SHELF DRILLING HOLDINGS, LTD.
INDEX TO FORM 10-Q
QUARTER ENDED MARCH 31, 2017

SHELF DRILLING HOLDINGS, LTD.
QUARTER ENDED MARCH 31, 2017

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SHELF DRILLING

SHELF DRILLING HOLDINGS, LTD.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS
(In thousands)
(Unaudited)

	Three months ended March 31,	
	2017	2016
Revenues		
Operating revenues	$ 142,408	$ 176,279
Other operating revenue	3,845	3,375
	146,253	179,654
Operating costs and expenses		
Operating and maintenance	68,549	103,541
Depreciation	18,369	18,302
Amortization of deferred costs	16,844	20,735
General and administrative	9,078	11,675
	112,840	154,253
Gain / (loss) on disposal of assets	138	(103)
Operating income	33,551	25,298
Other (expense) / income, net		
Interest income	147	65
Interest expense and financing charges	(28,537)	(10,044)
Other, net	(314)	667
	(28,704)	(9,312)
Income before income taxes	4,847	15,986
Income tax expense	4,550	5,512
Net income	$ 297	$ 10,474

The accompanying notes are an integral part of these condensed consolidated interim financial statements

SHELF DRILLING HOLDINGS, LTD.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE INCOME
(In thousands)
(Unaudited)

	Three months ended March 31,	
	2017	**2016**
Net income	$ 297	$ 10,474
Other comprehensive income before income taxes	-	-
Income taxes related to other comprehensive income	-	-
Total comprehensive income	$ 297	$ 10,474

The accompanying notes are an integral part of these condensed consolidated interim financial statements

SHELF DRILLING HOLDINGS, LTD.
CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS
(In thousands, except share data)
(Unaudited)

	March 31, 2017	December 31, 2016
Assets		
Cash and cash equivalents	$ 81,081	$ 113,106
Accounts and other receivables, net	133,074	171,530
Other current assets	89,664	94,423
Total current assets	303,819	379,059
Property and equipment	1,336,594	1,326,361
Less accumulated depreciation	313,659	295,685
Property and equipment, net	1,022,935	1,030,676
Deferred tax assets	2,275	3,137
Other assets	108,881	118,441
Total assets	$ 1,437,910	$ 1,531,313
Liabilities and equity		
Accounts payable	$ 54,523	$ 70,159
Interest payable	11,576	6,828
Obligations under sale and leaseback	17,460	15,977
Other current liabilities	27,799	32,665
Total current liabilities	111,358	125,629
Long-term debt	525,060	466,857
Obligations under sale and leaseback	225,391	228,728
Deferred tax liabilities	8,576	8,525
Other long-term liabilities	22,693	25,197
Total long-term liabilities	781,720	729,307
Commitments and contingencies		
Ordinary shares of $0.01 par value; 5,000,000 shares authorized at March 31, 2017 and December 31, 2016; one share issued and outstanding at March 31, 2017 and December 31, 2016	-	-
Additional paid-in capital	544,832	647,787
Retained earnings	-	28,590
Total equity	544,832	676,377
Total liabilities and equity	$ 1,437,910	$ 1,531,313

The accompanying notes are an integral part of these condensed consolidated interim financial statements

SHELF DRILLING HOLDINGS, LTD.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF EQUITY

(In thousands, except share data)
(Unaudited)

	Three months ended March 31,		Three months ended March 31,	
	2017	2016	2017	2016
	Shares		Amount	
Ordinary shares				
Balance, beginning of period	1	1	$ -	$ -
Balance, end of period	1	1	$ -	$ -
Additional paid-in capital				
Balance, beginning of period			$ 647,787	$ 647,608
Ordinary shares dividend			(103,175)	$ -
Capital contribution by parent - share-based compensation			220	(323)
Balance, end of period			$ 544,832	$ 647,285
Retained earnings				
Balance, beginning of period			$ 28,590	$ 154,608
Ordinary shares dividend			(28,887)	(17,792)
Net income			297	10,474
Balance, end of period			$ -	$ 147,290
Total equity				
Balance, beginning of period			$ 676,377	$ 802,216
Capital contribution by parent - share-based compensation			220	(323)
Ordinary shares dividend			(132,062)	(17,792)
Total comprehensive income			297	10,474
Balance, end of period			$ 544,832	$ 794,575

The accompanying notes are an integral part of these condensed consolidated interim financial statements

SHELF DRILLING HOLDINGS, LTD.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Three months ended March 31,	
	2017	2016
Cash flows from operating activities		
Net income	$ 297	$ 10,474
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	18,369	18,302
Amortization of deferred costs	16,844	20,735
Reversal of provision for doubtful accounts	(2,316)	-
Amortization of deferred revenue	(3,779)	(6,700)
Capital contribution by parent - share-based compensation	220	(323)
Non-cash portion of loss on debt extinguishment	7,495	-
Amortization of debt issue costs	938	1,336
(Gain) / loss on disposal of assets	(138)	103
Deferred tax expense, net	913	-
Changes in operating assets and liabilities		
Intercompany receivables	44,525	(727)
Other operating assets and liabilities, net	(11,957)	1,626
Net cash provided by operating activities	71,411	44,826
Cash flows from investing activities		
Additions to property and equipment *	(7,423)	(13,968)
Additions to deferred costs *	(9,807)	(25,119)
Proceeds from disposal of property and equipment	198	27
Change in restricted cash	581	5,981
Net cash used in investing activities	(16,451)	(33,079)
Cash flows from financing activities		
Ordinary shares dividend paid	(45,312)	(17,792)
Payments for obligations under sale and leaseback	(2,822)	-
Payments to retire long-term debt	(28,500)	-
Payments of debt issuance costs	(10,351)	-
Net cash used in financing activities	(86,985)	(17,792)
Net decrease in cash and cash equivalents	(32,025)	(6,045)
Cash and cash equivalents at beginning of period	113,106	115,656
Cash and cash equivalents at end of period	$ 81,081	$ 109,611

* See Note 11 – Supplemental Cash Flow Information for a reconciliation of cash payments for additions to property and equipment and deferred costs to total capital expenditures and deferred costs.

