Shelf Drilling (North Sea), Ltd.

Consolidated Financial Statements
for the years ended December 31, 2023, 2022 and 2021

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Independent Auditor's Report

To the board of directors and shareholders of Shelf Drilling (North Sea), Ltd.

Opinion

We have audited the accompanying consolidated financial statements of Shelf Drilling (North Sea), Ltd. and its subsidiaries (the "Company"), which comprise the consolidated balance sheets as of December 31, 2023 and December 31, 2022, and the related consolidated statements of operations, equity and cash flows for each of the three years in the period ended December 31, 2023, including the related notes (collectively referred to as the "Consolidated Financial Statements").

In our opinion, the accompanying Consolidated Financial Statements present fairly, in all material respects, the financial position of the Company as of December 31, 2023, and December 31, 2022, and the results of its operations and its cash flows for each of the three years in the period ended December 31, 2023, in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

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

Responsibilities of Management for the Consolidated Financial Statements

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

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

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

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

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***Auditor's Responsibilities for the Audit of the Consolidated Financial Statements** (continued)*

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

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

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

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

PricewaterhouseCoopers

PricewaterhouseCoopers Limited Partnership Dubai Branch
Dubai, United Arab Emirates
March 4, 2024

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

	Years ended December 31,		
	2023	**2022**	**2021**
Revenues			
Operating revenues	$ 105.1	$ 35.0	$ —
Other revenues	31.9	13.8	—
	137.0	48.8	—
Operating costs and expenses			
Operating and maintenance	92.9	19.8	—
Depreciation	18.6	4.1	—
Amortization of deferred costs	0.1	—	
General and administrative	19.7	6.2	—
	131.3	30.1	—
Operating income	5.7	18.7	—
Other (expense) / income, net			
Interest income	1.2	0.1	—
Interest expense and financing charges	(29.2)	(7.7)	—
Other, net	(1.1)	(0.6)	—
	(29.1)	(8.2)	—
(Loss) / income before income taxes	(23.4)	10.5	—
Income tax expense	0.6	1.2	—
Net (loss) / income	$ (24.0)	$ 9.3	$ —
Net (loss) / income per common share - basic and diluted	$ (0.24)	$ 0.36	$ —
Weighted average common shares - basic and diluted	100.0	25.6	0.5

See notes to the consolidated financial statements.

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

	As of December 31,	
	2023	2022
Assets		
Cash and cash equivalents	$ 27.7	$ 52.5
Accounts and other receivables	27.9	32.3
Less: allowance for credit losses	3.4	—
Accounts and other receivables, net	24.5	32.3
Accounts and other receivables, net - related parties	0.4	—
Other current assets	4.1	0.2
Total current assets	56.7	85.0
Property and equipment	427.1	420.7
Less: accumulated depreciation	22.7	4.1
Property and equipment, net	404.4	416.6
Deferred tax assets	2.3	2.1
Other long-term assets	8.6	6.8
Total assets	$ 472.0	$ 510.5
Liabilities and equity		
Accounts payable	$ 21.1	$ 16.9
Accounts payable - related parties	0.6	1.6
Interest payable	4.2	6.8
Accrued income taxes	1.0	0.7
Current maturities of long-term debt	12.5	—
Other current liabilities	3.2	4.0
Total current liabilities	42.6	30.0
Long-term debt	223.8	238.8
Deferred tax liabilities	2.2	2.1
Other long-term liabilities	22.8	35.0
Total long-term liabilities	248.8	275.9
Commitments and contingencies (Note 12)	—	—
Common shares of $0.01 par value; 120.0 shares authorized as of December 31, 2023 and 2022, respectively; 100.0 shares issued and outstanding as of December 31, 2023 and 2022, respectively	1.0	1.0
Additional paid-in capital	194.3	194.3
(Accumulated losses) / retained earnings	(14.7)	9.3
Total equity	180.6	204.6
Total liabilities and equity	$ 472.0	$ 510.5

See notes to the consolidated financial statements.

SHELF DRILLING (NORTH SEA), LTD.
CONSOLIDATED STATEMENTS OF EQUITY
(In millions)

	Years ended December 31,		
	2023	**2022**	**2021**
Number of common shares			
Balance, beginning of year	100.0	0.5	0.5
Issuance of common shares	—	99.5	—
Balance, end of year	100.0	100.0	0.5
Common shares			
Balance, beginning of year	$ 1.0	$ —	$ —
Issuance of common shares	—	1.0	—
Balance, end of year	1.0	1.0	—
Additional paid-in-capital			
Balance, beginning of year	194.3	—	—
Issuance of common shares	—	194.3	—
Balance, end of year	194.3	194.3	—
(Accumulated losses) / Retained earnings			
Balance, beginning of year	9.3	—	—
Net (loss) / income	(24.0)	9.3	—
Balance, end of year	(14.7)	9.3	—
Total equity	$ 180.6	$ 204.6	$ —

See notes to the consolidated financial statements.

