other	10,175	8,537
Allowance for credit losses	(3,844)	(3,186)
	\$ 175,657	\$ 136,251

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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
Decrease / (increase) in operating assets			
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)
Increase / (decrease) in operating liabilities			
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
	\$ 30,100	\$ 26,665	\$ 9,397

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
	\$ 110,835	\$ 111,659	\$ 66,051
Rig acquisitions	476,376	1,462	88,331
Total capital expenditures and deferred costs	\$ 587,211	\$ 113,121	\$ 154,382

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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
Numerator for loss per share			
Net loss attributable to controlling interest	\$ (28,805)	\$ (78,637)	\$ (274,859)
Denominator for loss per share			
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):

	Years ended December 31,		
	2022	2021	2020
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 ⁽¹⁾	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):

	As of December 31,	
	2022	2021
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 ⁽¹⁾	74,041	87,349
Congo	—	66,448
India	60,276	74,081
Others ⁽²⁾	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):

	As of December 31, 2022
2023	\$ 1,676
2024	419
Total lease payments	\$ 2,095
Less: Interest	60
Present value of lease liabilities	\$ 2,035

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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.



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