The accompanying notes are an integral part of these condensed consolidated interim financial statements

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

Note 1 — Nature of Business

Business

Shelf Drilling Holdings, Ltd ("SDHL") was incorporated on August 24, 2012 as a private corporation in the Cayman Islands and is a holding company with no significant operations or assets other than owned interests in its direct and indirect subsidiaries. SDHL and its majority owned subsidiaries (together, the "Company") provide shallow-water drilling services to the oil and natural gas industry. The Company was formed as a result of a definitive agreement entered into on September 9, 2012 (the "Acquisition") to acquire 37 jackup rigs and one swamp barge from Transocean Inc. (the "Seller"). The Company's corporate offices are in Dubai, United Arab Emirates ("UAE"), geographically close to its operations in the Middle East, South East Asia, India, West Africa and the Mediterranean. The Company is 100% owned by Shelf Drilling Intermediate, Ltd ("SDIL"). SDIL is 100% owned by Shelf Drilling Midco, Ltd ("Midco") which is directly owned by Shelf Drilling, Ltd ("SDL"), the ultimate parent company. These direct and indirect parents of the Company (together, the "Parents") are incorporated as private corporations in the Cayman Islands.

SDHL, through its majority and wholly owned subsidiaries, provides safe and reliable fit-for-purpose independent cantilever jackup drilling services. The Company is primarily engaged in development and workover activity on producing assets in shallow water of up to 400 feet in water depth. As of March 31, 2017, the Company owns 36 independent cantilever jackup rigs and one swamp barge, including one new build jackup rig under construction.

In May 2014, the Company signed a contract with Lamprell Energy Limited (the "Builder") to construct two new build high specification jackup rigs (the "Newbuilds"). On September 29, 2016, the Company took delivery of the first Newbuild from the Builder and, on December 1, 2016, the rig commenced a five-year contract with Chevron Thailand Exploration and Production, Ltd ("Chevron"). The second rig has been delivered on April 6, 2017 and is expected to commence a five-year contract, after final acceptance with Chevron during the second quarter of 2017. See Note 4 – Property and Equipment and Note 7 – Sale and Leaseback.

Recent Events

On January 12, 2017 ("Issue Date"), SDL successfully refinanced its long term debt. As a result, SDL's wholly owned subsidiary Shelf Drilling Midco, Ltd ("Midco") fully retired its outstanding $350 million term loan, entered into on October 8, 2013 (the "Midco Term Loan"), partially in exchange for the issuance of SDL's $166.67 million preferred shares to certain equity Sponsors (affiliates of Castle Harlan, Inc., CHAMP Private Equity and Lime Rock Partners). In addition, SDHL issued $502.835 million of new 9.5% Senior Secured Notes due November 2020 (the "9.5% Senior Secured Notes") in exchange for and cancellation of $444.585 million of 8.625% Senior Secured Notes due November 2018 (the "8.625% Senior Secured Notes") (of which $28.5 million was a principal payment in cash), and $86.75 million in exchange for partial settlement of the $350 million Midco Term Loan. Concurrently, the Company successfully amended the revolving credit facility ("SDHL Revolver") to extend its maturity date from April 2018 to April 2020 and permanently reduced the facility from $200 million to $160 million. See Note 6 – Debt.

Basis of Preparation

The Company has prepared the accompanying condensed consolidated interim financial statements in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") for interim financial information. Pursuant to such rules and regulations, these financial statements do not include all disclosures required by U.S. GAAP for complete financial statements. The condensed consolidated interim financial statements reflect all adjustments, which are, in the opinion of management, necessary for a fair presentation of financial position, results of operations and cash flows for the interim periods. Such adjustments are considered to be of a normal recurring nature unless otherwise noted. Certain amounts in the prior period have been reclassified to conform to the current year presentation. Operating results for the quarter ended March 31, 2017 are not necessarily indicative of the results that may be expected for the year ending December 31, 2017 or for any future period. The accompanying condensed consolidated interim financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto as of December 31, 2016 and 2015.

Note 2 — Recently Adopted and Issued Accounting Pronouncements

Recently adopted accounting standards

On October 26, 2016, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2016-17, Consolidation (Topic 810): Interests Held through Related Parties that are Under Common Control, which alters how a decision maker needs to consider indirect interests in a variable interest entity ("VIE") held through an entity under common control. The new guidance amends ASU 2015-02, Consolidation (Topic 810): Amendments to the Consolidation Analysis, issued in February 2015. Under the new ASU, if a decision maker is required to evaluate whether it is the primary beneficiary of a VIE, it will need to consider only its proportionate indirect interest in the VIE held through a common control party. Currently, ASU 2015-02 directs the decision maker to treat the common control party's interest in the VIE as if the decision maker held the interest itself (sometimes called the "full attribution approach"). Under ASU 2015-02, a decision maker applies the proportionate approach only in those instances when it holds an indirect interest in a VIE through a related party that is not under common control. The amendment eliminates this distinction. The amendments are effective for fiscal years beginning after December 15, 2016. The Company has adopted this ASU from its effective date with no impact on the condensed consolidated interim financial statements.

Recently issued accounting standards

In March 2017, the FASB issued ASU No. 2017-07, Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The amendments require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. The amendments also allow only the service cost component to be eligible for capitalization when applicable. The amendments are effective for fiscal years beginning after December 15, 2017 with early adoption permitted. The Company does not intend to early adopt this standard. Management believes that the adoption will not have a material effect on the condensed consolidated interim financial statements.

In February 2017, the FASB issued ASU No. 2017-05, Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The amendments clarify that nonfinancial assets within the scope of Subtopic 610-20 may include nonfinancial assets transferred within a legal entity to a counterparty and that an entity should identify each distinct nonfinancial asset or in substance nonfinancial asset promised to a counterparty and derecognize each asset when a counterparty obtains control of it. The amendments are effective for annual and interim periods for fiscal years beginning after December 15, 2018 with an option of early adoption for fiscal years beginning after December 15, 2017. The Company does not intend to early adopt this standard. Management believes that the adoption will not have a material effect on the condensed consolidated interim financial statements.

Note 3 — Consolidated Variable Interest Entities

The Company is the primary beneficiary of four VIEs which are included in these condensed consolidated interim financial statements.