SHELF DRILLING (NORTH SEA), LTD.
CONSOLIDATED STATEMENTS OF CASH FLOWS
(In millions)

	Years ended December 31,		
	2023	2022	2021
Cash flows from operating activities			
Net (loss) / income	$ (24.0)	$ 9.3	$ —
Adjustments to reconcile net (loss) / income to net cash (used in) / provided by operating activities			
Depreciation	18.6	4.1	—
Provision for credit losses, net	3.4	—	—
Amortization of deferred revenue	(0.3)	—	—
Amortization of intangible liability	(14.2)	(7.6)	—
Amortization of debt issuance costs and discounts	3.7	0.9	—
Deferred tax (benefit) / expense, net	(0.1)	0.5	—
Changes in deferred costs, net*	(2.1)	—	—
Changes in operating assets and liabilities	5.6	(6.8)	—
Net cash (used in) / provided by operating activities	(9.4)	0.4	—
Cash flows from investing activities			
Additions to property and equipment*	(9.4)	(376.8)	—
Advance payment for property and equipment	(2.0)	—	—
Proceeds from disposal of assets	2.6	—	—
Net cash used in investing activities	(8.8)	(376.8)	—
Cash flows from financing activities			
Proceeds from issuance of long-term debt	—	242.5	—
Payment of debt issuance costs	(0.2)	(4.5)	—
Payment of common shares issuance costs	(0.1)	—	—
Proceeds from capital contribution	—	195.5	—
Repayment of long-term debt	(6.3)	—	—
Net cash (used in) / provided by financing activities	(6.6)	433.5	—
Net (decrease) / increase in cash, cash equivalents and restricted cash	(24.8)	57.1	—
Cash, cash equivalents and restricted cash at beginning of year	57.1	—	—
Cash, cash equivalents and restricted cash at end of year*	$ 32.3	$ 57.1	$ —

* See Note 16 – Supplemental Cash Flow Information for a reconciliation of cash payments for additions to property and equipment and changes in deferred costs, net to total capital expenditures and deferred costs, a breakout of the changes in operating assets and liabilities and a reconciliation of cash, cash equivalents and restricted cash balances.

See notes to the consolidated financial statements.

SHELF DRILLING (NORTH SEA), LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – Business

Shelf Drilling (Far East II), Ltd. was incorporated on April 14, 2014 as an exempted company in the Cayman Islands. On June 13, 2022, Shelf Drilling (Far East II), Ltd. was renamed Shelf Drilling (North Sea), Ltd.. On September 15, 2022, Shelf Drilling (North Sea), Ltd. discontinued as a company under the laws of the Cayman Islands and continued as an exempted company under the laws of Bermuda. Shelf Drilling (North Sea), Ltd. together with its subsidiaries ("SDNS", the "Company", "we" or "our") is solely focused on shallow water operations in depths of up to 500 feet and our fleet consists of five independent-leg cantilever ("ILC") jack-up rigs as of December 31, 2023.

Since October 3, 2022, 60% of the Company's issued shares are owned by Shelf Drilling Holdings, Ltd. ("SDHL"), which is wholly-owned by Shelf Drilling, Ltd. ("SDL"). SDL along with its majority owned subsidiaries is a leading international shallow water offshore contractor providing services and equipment for the drilling, completion, maintenance and decommissioning of oil and natural gas wells. Since June 25, 2018, SDL shares are listed on the Oslo Stock Exchange under the ticker symbol SHLF. The remaining 40% of the Company's issued shares are owned by various external investors. Since October 12, 2022, Company shares are listed on the Euronext Growth Oslo Exchange under the ticker symbol SDNS. Our corporate offices are in Dubai, United Arab Emirates.

Note 2 – Significant Accounting Policies

Basis of Presentation

The Company has prepared the accompanying consolidated financial statements in accordance with generally accepted accounting principles in the United States of America ("GAAP"). The amounts are presented in United States ("U.S.") dollar ("$") rounded to the nearest tenth of a million, unless otherwise stated.

The Company's cash balance decreased during the year due to the net loss and utilization of cash for investing and financing activities. The Company is currently reviewing various financing options and believes it will have sufficient liquidity for the next twelve months. Accordingly, our financial statements have been prepared under the going concern assumption.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. Intercompany balances and transactions are eliminated in consolidation. As of December 31, 2023, the Company does not have any investments which meet the criteria to be reported under the equity method of accounting.

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for, but are not limited to, the following: collectability of receivables, depreciable or amortizable lives of assets, term of lease obligations, fair market value of acquired rigs and drilling contract intangibles, impairment assessment of assets, provision for income taxes 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 (NORTH SEA), LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

Revenue Recognition

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

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

Operating Revenues

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

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

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

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

Other Revenues

SHELF DRILLING (NORTH SEA), LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Other revenues consist of amounts billed for goods and services such as catering, additional equipment and personnel, consumables or accommodations. The Company may use third parties for the provision of such goods and services. Judgement is involved in identifying the performance obligations in these customer contracts and determining whether the Company is a principal or an agent in the provision of certain equipment and consumables to the customer. The Company generally is considered to be a principal in revenue transactions when it obtains control of a good or service before it is transferred to the customer. The Company typically acts as a principal in the provision of catering, accommodation services, additional personnel and the provision of additional equipment and consumables directly used to provide integrated services to the customer. The Company generally acts as an agent in the provision of other equipment and consumables for the customer. See also Note 4 – Revenues.

Operating Costs and Expenses and Deferred Costs

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

Deferred contract costs include certain contract preparation and upfront mobilization expenditures for rigs entering binding services contracts. Such costs are considered costs to fulfil the Company's future performance obligations under the related contract and are therefore deferred and amortized on a straight-line basis over the contract term. Certain deferred contract costs are related to contractually required inspections, and such costs are amortized on a straight-line basis over the time period until the next scheduled inspection. See Note 4 – Revenues. Demobilization costs which are incurred at the end of a contract and costs associated with rig preparation and of mobilization of without a firm contract are expensed as incurred.

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

Cash, Cash Equivalents and Restricted Cash

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

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

Accounts and Other Receivables, Net

The Company's accounts and other receivables consist primarily of trade accounts receivable from 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 for relevant customers and oil and gas industry specific factors, as needed. Management reviews its assumptions each reporting period and makes adjustments as needed to reflect changes in historical loss rates and expectations, which management believes provides a reasonable estimation of future losses. The pooling of assets and the adjustment of historical loss rates include a high degree of judgement and actual results can differ materially from these expectations.

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

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

Intangible Liability

The Company acquired certain existing drilling contracts for future contract drilling services in connection with the Acquisition. See Note 6 – Property and Equipment for additional details. The terms of these contracts included fixed dayrates that were below the market dayrates that were estimated to be available for similar contracts as of the date of the Acquisition. Intangible liability is recorded as current and non-current liability and amortized as operating revenue on a straight-line basis over the respective contract term. The Company immediately amortizes any remaining intangible liability balance upon cancellation of the underlying contract.

Property and Equipment, Net

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

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

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

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

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

The remaining estimated average useful life of existing rigs in the Company’s fleet as of December 31, 2023 is approximately 20 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.

SHELF DRILLING (NORTH SEA), LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Leases

A lease is a contract, or part of a contract, that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. The Company has made an accounting policy election to present the lease and associated non-lease operations as a single component based upon the predominant component. Lease classification as short-term lease, operating lease or finance lease is made at the lease inception. The Company considers all relevant contractual provisions, including renewal and termination options, to determine the term of the lease. Renewal or termination options that are reasonably certain of exercise by the lessee and those controlled by the lessor are included in determining the lease term. The Company considers all relevant facts and circumstances that create an economic incentive to exercise the option. See also Note 8 – Leases.

Short-Term Leases

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

The Company as a Lessee

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

The Company remeasures its lease liabilities with a corresponding adjustment to the right-of-use asset due to an applicable change in lease payments such as those due to a lease modification not accounted for as a separate contract, certain changes in the expected term of the lease, and certain changes in assessments and contingencies. Subsequent to initial recognition, the operating lease liability is increased for the interest component of the lease liability and reduced by the lease payments made. Operating lease expenses are recognized as a single lease cost on a straight-line basis over the lease term, which includes the interest component of the measurement of the lease liability and amortization of the right-of-use asset. Operating lease expenses are recognized based on the type of leased asset under either operating and maintenance expenses or general and administrative expenses in the consolidated statements of operations.

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

The Company as a Lessor

The Company’s contracts with customers contain lease components related to the underlying rigs and equipment, in addition to service components of labor and expertise to operate the rig and equipment. The service component of operating a rig is predominant in the Company’s contracts, therefore, the Company accounts for its revenues from contracts with customers as service revenues with a single performance obligation. See “Revenue Recognition” above. See also Note 4 – Revenues.

SHELF DRILLING (NORTH SEA), LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Impairment of Long-Lived Assets

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

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

Income Taxes

Provision for income taxes is based on relevant tax laws and rates in effect in the countries in which the Company operates and earns income or in which the Company is considered resident for income tax purposes. Current income tax expense reflects an estimate of the Company's income tax liability for the current year and includes prior period adjustments and changes in liabilities for uncertain tax positions. Liabilities for uncertain tax positions are recorded as long-term liabilities for tax positions that have been taken that are more likely than not to ultimately be denied upon examination or audit by tax authorities. Any interest and penalties related to uncertain tax positions are included as a component of income tax expense.

Deferred income taxes reflect the "temporary differences" between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, tax effected by applying the relevant tax rate, based on enacted tax laws and rates applicable to the periods in which the reversal of such differences is expected to affect taxable income. The Company records net deferred tax assets to the extent the assets will more likely than not be realized. In making such determination, all available positive and negative evidence is considered, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial performance. When necessary, valuation allowances are established to reduce deferred income tax assets to the amount expected to be realized.

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

Employee Benefit Plans

The Company sponsors various employee benefit programs, including shore-based retention plans and defined contribution plans. See also Note 10 – Employee Benefit Plans.

Shore-Based Retention Plans

The Company has various shore-based retention plans for which associated payouts are typically made upon vesting, provided the participant is still employed by the Company. The retention plans consist of awards granted for certain employees that generally vest over a period ranging from one to four years. The Company recognizes these retention plan expenses over the plan's

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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.

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.

Debt

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.

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

Net Income / (Loss) Per Common Share

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

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

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

In periods of net losses attributable to common shareholders, all potentially dilutive securities will be anti-dilutive, and therefore basic and diluted net income / (loss) per common share will be the same.

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. 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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Note 3 – Recently Issued and Adopted Accounting Pronouncements

Recently issued accounting standards

In November 2023, the FASB issued ASU No. 2023-07 Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures, which requires enhanced disclosures about significant segment expenses, enhanced interim disclosure requirements, new segment disclosure requirements for entities with a single reportable segment and contains other disclosure requirements. The ASU is effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024, with early adoption permitted. The Company does not intend to early adopt this standard. The Company is currently reviewing the impact of the adoption on the consolidated financial statements.

In December 2023, the FASB issued ASU No. 2023-09 Income Taxes (Topic 740): Improvements to Income Tax Disclosures, which requires a tabular reconciliation using both percentages and amounts, broken out into specific categories with certain reconciling items at or above 5% of the statutory tax further broken out by nature and/or jurisdiction. This ASU also has disclosure requirements related to income taxes paid (net of refunds received), broken out between federal, state/local and foreign, and amounts paid to an individual jurisdiction when 5% or more of the total income taxes paid. The ASU is effective for fiscal years beginning after December 15, 2024, with early adoption permitted. The Company does not intend to early adopt this standard. The Company is currently reviewing the impact of the adoption on the consolidated financial statements.