Note 4 — Property and Equipment

Property and equipment as of March 31, 2017 and December 31, 2016 consisted of the following (in thousands):

	March 31, 2017	December 31, 2016
Drilling rigs and equipment	$ 1,138,878	$ 1,138,016
Construction in progress	147,008	136,834
Spares	32,958	33,866
Land and building	1,332	1,228
Other	16,418	16,417
Total property and equipment	$ 1,336,594	$ 1,326,361
Less: Accumulated depreciation	(313,659)	(295,685)
Total property and equipment, net	$ 1,022,935	$ 1,030,676

There were no rigs added to the Company's drilling rig fleet during the three months ended March 31, 2017 and 2016. Total capital expenditures for the three months ended March 31, 2017 and 2016 were $10.7 million and $47.9 million, respectively. This includes $9.8 million and $43.6 million related to progress payments, internal project costs, change orders, owner furnished equipment and capitalized interest for the Newbuilds during the three months ended March 31, 2017 and 2016, respectively.

Total capital expenditures through March 31, 2017 and 2016 on the Newbuilds were $371.3 million and $215.1 million, respectively, of which $239.1 million and $111.1 million, respectively, were paid by the Lessor (see Note 7 – Sale and Leaseback).

Interest capitalized on the Newbuilds totaled $2.6 million and $4.1 million for the three months ended March 31, 2017 and 2016, respectively. Interest capitalized during the three months ended March 31, 2017 and 2016 includes $1.2 million and $2.1 million, respectively, related to the sale and leaseback financing agreements.

Disposals of other property and equipment were $462 thousand at cost and $67 thousand at net book value for the three months ended March 31, 2017 and were $455 thousand at cost and $213 thousand at net book value for the three months ended March 31, 2016.

The Company did not record an impairment charge during the three months ended March 31, 2017 and 2016. The Company recognized an impairment loss of $47.1 million in relation to three rigs out of which one rig was impaired to salvage value for the year ended December 31, 2016.

Drilling rigs under capital and operating leases

The net carrying amount of property and equipment includes the Newbuild held under a capital lease and one rig under an operating lease which are included in drilling rigs and equipment as of March 31, 2017 and December 31, 2016.

As of March 31, 2017 and December 31, 2016, the drilling rig under capital lease had a total cost of $228.5 million and $228.6 million, and accumulated depreciation of $2.9 million and $1.1 million, respectively.

As of March 31, 2017 and December 31, 2016, the rig under operating lease had a carrying value of $15.9 million and $16.4 million, and accumulated depreciation of $7.5 million and $7.0 million, respectively. This rig commenced its three year bareboat charter contract (with two 12 month extension options) with a private limited liability company on February 8, 2016.

As of March 31, 2017, following is the summary of future minimum rentals on operating lease (in thousands):

For the twelve months ending March 31,		
2018	$	8,029
2019		7,038
2020		
Thereafter		-
Total future minimum rentals	$	15,067

Note 5 — Income Taxes

Tax Rate — SDHL is exempt from all income taxation in the Cayman Islands.

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. 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; and (d) rig operating structures.

The effective income tax rate for the Company's continuing operations was 93.9% and 34.5% for the three months ended March 31, 2017 and 2016, respectively. The effective tax rate for the three months ended March 31, 2017 is higher compared to the three months ended March 31, 2016 primarily due to an increased proportion of expenses in 2017 for which there will be no tax benefit as such expenses are either incurred in jurisdictions which impose tax based on gross revenue rather than on net income or are incurred in jurisdictions in which the Company does not pay tax or which do not allow for a tax deduction for such expenses.

Income Tax Expense — Income tax expense was $4.6 million and $5.5 million for the three months ended March 31, 2017 and 2016, respectively.

Income tax expense for the three months ended March 31, 2017 is calculated using a discreet approach whereby income tax expense is determined by estimating actual income tax liability that will result from earnings from continued operations for the three months ended March 31, 2017 rather than by using an estimated annual effective income tax rate as applied to year-to-date income before income taxes, primarily due to management's view that it is not possible to reliably estimate an annual 2017 effective tax rate given the sensitivity of the estimated annual effective tax rate to any changes in annual income or losses before income tax.

The Company's deferred tax liabilities as at March 31, 2017 and December 31, 2016 include liabilities related to the future income tax cost of repatriating the unremitted earnings of certain subsidiaries that are not indefinitely reinvested or that will not be indefinitely reinvested in the future. 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 condensed consolidated interim financial statements. 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 2024.

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 likely to be successfully challenged by the relevant tax authorities in the future. As such, the tax benefits related to these uncertain tax positions have been offset by a corresponding tax liability. The Company acquired a portion of these liabilities from the Seller as part of the Acquisition and is fully indemnified by the Seller for all such acquired liabilities, including any related interest and penalties. Any interest and penalties related to such liabilities are included as a component of income tax expense. Not considering any indemnification, the liabilities related to uncertain tax positions, including related interest and penalties, recorded as "Other long-term liabilities" were as follows (in thousands):

	March 31, 2017	December 31, 2016
Liabilities for uncertain tax positions, excluding interest and penalties	$ 2,515	$ 2,455
Interest and penalties	-	-
Liabilities for uncertain tax positions, including interest and penalties	$ 2,515	$ 2,455

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

	March 31, 2017	December 31, 2016
Balance, beginning of period	$ 2,455	$ 1,357
Reductions for prior period tax positions	(8)	(458)
Reductions related to statute of limitation expirations	(81)	(100)
Additions for current period tax positions	149	1,656
Balance, end of period	$ 2,515	$ 2,455

The Company engages in ongoing discussions with tax authorities regarding the resolution of tax matters in the various jurisdictions in which it operates. Both the ultimate outcome of these tax matters and the timing of any resolution or closure of the tax audits are uncertain. While the Company cannot predict or provide assurance as to the final outcome of these proceedings, it does not expect the ultimate liability to have a material adverse effect on its condensed consolidated interim financial statements. Further, the Company is indemnified from any tax liabilities of subsidiaries previously owned by the Seller related to the periods prior to the Acquisition.