Note 4 – Revenues

As of December 31, 2023, the drilling contract with the longest expected remaining duration, excluding unexercised options, extends through February 2026.

Lease revenue

On October 5, 2022, a subsidiary of the Company signed a bareboat charter agreement with a subsidiary of Noble Corporation ("Noble") for the Shelf Drilling Barsk rig. The Noble subsidiary leased the rig from the Company for the remaining term of its drilling contract with Equinor ASA until December 2023. The Company received payments of $2.0 million per month, which were trued up at periodic intervals for revenues and expenses per the terms of the agreement. The Company accounted for this operating lease and these variable lease payments under Accounting Standards Codification ("ASC") 842 Leases. The lease payments were recognized as revenue over the lease term as use of the asset occurred.

Amounts recorded for lease revenues were as follows (in millions):

	Years ended December 31,		
	2023	2022	2021
Lease revenue (1)	$ 26.6	$ 12.1	$ —

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

Contract liabilities and deferred contract costs

Contract liabilities

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

The contract liabilities balance was immaterial as of December 31, 2023 and 2022, respectively.

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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.

The Company did not have any deferred contract costs as of December 31, 2023 and 2022, respectively.

Allowance for credit losses

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

	As of December 31,	
	2023	**2022**
Allowance for credit losses	$ 3.4	$ —

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

	Years ended December 31,	
	2023	**2022**
Balance, beginning of year	$ —	$ —
Provision for credit losses, net	3.4	—
Balance, end of year	$ 3.4	$ —

Note 5 – Net (Loss) / Income Per Common Share

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

	Years ended December 31,		
	2023	**2022**	**2021**
Numerator for net (loss) / income per common share			
Net (loss) / income	$ (24.0)	$ 9.3	$ —
Denominator for net (loss) / income per common share			
Weighted average common shares:			
Weighted average common shares - basic and diluted	100.0	25.6	0.5
Net (loss) / income per common share - basic and diluted	$ (0.24)	$ 0.36	$ —

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Note 6 – Property and Equipment

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

	As of December 31,	
	2023	2022
Rigs and equipment	$ 421.2	$ 418.3
Construction in progress	4.9	2.4
Spares	0.2	—
Other	0.8	—
Total property and equipment	427.1	420.7
Less: Accumulated depreciation	22.7	4.1
Total property and equipment, net	$ 404.4	$ 416.6

The net carrying amount of rigs and equipment includes the Shelf Drilling Barsk rig which was under the bareboat charter agreement until December 2023. See Note 4 – Revenues for additional details. The carrying value and accumulated depreciation of this rig was (in millions):

	As of December 31,	
	2023	2022
Carrying value	$ 171.1	$ 169.4
Less: Accumulated depreciation	8.3	1.5
Net carrying value	$ 162.8	$ 167.9

Capital Expenditures

Amounts recorded for capital expenditures were as follows (in millions):

	Years ended December 31,		
	2023	2022	2021
Capital expenditures	$ 9.3	$ 420.7	$ —

During the year ended December 31, 2022, the capital expenditures included $417.7 million related to the acquisition of five jack-up rigs from various subsidiaries of Noble (“Acquisition”).

Rig Acquisitions

On June 23, 2022, the Company and SDL entered into an agreement for the Acquisition. SDHL further contributed $40.0 million in June 2022, $10.0 million in September 2022 and $70.0 million in October 2022 for a total of $120.0 million, prior to the completion of the Acquisition, into the Company.

The Company was initially a wholly-owned subsidiary of SDHL. On October 3, 2022, the Company completed a private placement of common shares for gross proceeds of $80.0 million and equity issuance costs of $4.7 million resulting in net proceeds of $75.3 million. As of October 3, 2022, the Company is owned 60% by SDHL and 40% by external investors. SDNS used equity proceeds along with new debt to fund the completion of the Acquisition on October 5, 2022.

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

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

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

	As of October 5, 2022
Total consideration	$ 375.0
Assets acquired and liabilities assumed	
Jack-up rigs [(1)]	$ 417.7
Intangible liability, current [(2)]	(7.7)
Intangible liability, non-current [(2)]	(35.4)
Deferred tax asset	2.5
Deferred tax liability	(2.1)
Net assets acquired	$ 375.0

(1) Recorded in property and equipment on the consolidated balance sheets.
(2) See Note 7 – Intangible Liability for details.

Note 7 – Intangible Liability

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

	As of December 31, 2023	As of December 31, 2022
Current portion [(1)]	$ —	$ 2.2
Non-current portion [(2)]	21.3	33.3
	$ 21.3	$ 35.5

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

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

	As of December 31, 2023		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Balance, beginning of year	$ 43.1	$ (7.6)	$ 35.5
Amortization	—	(14.2)	(14.2)
Balance, end of year	$ 43.1	$ (21.8)	$ 21.3

	As of December 31, 2022		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Balance, beginning of year	$ —	$ —	$ —
Additions	43.1	—	43.1
Amortization	—	(7.6)	(7.6)
Balance, end of year	$ 43.1	$ (7.6)	$ 35.5

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

	As of December 31, 2023
2024	$ 12.8
2025	7.5
2026	1.0
	$ 21.3
Weighted average life (in years)	1.8

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

	Years ended December 31,		
	2023	2022	2021
Amortization of intangible liability (1)	$ 14.2	$ 7.6	$ —

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

Note 8 – Leases

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

As of December 31, 2023 and 2022, the Company did not have any finance leases.

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Operating right-of-use assets and operating lease liabilities

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

	As of December 31, 2023	As of December 31, 2022
Right-of-use assets		
Other long-term assets	$ 2.1	$ 2.1
Lease liabilities		
Other current liabilities	$ 0.8	$ 0.8
Other long-term liabilities	1.4	1.5
	$ 2.2	$ 2.3

Lease expense

Amounts recorded for lease expense were as follows (in millions):

	Years ended December 31, 2023	2022	2021
Operating lease right-of-use assets	$ 0.8	$ 0.2	$ —
Short-term leases	1.8	0.2	—
Total lease expense	$ 2.6	$ 0.4	$ —

Following is the summary of the maturity of lease liabilities as of December 31, 2023 (in millions):

	As of December 31, 2023
2024	$ 0.9
2025	0.7
2026	0.4
2027	0.4
2028 and thereafter	0.2
Total lease payments	2.6
Less: Interest	0.4
Present value of lease liabilities	$ 2.2

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

	As of December 31, 2023	2022
Weighted-average remaining lease term (years)	3.6	4.7
Weighted-average discount rate	9.6%	9.6%

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Cash paid for amounts included in the measurement of lease liabilities (in millions):

	Years ended December 31,		
	2023	2022	2021
Lease payments	$ 0.9	$ 0.1	$ —

Note 9 – Debt

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

	As of December 31,	
	2023	2022
10.25% Senior Secured Notes, due October 2025		
Principal amount	$ 243.8	$ 250.0
Unamortized debt issuance costs	(2.9)	(4.3)
Unamortized discount	(4.6)	(6.9)
Carrying value	236.3	238.8
Less: Current maturities of long-term debt	12.5	—
Total long-term debt	$ 223.8	$ 238.8

Following is a summary of scheduled debt principal payments by year as of December 31, 2023 (in millions):

	As of December 31, 2023
Years ending December 31,	
2024	$ 12.5
2025	231.3
Total	$ 243.8

10.25% Senior Secured Notes, due October 2025

On September 26, 2022, Shelf Drilling (North Sea) Holdings, Ltd. ("SDNSH"), an indirect wholly-owned subsidiary of SDNS, completed the issuance of $250.0 million aggregate principal amount of new 10.25% senior secured notes due October 31, 2025 (the "10.25% Senior Secured Notes") issued at 97.0% for total proceeds of $242.5 million, after deduction of $7.5 million discount. The debt proceeds were used to partially finance the Acquisition (see Note 6 – Property and Equipment). SDNS recorded $4.7 million additional fees and expenses as debt issuance costs. The debt issuance discount and costs are being amortized over the life of the debt using the effective interest method.

Interest on the 10.25% Senior Secured Notes is paid semi-annually in cash in arrears on April 30 and October 31 of each year, commencing on April 30, 2023. The 10.25% Senior Secured Notes require 5% per annum principal payments based on the initial aggregate principal amount; payments will be made semi-annually beginning on October 31, 2023 and continuing on each interest payment date thereafter. In accordance with the repayment schedule a payment of $6.3 million was made in October 2023. The effective interest rate on the 10.25% Senior Secured Notes is 12.26%.

The 10.25% Senior Secured Notes were issued under an indenture among SDNSH and its subsidiaries and Wilmington Trust, National Association, as trustee and as collateral agent. The 10.25% Senior Secured Notes are fully and unconditionally guaranteed, on a senior unsecured basis, by SDL. 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 the Company, 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 of Indebtedness

The 10.25% Senior Secured Notes contain customary restrictive covenants. 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 10.25% Senior Secured Notes has covenants that, among other things, limit the following:

- Incur or guarantee additional indebtedness or issue certain preferred shares;
- Pay dividends or make other distributions on, or redeem or repurchase, any equity interests;
- Make other restricted payments;
- Make certain acquisitions or investments;
- Create or incur liens;
- Transfer or sell assets;
- Incur restrictions on the payments of dividends or other distributions from restricted subsidiaries;
- Enter into certain transactions with affiliates and
- Consummate a merger or consolidation or sell, assign, transfer, lease or otherwise dispose of all or substantially all of the Company's assets or certain subsidiaries' assets.

The 10.25% Senior Secured Notes also contain standard events of default. The Company was in compliance with all covenants of its debt agreements as of December 31, 2023.

Note 10 – Employee Benefit Plans

Overview

The Company sponsors various employee benefit programs, including shore-based retention plans and defined contribution plans. 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.

Shore-Based Retention Plan

The Company recorded $0.4 million and $0.1 million expense for shore-based retention plans for the years ended December 31, 2023 and 2022, respectively. There was no such amount for the year ended December 31, 2021. The Company recorded obligations of $0.3 million and $0.2 million in other current liabilities and other long-term liabilities, respectively, on the consolidated balance sheet as of December 31, 2023. The Company recorded obligations for these plans of nil and $0.1 million in other current liabilities and other long-term liabilities, respectively, on the consolidated balance sheet as of December 31, 2022.

Defined Contribution Plans

The Company recorded $1.6 million and $0.3 million expense for defined contribution plans for the years ended December 31, 2023 and 2022, respectively. There was no such amount for the year ended December 31, 2021.

Note 11 – Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, which include cash and cash equivalents, accounts receivable, restricted cash, accounts payable, accrued liabilities 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 carrying value and estimated fair value of debt (in millions):

	As of December 31, 2023		As of December 31, 2022	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
10.25% Senior Secured Notes, due October 2025	$ 236.3	$ 243.9	$ 238.8	$ 247.5

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

Note 12 – Commitments and Contingencies

Legal Proceedings

The Company is involved in various claims and lawsuits in the normal course of business. The Company does not believe that the resolution of these legal proceedings will have a material adverse impact on its financial condition, results of operations, or cash flows.