Note 6 — Debt

Debt is comprised of the following (in thousands):

	March 31, 2017	December 31, 2016
9.5% Senior Secured Notes, due November 2, 2020 (see note (i) below)	$ 495,094	$ -
8.625% Senior Secured Notes, due November 1, 2018 (see note (ii) below)	29,966	466,857
Revolving Credit Facility, due April 30, 2020 (see note (iii) below)	-	-
Total debt	$ 525,060	$ 466,857

The following is a summary of scheduled long-term debt maturities by year (in thousands):

For the twelve months ending March 31,	
2018	$ -
2019	29,966
2020	-
2021	495,094
Total debt	$ 525,060

The following tables provide details of principal amount and carrying values of debt (in thousands):

	March 31, 2017		
	Principal Amount	Unamortized Debt Issuance Costs	Carrying Value
9.5% Senior Secured Notes, due November 2, 2020	$ 502,835	$ 7,741	$ 495,094
8.625% Senior Secured Notes, due November 1, 2018	30,415	449	29,966
Total	$ 533,250	$ 8,190	$ 525,060

	December 31, 2016		
	Principal Amount	Unamortized Debt Issuance Costs	Carrying Value
8.625% Senior Secured Notes, due November 1, 2018	$ 475,000	$ 8,143	$ 466,857

The effective interest rates on the 9.5% Senior Secured Notes and 8.625% Senior Secured Notes are 10.02% and 9.79%, respectively.

(i) 9.5% Senior Secured Notes, due November 2020

On January 12, 2017, SDHL completed the issuance and sale of $502.835 million aggregate principal amount of 9.5% Senior Secured Notes. The 9.5% Senior Secured Notes were sold in exchange and cancellation of $444.585 million aggregate principal amount of 8.625% Senior Secured Notes (of which $28.5 million was a principal payment in cash), and $86.75 million in exchange for partial settlement of the $350 million Midco Term Loan. As a result of this transaction, SDHL has recorded $8.1 million of debt issuance cost as a direct deduction from the carrying value of the debt and is amortized over the term using the effective interest rate. Interest on these notes accrues from January 12, 2017 at a rate of 9.5% per year and is payable semi-annually on May 1 and November 1 of each year, beginning May 1, 2017.

SDHL's obligations under the 9.5% Senior Secured Notes are guaranteed by a majority of SDHL's subsidiaries (collectively, the "Note Guarantors"), subject to certain exceptions. The obligations of the Note Guarantors are secured by liens on the rigs and other assets owned by the Note Guarantors. These liens are subordinated to the liens securing the obligations of the revolving credit facility Guarantors.

SDHL may redeem the 9.5% Senior Secured Notes, in whole or part, at the redemption prices set forth below, together with accrued and unpaid interest up to and including to the redemption date.

Period	Redemption Price
On or after January 12, 2017	104.313%
On or after the first anniversary of January 12, 2017	102.156%
On or after the second anniversary of January 12, 2017	100.000%

If SDHL experiences a change of control, as defined in the indenture governing the 9.5% Senior Secured Notes (the "9.5% Senior Secured Notes Indenture"), it must offer to repurchase the 9.5% Senior Secured Notes at an offer price in cash equal to 101% of their principal amount, plus accrued and unpaid interest. Furthermore, following certain asset sales, SDHL may be required to use the proceeds to offer to repurchase the 9.5% Senior Secured Notes at an offer price in cash equal to 100% of their principal amount, plus accrued and unpaid interest.

(ii) 8.625% Senior Secured Notes, due November 2018

On January 12, 2017, the Company cancelled $444.585 million aggregate principal amount of 8.625% Senior Secured Notes in exchange for $416.085 million aggregate principal amount of 9.5% Senior Secured Notes and principal payment of $28.5 million in cash. The Company recognized a loss of $13.7 million associated with this debt extinguishment which includes the $7.5 million write off of the original unamortized debt issuance cost, incentive fee of $5.7 million paid to the lenders and legal fees of $556 thousand ($55 thousand was incurred in December 2016). These transactions were recorded as expense under “interest expense and financing charges”.

As of March 31, 2017, $30.415 million aggregate principal amount of 8.625% Senior Secured Notes remains outstanding with $449 thousand original debt issuance cost to be amortized over the remaining debt term.

SDHL’s obligations under the outstanding 8.625% Senior Secured Notes are guaranteed by a majority of SDHL’s subsidiaries, subject to certain exceptions. The indenture governing the 8.625% Senior Secured Notes has been amended to eliminate or waive substantially all of the restrictive covenants and to eliminate certain events of default.

(iii) Revolving Credit Facility, due April 2020

On February 24, 2014, SDHL entered into a $150 million revolving credit facility which was available for utilization on February 28, 2014. This facility amount was increased to $200 million on June 11, 2014 in accordance with the terms of the SDHL Revolver. The SDHL Revolver can be drawn as cash, letters of credit or bank guarantees, or a mixture of cash, letters of credit and guarantees, subject to the satisfaction of customary conditions set forth in the underlying credit agreement.

On January 12, 2017, the Company successfully amended the SDHL Revolver to extend the maturity date from April 30, 2018 to April 30, 2020, permanently reduce the facility from $200 million to $160 million and amend certain other terms of this agreement. All borrowings under the SDHL Revolver mature on April 30, 2020, and letters of credit and bank guarantees issued under the SDHL Revolver expire no later than five business days prior to April 30, 2020.

The Company issued bank guarantees and performance bonds totalling $31.9 million and $28.5 million as of March 31, 2017 and December 31, 2016, respectively, against the SDHL Revolver. As a result, the remaining available balance under the revolving credit facility is $128.1 million as of March 31, 2017.

Cash borrowings under the SDHL Revolver bear interest, at SDHL’s option, at either (i) the Adjusted LIBOR Rate plus Applicable Margin, as defined in the SDHL Revolver or (ii) the Alternate Base Rate (the highest of the prime rate, the federal funds rate plus 0.5% per year, or the one-month Adjusted LIBOR Rate (as defined in the SDHL Revolver) plus 1% per year), plus Applicable Margin.

Participation fees accrue on financial letters of credit and bank guarantees at the Applicable Margin for borrowings at the Adjusted LIBOR Rate and on non-financial letters of credit and bank guarantees at 50% of the Applicable Margin for borrowings at the Adjusted LIBOR Rate. The Applicable Margin is calculated based on credit ratings of SDL or SDHL by Standard and Poor’s and Moody’s; currently the Applicable Margin is 5.00% per year for borrowings at the Adjusted LIBOR Rate.

The Applicable Margin can range from a maximum of 6.5% per year to a minimum of 3.75% per year for borrowings at the Adjusted LIBOR Rate and from a maximum of 5.5% per annum to a minimum of 2.75% per year for borrowings at the Alternate Base Rate. SDHL is liable to pay a commitment fee to the administrative agent on the daily unused amount of the SDHL Revolver at 35% of the Applicable Margin for borrowings at the Adjusted LIBOR Rate. The facility is cancellable by SDHL at any time with no penalty or premium.

Additionally, SDHL Revolver requires that SDHL and the Guarantors (as defined below) have a total net leverage ratio (consolidated net indebtedness to consolidated EBITDA, as defined in the SDHL Revolver) not greater than 3.5:1. The Company is in compliance with this ratio as of March 31, 2017.

SDHL’s obligations under the SDHL Revolver are guaranteed by the majority of SDHL’s subsidiaries (collectively, the “Guarantors”), subject to certain exceptions. The obligations of the Guarantors are secured by liens on the rigs and other assets owned by the Guarantors. The liens securing the SDHL Revolver are senior to the pari-passu liens securing the outstanding 8.625% Senior Secured Notes and 9.5% Senior Secured Notes.

The debt issuance costs associated with this new arrangement as well as the unamortized balance of the original debt issuance cost are deferred and amortized over the new terms of the SDHL Revolver. The unamortized debt issuance costs are carried as both short-term and long-term term assets on the condensed consolidated interim balance sheets. During the three months ended March 31, 2017 and 2016, the amortization of debt issuance costs on the SDHL Revolver amounted to $342 thousand and $399 thousand, respectively.

Terms Common to Indebtedness

The 9.5% Senior Secured Notes Indenture and the SDHL Revolver contain customary restrictive covenants. These agreements also contain a provision under which an event of default by SDHL or by any restricted subsidiary on any other indebtedness exceeding $25 million would be considered an event of default 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 9.5% Senior Secured Notes Indenture and the SDHL Revolver contain covenants that, among other things, limit SDHL's ability and the ability of their restricted subsidiaries in connection with:

- Incurrence of new indebtedness;
- Restricted payments;
- Disposal of assets;
- Incurrence of new liens;
- Consolidation, merger and transfer of assets; and
- Impairment of security interest.

The 9.5% Senior Secured Notes Indenture and the SDHL Revolver also contain standard events of default.

Note 7 — Sale and Leaseback

On October 10, 2015, two wholly owned subsidiaries of SDL, Shelf Drilling TBN I, Ltd and Shelf Drilling TBN II, Ltd (collectively, the "Lessee"), whose assets consisted solely of the two under construction fit-for-purpose new build jackup rigs entered into a combined minimum of $296.2 million and maximum of $330.0 million ("Purchase Price") sale and leaseback financing transactions (the "Sale and Leaseback Transactions") with Hai Jiao 1502 Limited and Hai Jiao 1503 Limited (collectively, the "Lessor"), both wholly owned subsidiaries of Industrial and Commercial Bank of China Limited. In connection with these transactions, the Lessee executed memorandum of agreements and bareboat charter agreements (the "Bareboat Charter Agreements") to sell the rigs and bareboat charter the rigs back from the Lessor upon expected delivery date for a period of 5 years and 90 days. See Note 4 – Property and Equipment.

The Company is liable to pay a commitment fee of 1.20% per annum to the Lessor calculated on the undrawn amount of the Purchase Price calculated from October 10, 2015 until the Purchase Price is paid in full for each rig, payable on the date of first installment payment of Purchase Price and quarterly in arrears thereafter. The milestone payments bear interest at 3 months LIBOR plus an applicable margin of 4% annually. Such interest is capitalized at intervals of three months from the date of payment of each installment until the lease commencement date.

The Bareboat Charter Agreements require scheduled monthly rent payments ("Rent") with variable and fixed payment components from either the bareboat charter commencement dates or charter hire accrual date, as defined in the lease contract, through its estimated maturities on December 28, 2021 and July 5, 2022 at which time the Lessee will have the obligation to acquire the Newbuilds from the Lessor for $82.5 million each ("Purchase Obligation Price"). The fixed monthly average payments for each rig at the inception of the bareboat charter period are calculated using the Prepaid Purchase Price (Purchase Price and capitalized interest on milestone payments net of Purchase Obligation Price) over the lease term. The average variable payments over the lease term for each rig are calculated on each payment date using a projected 3 months LIBOR rate plus applicable margin of 4% annually on the Notional Rent Outstanding (Prepaid Purchase Price reduced by fixed payments). The charter payments will be made in advance every 5th day of the month.

On December 1, 2016, after completion of the final customer acceptance requirements, the first Newbuild commenced a five-year contract with Chevron. The Company accounted for this Sale and Leaseback Transaction as a capital lease and transferred $228.6 million from construction in progress to drilling rigs and equipment in property and equipment. See Note 4 – Property and Equipment. The capital lease contract has an estimated average interest rate of 5.948% and requires scheduled monthly average principal payments of $1.4 million and average interest payments of $622 thousand through December 5, 2021.

As of March 31, 2017, the following is a summary of the estimated future rental payments on capital lease (in thousands):

For the twelve months ending March 31,		
2018	$	26,037
2019		25,732
2020		25,137
2021		24,189
2022		99,563
Thereafter		-
Total future rental payments	$	200,658

The Company made rental payments, including interest, of $4.2 million during the three months ended March 31, 2017. There were no such transactions during the three months ended March 31, 2016.

The outstanding balance of obligations under the Sale and Leaseback Transactions is $242.9 million and $244.7 million as of March 31, 2017 and December 31, 2016, respectively. The first Newbuild, which is held under capital lease, has outstanding short-term obligations of $17.5 million and $16.0 million and long term obligations of $147.7 million and $152.0 million as of March 31, 2017 and December 31, 2016, respectively. These amounts represent the scheduled monthly principal installments for the Newbuild which started its drilling contract.