Insurance

The Company's insurance policies refer to policies maintained by SDL for itself and all of its subsidiaries. The insurance limits stated below are commonly available to SDL and its subsidiaries. The Company's hull and machinery, property, cargo and equipment and liability insurance consists of commercial market policies that the Company renews annually. The Company periodically evaluates its risks, insurance limits and self-insured retentions. As of December 31, 2023, the insured value of the Company's fleet including Shelf Drilling Barsk rig was $690.0 million.

Hull and Machinery Coverage

As of December 31, 2023, under the Company's hull and machinery insurance policies, the Company maintained a $5.0 million deductible per occurrence, with no deductible in the event of loss greater than 75% of the insured value of the rig. The policies include $100.0 million coverage for liabilities (onshore and/or offshore) and $50.0 million coverage for property, equipment and cargo. The hull and machinery policy also covers war risk, which is cancellable either immediately or with 7 days' notice by the underwriters in certain circumstances. To protect against this cancellation risk, the Company also insures, through commercial market policies, a Political Risks Policy covering acts of war and terrorism with a $250,000 deductible per occurrence (an additional $2.75 million in certain countries) and a limit of $200.0 million.

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As of December 31, 2023, the Company also carried $100.0 million of additional insurance per occurrence that generally covered expenses that would otherwise be assumed by the well owner, such as costs to control the well, re-drill expenses and pollution from the well. This additional insurance provides coverage for such expenses in circumstances in which the Company has a legal or contractual liability arising from gross negligence or willful misconduct. The policy deductible is $1.0 million per occurrence.

Liability Coverage

As of December 31, 2023, the Company carried $400.0 million (excluding $100.0 million coverage under the Hull and Machinery policies stated above) of marine liability coverage, exclusive of deductibles, which generally covered offshore risks such as personal injury, third-party property claims and third-party non-crew claims, including pollution from the rig. It also included coverage for costs incurred for wreck removal. The Company's excess liability coverage has a $1.0 million deductible per occurrence.

Self-Insured Medical Plan

The Company provides self-insured medical plans to certain employees in certain jurisdictions, subject to exclusions and limitations. The Company offers a self-insured medical plan for certain U.S. resident rig-based expatriate employees and their eligible dependents to provide medical, vision and dental coverage within the U.S. The maximum potential liability as of December 31, 2023 related to the plan is $2.4 million, as the Company is reinsured for the claims in excess of that amount by a third-party insurance provider.

Directors' and officers' liability insurance

As of December 31, 2023, the Company carried a $55.0 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 U.S. dollars provided by a bank in UAE, which is secured by restricted cash balances to guarantee various contractual, performance and customs obligations.

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

	As of December 31,	
	2023	2022
Total surety bond facilities	$ 5.0	$ 4.6
Outstanding surety bonds	$ 4.6	$ 4.6

Note 13 – Equity

Stock Split

On September 28, 2022, the Company authorized a stock split for the previously issued 5,000 shares having par value of $1.0 into 0.5 million shares (the "Stock Split") having par value of $0.01. The Company has accounted for the Stock Split in the consolidated financial statements, including the common shares and par value, retrospectively.

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Equity Contribution

SDHL contributed $40.0 million in June 2022, $10.0 million in September 2022 and $70.0 million in October 2022 for a total contribution of $120.0 million into the Company, prior to the completion of the Acquisition.

Common Shares Issuance

On September 28, 2022 and October 1, 2022 the Company issued 24.5 million and 35.0 million common shares, respectively, to SDHL with a par value of $0.01. On October 3, 2022, the Company issued 40.0 million common shares at $2.0 per share 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.

On October 12, 2022, Company common shares were listed on the Euronext Growth Oslo Exchange under the ticker symbol SDNS. Out of the total 100.0 million issued common shares, 60.0 million common shares are owned by SDHL and 40.0 million common shares are owned by external investors.

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.

Note 14 – Supplemental Balance Sheet Information

Accounts and other receivables, net consisted of the following (in millions):

	As of December 31,	
	2023	2022
Accounts receivable	$ 27.2	$ 32.1
Other	0.7	0.2
Allowance for credit losses	(3.4)	—
	$ 24.5	$ 32.3

Other current assets consisted of the following (in millions):

	As of December 31,	
	2023	2022
Prepayments	$ 2.4	$ 0.2
Deferred costs	0.4	—
Other	1.3	—
	$ 4.1	$ 0.2

Other long-term assets consisted of the following (in millions):

	As of December 31,	
	2023	2022
Restricted cash	$ 4.6	$ 4.6
Operating right-of-use assets	2.1	2.2
Deferred costs	1.7	—
Other	0.2	—
	$ 8.6	$ 6.8

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Other current liabilities consisted of the following (in millions):

	As of December 31,	
	2023	2022
Accrued compensation and benefits	$ 1.6	$ 0.7
Operating lease liabilities	0.8	0.8
Intangible liability	—	2.2
Other	0.8	0.3
	$ 3.2	$ 4.0

Other long-term liabilities consisted of the following (in millions):

	As of December 31,	
	2023	2022
Intangible liability	$ 21.3	$ 33.3
Operating lease liabilities	1.4	1.5
Other	0.1	0.2
	$ 22.8	$ 35.0

Note 15 – 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. SDNS is exempt from all income taxation in Bermuda, 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; and
- results of income tax audits and/or related settlements.