The second Newbuild rig still under construction as at March 31, 2017 comprise $77.7 million and $76.7 million as of March 31, 2017 and December 31, 2016, respectively, as long-term obligations. The rig has been delivered on April 6, 2017.

There were no payments made by the Lessor directly to the Builder during the three months ended March 31, 2017. The Lessor paid $37.0 million directly to the Builder during the three months ended March 31, 2016. In addition, the Company recorded $965 thousand and $1.1 million for interest in kind on the obligations under the Sale and Leaseback Transactions during the three months ended March 31, 2017 and 2016, respectively.

The Company is also required to maintain (1) a minimum of 90 days of Rent in a debt reserve account; (2) 120% of Security Coverage Ratio (Fair Value of the rig and associated drilling service contract to the Notional Rent Outstanding); and (3) a Consolidated Net Debt to Consolidated EBITDA Ratio not to exceed 4:1, as defined in the Bareboat Charter Agreement and tested semi-annually. As of December 31, 2016, the Company was in compliance with all above mentioned requirements.

Note 8 — Employee Benefit Plans

Retirement Plan Under a Trust fund – On August 1, 2016, the Company replaced the end of service benefit covering certain employees previously reported under a defined benefit plan with a defined retirement contribution plan managed under a trust fund.

Contributions are made on a monthly basis by the Company irrespective of fund performance and are not pooled, but are separately identifiable and attributable to each employee. The Company has no further obligation for this retirement plan and the Company's contributions are expensed as incurred.

Contribution expense related to this plan is $62 thousand during the three months ended March 31, 2017. The expenses were previously recorded as end of service benefit expense during the three months ended March 31, 2016 through to July 31, 2016.

End of Service Plans — The Company offers end of service plans to employees in certain countries in accordance with the labor laws in these countries or the Company policy. The Company has recorded approximately $1.8 million and $5.3 million in expense related to employee end of service plans during the three months ended March 31, 2017 and 2016, respectively.

Retention Plans —The Company has recorded approximately $867 thousand and $598 thousand in expense related to its employee retention plans for the three months ended March 31, 2017 and 2016, respectively. The estimated total cash payments under the retention plans for 2018 are $3.3 million.

Note 9 — Commitments and Contingencies

Operating Lease Obligations – The Company has operating lease commitments expiring at various dates, principally for office and yard space, expatriate employee accommodation and office equipment.

Sale and Leaseback Obligations – This represents minimum annual rental payments and Purchase Obligation Price assuming average estimated interest rates pursuant to the Sale and Leaseback Transactions as of March 31, 2017. See Note 7 - Sale and Leaseback.

As of March 31, 2017, contractual payments related to those matters were as follows (in thousands):

	Operating leases	Sale and leaseback obligations	Total commitments
For the twelve months ending March 31,			
2018	$ 6,168	$ 46,061	$ 52,229
2019	4,359	52,239	56,598
2020	900	51,069	51,969
2021	625	49,176	49,801
2022	198	123,550	123,748
Thereafter	-	88,315	88,315
Total	$ 12,250	$ 410,410	$ 422,660

Legal Proceedings — The Company is involved in various claims and lawsuits in the normal course of business, some of which existed at the time of Acquisition and are indemnified by the Seller. As of March 31, 2017, management has determined that there are no significant claims or lawsuits to disclose including claims and lawsuits fully indemnified by the Seller and no provisions were necessary.

Surety Bonds — It is customary in the contract drilling 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 has surety bond facilities in either U.S. dollars or local currencies of approximately $85.5 million provided by several banks to guarantee various contractual, performance, and customs obligations. The Company entered into these facilities in India, Egypt, UAE and Nigeria. The outstanding surety bonds were $32.3 million and $33.3 million at March 31, 2017 and December 31, 2016, respectively.

In addition, the Company had outstanding bank guarantees and performance bonds amounting to $31.9 million and $28.5 million as of March 31, 2017 and December 31, 2016, respectively, issued against the SDHL Revolver.

Therefore, the total outstanding bank guarantees and surety bonds issued by the Company were $64.2 million and $61.8 million as of March 31, 2017 and December 31, 2016, respectively.

Note 10 — Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, which include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate their fair market values due to the short-term nature of the instruments.

The following table represents the estimated fair value and carrying value of the long-term debt (in thousands):

	March 31, 2017		December 31 , 2016	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
9.5% Senior Secured Notes, due November 2, 2020	$ 495,094	$ 470,151	$ -	$ -
8.625% Senior Secured Notes, due November 1, 2018	29,966	28,894	466,857	399,000
Total debt	$ 525,060	$ 499,045	$ 466,857	$ 399,000

The estimated fair value of the Company's long-term debt was determined using quoted market prices. Where more than one quoted market price was obtained, the average of all the quoted market prices was applied (Level 2 measurement).

Note 11 — Supplemental Cash Flow Information

As part of the sale and leaseback agreements for the Newbuilds, contractual commitments totalling $37.0 million were paid by a third party financial institution directly to the Builder during the three months ended March 31, 2016. There were no payments made during the three months ended March 31, 2017. Interest in kind of $965 thousand and $1.1 million were recorded as obligations under the Sale and Leaseback Transactions during the three months ended March 31, 2017 and 2016, respectively. These non-cash transactions were not reflected on the condensed consolidated interim statements of cash flows for the three months ended March 31, 2017 and 2016.

In relation to the refinancing of the Company's debt, $86.75 million 9.5% Senior Secured Notes were issued for the settlement of the Midco term loan and $416.09 million 8.625% Senior Secured Notes were cancelled in exchange for 9.5% Senior Secured Notes. These non-cash transactions were not reflected on the condensed consolidated interim statements of cash flows for the three months ended March 31, 2017.

Capital expenditures and deferred costs

Capital expenditures and deferred costs include fixed asset purchases, construction expenditures on the Newbuilds and certain expenditures associated with regulatory inspections, major equipment overhauls, contract preparation, including rig upgrades, mobilization and stacked rig reactivations.

The following table sets out the Company's capital expenditures and deferred costs (in thousands):

	Three months ended March 31,	
	2017	2016
Regulatory and maintenance	$ 4,990	$ 14,663
Contract preparation	1,928	11,477
Fleet spares and others	(743)	316
	$ 6,175	$ 26,456
Newbuilds	9,811	43,590
Total capital expenditures and deferred costs	$ 15,986	$ 70,046

The following table reconcile the cash payments related to additions to property and equipment and deferred costs to the total capital expenditures and deferred costs (in thousands):

	Three months ended March 31,	
	2017	2016
Cash payments for additions to property and equipment	$ 7,423	$ 13,968
Net change in accrued but unpaid additions to property and equipment	2,308	(4,191)
	$ 9,731	$ 9,777
Add: Asset addition related to sale and leaseback transactions	965	38,072
Total capital expenditures	$ 10,696	$ 47,849
Cash payments for additions to deferred costs	$ 9,807	$ 25,119
Net change in accrued but unpaid additions to deferred costs	(4,517)	(2,922)
Total deferred costs	$ 5,290	$ 22,197
Total capital expenditures and deferred costs	$ 15,986	$ 70,046

Note 12 — Related Parties

The Company has transactions with SDIL, Midco and SDL and these companies are related to the Company by common ownership. These transactions in which one entity pays expenses on behalf of the other entity result in related party receivable and payable balances. The Company has $1.7 million and $46.2 million as receivable under such transactions as of March 31, 2017 and December 31, 2016, respectively. The receivables are recorded in accounts and other receivables, net on the condensed consolidated interim balance sheets. During the three months ended March 31, 2017, the Company has declared and paid dividend of $34.25 million to SDIL. The $34.25 million cash was immediately sent back to SDHL to settle the intercompany receivable between SDHL and its Parents.

In connection with the Company's operations of a foreign subsidiary, a related party provided goods and services to drilling rigs owned by one of the Company's foreign subsidiaries. These goods and services totaled $786 thousand and $834 thousand during the three months ended March 31, 2017 and 2016, respectively.

The Company recorded $1.4 million and $1.4 million for the three months ended March 31, 2017 and 2016, respectively, for Sponsors' costs related to the $375 thousand monthly fee, directors' fees and reimbursement of expenses incurred by Sponsors and directors for attendance at meetings relating to the management and governance of the Company.

Note 13 — Comparative Information

The amortization of deferred costs, which was previously presented as part of the operating and maintenance, has been presented as a separate line item in the condensed consolidated interim statements of operations in the comparative period for the three months ended March 31 2016. These changes neither impact the financial position nor the cash flows of the Company.

The changes are as follows (in thousands):

	Three months ended March 31, 2016	
	As previously presented	Reclassified amounts
Operating costs and expenses		
Operating and maintenance	$ 124,276	$ 103,541
Amortization of deferred costs	-	20,735

Note 14 — Subsequent Events

On April 6, 2017, the Company took delivery of the second Newbuild from the Builder. The rig is expected to begin its five-year contract with Chevron in June 2017 after completion of final customer acceptance requirements.

On April 28, 2017, SDL successfully completed a common share offering for total gross proceeds of $225 million (the "Private Placement"). On May 5, 2017, the new common shares issued in the Private Placement began trading on the Norwegian over-the-counter (OTC) market under the symbol SHLF.

The net proceeds from the Private Placement will be used to acquire three premium jackup drilling rigs from a third party under asset purchase agreements for approximately $225 million. The rig acquisitions are expected to be completed during Q2 2017 and Q3 2017.

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

The following discussion and analysis should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements contained in this Quarterly Report on Form 10-Q equivalent and the audited consolidated financial statements included in our Annual Report on Form 10-K equivalent for the year ended December 31, 2016. Unless otherwise indicated, references to "we", "us", "our" and the "Company" refer collectively to the Company.

This Quarterly Report on Form 10-Q equivalent includes "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. All statements other than statements of historical facts included in this report regarding any of the matters in the list immediately below are forward-looking statements. Forward-looking statements in this report include, but are not limited to, statements about the following subjects:

- the Company's ability to renew or extend contracts, enter into new contracts when such contracts expire, and negotiate the dayrates and other terms of such contracts;
- the demand for the Company's drilling rigs;
- changes in worldwide rig supply and demand, competition or technology, including as a result of delivery of newbuild drilling rigs;
- the expectations of the Company's customers relating to future energy prices and ability to obtain drilling permits;
- the impact of variations in oil and gas production and prices and demand in hydrocarbons;
- the impact of variations in demand for the Company's products and services;
- sufficiency and availability of funds for required capital expenditures and deferred costs, working capital and debt service;
- the Company's levels of indebtedness, covenant compliance and access to future capital;
- the level of reserves for accounts receivables;
- the disproportionate changes in operating and maintenance costs compared to changes in operating revenues;
- 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 newbuild rigs construction and delivery and the return of idle rigs to operations;
- future capital expenditures and deferred costs, refurbishment, reactivation, transportation, repair and upgrade costs
- the liabilities and restrictions under coastwise and other laws of the jurisdictions in which the Company operates and regulations protecting the environment;
- the outcomes of any litigations, investigations, claims and disputes and their effects on the Company's financial condition and results of operations;
- effects of accounting changes and adoption of accounting policies;
- expectations regarding offshore drilling activity and dayrates, market conditions, operating revenues, operating and maintenance expense, insurance coverage, insurance expense and deductibles, interest expense and other matters with regard to outlook and future earnings;
- potential asset impairment as a result of future decline in demand for shallow water drilling rigs;
- the market value of the Company's drilling rigs and of any rigs the Company acquires in the future may decrease;
- the Company's 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 ;
- adverse changes in foreign currency exchange rates;
- changes in general economic, fiscal and business conditions in jurisdictions in which the Company operates and elsewhere; and
- the Company's 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.