The Company's effective income tax rates were as follows:

	Years ended December 31,		
	2023	2022	2021
Effective tax rate	(3)%	11 %	— %

Income Tax Expense

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

	Years ended December 31,		
	2023	2022	2021
Current tax expense	$ 0.7	$ 0.7	$ —
Deferred tax (benefit) / expense	(0.1)	0.5	—
Income tax expense	$ 0.6	$ 1.2	$ —

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

	Years ended December 31,		
	2023	2022	2021
Income tax expense at the Bermuda statutory rate	$ —	$ —	$ —
Earnings subject to rates different than Bermuda statutory rate	0.6	1.2	—
Income tax expense	$ 0.6	$ 1.2	$ —

Income tax expense in 2023 was lower than in 2022 primarily due to deferred tax benefit in a certain jurisdiction resulting from differences in the carrying value of certain assets for financial reporting purposes versus the basis of such assets for income tax reporting purposes.

In December 2021, the Organization for Economic Co-operation and Development and G20 inclusive framework on base erosion and profit shifting unveiled pillar 2.0 model global anti-base erosion rules. These rules call for a global minimum tax of 15% on a per-jurisdiction basis for multi-national enterprises with annual revenues of more than €750.0 million. Currently, the rules are expected to impact the Company no sooner than 2025. However, any effect on the consolidated financial statements cannot currently be determined due to the complexity and the evolving nature of the rules and due to the uncertainty as to the extent to which various jurisdictions will implement such rules.

Deferred Taxes

The Company's deferred tax assets 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. Deferred tax assets are recorded net of any valuation allowances. Changes in the Company's estimates and assumptions used to determine the valuation allowance, including any changes in applicable tax laws or tax rates, may impact the Company's ability to recognize the underlying deferred tax assets and could require future adjustments to the valuation allowances. There was no valuation allowance recorded as of December 31, 2023.

The Company's deferred tax liabilities as of December 31, 2023, 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. If unforeseen law changes or other facts and circumstances cause a change in expectations regarding the future tax cost, the resulting adjustments to the deferred tax balances could have a material effect on the Company's consolidated financial statements.

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

	As of December 31,	
	2023	2022
Deferred tax assets		
Depreciation	$ 2.3	$ 2.1
	$ 2.3	$ 2.1
Deferred tax liabilities		
Depreciation	$ 2.2	$ 2.1
	$ 2.2	$ 2.1

Liabilities for Uncertain Tax Positions

The Company did not have any liabilities for uncertain tax positions as of December 31, 2023 and 2022.

Tax Returns and Examinations

The Company may be subject to income tax examinations in various jurisdictions. If any tax authority successfully challenges the Company's tax positions, 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, 2023, the 2022 and 2023 income tax periods remain open for examination in all of the Company's taxable jurisdictions.

Note 16 – Supplemental Cash Flow Information

Operating Cash Flows

The net effect of changes in operating assets and liabilities on cash flows from operating activities was as follows (in millions):

	Years ended December 31,		
	2023	2022	2021
Decrease / (increase) in operating assets			
Accounts and other receivables, net	$ 4.4	$ (32.3)	$ —
Other current assets	(1.5)	(0.2)	—
Other long-term assets	(0.1)	(2.2)	—
Increase / (decrease) in operating liabilities			
Accounts payable and other current liabilities	6.3	17.2	—
Accounts payable - related parties	(1.0)	1.6	—
Accrued interest	(2.6)	6.8	—
Accrued income taxes	0.3	0.7	—
Other long-term liabilities	(0.2)	1.6	—
	$ 5.6	$ (6.8)	$ —

Additional cash flow information was as follows (in millions):

	Years ended December 31,		
	2023	2022	2021
Interest and other financing charges	$ 28.0	$ —	$ —
Income taxes	$ 0.4	$ —	$ —

Capital expenditures and deferred costs

Capital expenditures and deferred costs include rig acquisition and other fixed asset purchases and certain expenditures associated with regulatory inspections, major equipment overhauls, contract preparation (including rig upgrades) and mobilization. The Company's capital expenditures and deferred costs were as follows (in millions):

	Years ended December 31,		
	2023	2022	2021
Regulatory and capital maintenance	$ 3.7	$ 0.2	$ —
Fleet spares, transition costs and others	7.8	2.2	—
	11.5	2.4	—
Rig acquisitions	—	418.3	—
Total capital expenditures and deferred costs	$ 11.5	$ 420.7	$ —

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The reconciliation of the payments for acquisition of property and equipment and changes in deferred costs, net to total capital expenditures and deferred costs was as follows (in millions):

	Years ended December 31,		
	2023	2022	2021
Cash payments for additions to property and equipment	$ 9.4	$ 376.8	$ —
Non-cash increase to fair value of rigs in the acquisition	—	42.7	—
Net change in advances and accrued but unpaid additions to property and equipment	(0.1)	1.2	—
Total capital expenditures	9.3	420.7	—
Changes in deferred costs, net	2.1	—	—
Add: Amortization of deferred costs	0.1	—	—
Total deferred costs	2.2	—	—
Total capital expenditures and deferred costs	$ 11.5	$ 420.7	$ —

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

	As of December 31,	
	2023	2022
Cash and cash equivalents	$ 27.7	$ 52.5
Restricted cash included in other long-term assets	4.6	4.6
Total cash, cash equivalents and restricted cash	$ 32.3	$ 57.1

Note 17 – Segment and Related Information

Operating segments are defined as components of an entity for which separate financial statements are available and are regularly evaluated by the chief operating decision maker in deciding how to allocate resources and assess performance. The Company has one reportable segment, contract services, which reflects how the Company manages its business, and the fact that the Company's fleet is dependent upon the worldwide oil and natural gas industry.

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

	Years ended December 31,		
	2023	2022	2021
Denmark	$ 34.2	$ 7.1	$ —
Qatar	32.2	7.3	—
United Kingdom	29.8	14.7	—
Norway	26.6	12.1	—
	122.8	41.2	—
Amortization of intangible liability	14.2	7.6	—
Total revenues	$ 137.0	$ 48.8	$ —

Although the Company is incorporated under the laws of the Bermuda, the Company does not conduct any operations and does not have any operating revenues or long-lived assets in Bermuda.

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

	As of December 31,	
	2023	2022
Norway	$ 163.5	$ 167.9
United Kingdom	110.2	113.1
Denmark	68.3	69.7
Qatar	66.6	68.1
Total long-lived assets, net	$ 408.6	$ 418.8

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

Note 18 – Related Parties

The Company's related parties include directors and key management personnel of the Company, the direct and indirect parents of the Company and entities controlled, jointly controlled or significantly influenced by such parties.

Directors

The Company incurs costs for SDNS independent directors' fees and reimbursement of costs incurred for attendance at SDNS meetings relating to the management and governance of SDNS. The amounts recorded were as follows (in millions)

	Years ended December 31,		
	2023	2022	2021
SDNS independent directors costs	$ 0.1	$ —	$ —

The total liability recorded for these costs under accounts payable was immaterial as of December 31, 2023 and December 31, 2022.

SDL and its wholly-owned subsidiaries

SDL through its wholly-owned subsidiaries, processes certain accounts payable for the Company and settles third party vendor invoices on its behalf on a regular basis. SDL also incurs costs such as personnel costs, rig equipment repairs and maintenance costs which are billed to the Company on a periodic basis.

A SDL wholly-owned subsidiary also has a management services agreement with the Company for providing planning, sales and marketing, corporate, public relations, legal, accounting, financial, information technology, insurance, strategic and field support services to the Company. The Company is billed eight thousand per rig per day and these costs are recorded in the general and administrative expense line item. The billing rate can be revised on a semi-annual basis. The agreement can be terminated by either party by giving a three months notice.

The amounts recorded in various line items from SDL and its wholly-owned subsidiaries were as follows (in millions):

	Years ended December 31,		
	2023	2022	2021
Operating and maintenance	$ 12.6	$ 1.8	$ —
General and administrative	$ 14.8	$ 5.8	$ —

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The Company recorded third-party Acquisition transition and transaction costs in property and equipment which were billed by SDL and property and equipment for asset transfers to and from SDL. SDL processed certain accounts payable by making cash payments to third-parties for certain transactions. The amounts recorded were as follows (in millions):

	Years ended December 31,		
	2023	2022	2021
Other current assets transfer from SDL	$ 1.8	$ —	$ —
Other assets transfer from SDL	$ 0.5	$ —	$ —
Property and equipment transition and transaction costs from SDL	$ 1.1	$ 0.6	$ —
Property and equipment transfer from SDL	$ 0.4	$ —	$ —
Property and equipment transfer to SDL	$ 2.9	$ —	$ —
Cash paid to third party vendors by SDL on behalf of SDNS, net	$ 16.4	$ —	$ —

SDL also billed SDNS for third-party equity issuance costs of $4.7 million and third-party debt issuance costs of $4.7 million for the year ended December 31, 2022.

Note 19 – Interest Rate, Foreign Currency, Credit Risk and Auditor Fees

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. 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.

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 may provide for partial payment in U.S. dollars and partial payment in local currency. The payment portion denominated in local currency is based on anticipated local currency requirements over the contract term and local statutory requirements. Due to various factors, including customer acceptance, local banking laws, other statutory requirements, local currency convertibility and the impact of inflation on local costs, actual local currency needs may vary from those anticipated in the customer contracts, resulting in partial exposure to currency exchange rate risk. In addition, the Company can utilize forex contracts to manage foreign exchange risk related to certain currencies.

Amounts recorded for net loss on foreign exchange were as follows (in millions):

	Years ended December 31,		
	2023	2022	2021
Net loss on foreign currency exchange	$ 1.0	$ 0.6	$ —

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.

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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. The Company determines its expected credit losses for its pools of assets with similar risk characteristics based on historical loss information as adjusted for future expectations.

Consolidated revenues (excluding amortization of intangible liability) by top customer were as follows (in millions):

	Years ended December 31,		
	2023	2022	2021
Largest customer	31%	40%	— %
Second largest customer	26%	29%	— %
Third largest customer	22%	18%	— %
Others	21%	13%	— %
	100%	100%	—%

The top three customer balances represent approximately 76% and 87% of accounts receivable as of December 31, 2023 and 2022, respectively.

Auditor Fees

Our auditor for the fiscal years ended December 31, 2023 and 2022 was PricewaterhouseCoopers. For the year ended December 31, 2023, we incurred $0.5 million for audit services. For the year ended December 31, 2022, we incurred $0.3 million for audit services and related expenses and $0.3 million for other services.

Note 20 – Subsequent Events

The Company has evaluated subsequent events through March 4, 2024, the date of issuance of the consolidated financial statements.

Responsibility statement

We confirm, to the best of our knowledge, the consolidated financial statements for the year ended December 31, 2023 and 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.

By order of the Board of Directors of Shelf Drilling (North Sea), Ltd.

March 4, 2024

s/ David Mullen

David Mullen
Chairman & Chief Executive Officer

s/ Ian Bagshaw

Ian Bagshaw
Independent Director

s/ Rita Granlund

Rita Granlund
Independent Director

s/ William Hoffman

William Hoffman
Director

s/ Gregory O'Brien

Gregory O'Brien
Director & Chief Financial Officer