When used in this quarterly report, the words ''could,'' ''believe,'' ''anticipate,'' ''intend,'' ''estimate,'' ''expect,'' ''project'' and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. These forward-looking statements are based on the Company's current expectations and assumptions about future events and are based on currently available information as to the outcome and timing of future events.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance or achievements to be materially different from the anticipated future results, performance or achievements expressed or implied by the forward-looking statements. The statements under Item 1A. Risk Factors included in our Annual Report on Form 10-K for the year ended December 31, 2016 should be read carefully in addition to the above uncertainties and assumptions. These risks and uncertainties are beyond the Company's ability to control, and in many cases, the Company cannot predict such risks and uncertainties which could cause its actual results to differ materially from those indicated by the forward-looking statements. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those indicated.

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

Business

The Company and its Parents were formed in 2012 to acquire 37 jackup rigs and one swamp barge from Transocean, Inc. The Company is a leading international shallow water offshore drilling contractor engaged in the provision of equipment and services for the drilling, completion and workover of offshore oil and natural gas wells. The Company is primarily engaged in development and workover activity on producing assets in shallow water of up to 400 feet in water depth.

The Company's fleet comprises 36 independent cantilever jackup rigs and one swamp barge, including one new build jackup rig under construction, and currently operates in four broad geographic markets: the Middle East/North Africa/Mediterranean, Southeast Asia, India and West Africa. At March 31, 2017, the Company was the world's largest contractor of independent-leg cantilever jackup rigs by number of rigs.

Recent events

On January 12, 2017, SDL and SDL's wholly owned subsidiaries, Midco and SDHL successfully refinanced their long term debt. SDHL issued $502.835 million of new 9.5% Senior Secured Notes due November 2020 in exchange for and cancellation of $444.585 million of 8.625% Senior Secured Notes due November 2018 (of which $28.5 million was a principal payment in cash), and $86.75 million in exchange for partial settlement of the $350 million Midco Term Loan. In addition, the Company successfully amended the revolving credit facility to extend its maturity date from April 2018 to April 2020 and permanently reduced the facility from $200 million to $160 million. See Note 6 – Debt.

Simultaneously, Midco fully retired its outstanding $350 million term loan, entered into on October 8, 2013, for an aggregate consideration of $339.17 million partially in exchange for the issuance of $166.67 million preferred shares to certain equity Sponsors.

Drilling fleet

The following table summarizes the Company's offshore drilling rigs as of March 31, 2017 and 2016:

	Three months ended March 31,	
	2017	**2016**
Jackups	35	36
Swamp barge	1	1
Under construction	1	2
Total	37	39

Two previously stacked rigs, Adriatic V and Adriatic VI were sold to unrelated parties during the second quarter of 2016.

In September 2016, the Company took delivery of one of the two newbuild high specification jackup rigs from Lamprell which was under construction since 2014. After completion of the customer acceptance requirements on December 1, 2016, the rig Shelf Drilling Chaophraya which is under a sale and leaseback transaction was added to the Company's active fleet and commenced a five-year contract with Chevron in Thailand. The second newbuild, Shelf Drilling Krathong was delivered on April 6, 2017 and is scheduled to start a five-year contract with Chevron in Thailand in June 2017.

There were 31 marketable rigs and two rigs under non-drilling contract at the end of March 31, 2017. Within the marketable rig fleet, eight rigs were idle awaiting marketing opportunities at the end of Q1 2017.

Outlook

The business environment for offshore drillers continues to be challenging as operators are expected to further reduce offshore capital spending in 2017 for the third year in a row. As a result, drilling programs are being postponed, driving weakening demand for offshore drilling services globally. During the first three months of 2017, oil prices remained in the general range of $54.58 to $51.59 per barrel but continued to exhibit day-to-day volatility due to multiple factors, including fluctuations in the current and expected level of global oil inventories and estimates of global oil demand. As a result, overall fundamentals in the offshore oil and gas industry have not yet recovered.

Despite the cold stacking and retirement of numerous rigs during 2016, the jack-up market remains oversupplied. There were two newbuild rigs delivered during the three months ended March 31, 2017, in addition to the 19 new jackup rigs which were delivered during the year 2016. Further, there were 102 additional jackup rigs on order or under construction, of which four rigs have secured contracts for their future delivery dates. These rigs are currently scheduled for delivery between 2017 through 2020. We anticipate several of these rig orders to be cancelled and many others will likely continue to be deferred until a recovery in demand is visible.

While the shallow water market has been more resilient than the deepwater market, dayrates and utilization for all offshore rigs have been significantly impacted. In general, recent contract awards have been short-term in nature and subject to an extremely competitive bidding process. The intense pressure on operating day rates has resulted in rates that approximate direct operating expenses. In addition, we are seeing increased pressure to accept other less favorable contractual and commercial terms, including reduced or no mobilization and/or demobilization fees, reduced early termination fees and/or termination notice periods.

The price competition remains extremely intense, and we expect to see continued pressure on dayrates for existing and new contracts in the near to medium term, as well as a continued risk for renegotiations or terminations of existing contracts. However, tendering activity has picked up in recent months, specifically in the Middle East region, and we expect jackup demand to improve throughout 2017. We believe that the Company will benefit more from this increase in demand due to our operating track record and competitive cost structure.

At March 31, 2017, the Company's contract backlog is $1.5 billion across 26 contracted rigs (including one new build rig under construction). During the three months ended March 31, 2017, we entered into two drilling contracts resulting in new business, with a weighted average dayrate of $65.0 thousand and one non-drilling contract. The Company remains focused on delivering safe and efficient operations, as well as realizing cost savings and efficiency gains across all levels of the organization.

Key Performance Indicators

Contract backlog — Contract backlog was $1.5 billion across 26 contracted rigs with a weighted average backlog dayrate of $95.0 thousand per day and average contracted days of 621 per rig as at March 31, 2017, compared with $2.2 billion across 31 contracted rigs with a weighted average dayrate of $91.6 thousand per day and average contracted days of 784 per rig as at March 31, 2016.

Contract backlog is impacted by the overall industry activity level, global macro-economic conditions, supply and demand, and other factors. The contract backlog reflects the Company's continued success in winning new contracts and customer exercises of options on existing contracts, however, the current uncertainty in the industry has recently slowed down the signing of new contracts and exercises of options. Some of our customers have in the recent year renegotiated contracts because of depressed market conditions, lower commodity prices and economic downturns, resulting in lower dayrates, and in some of the contracts, our customer has the right to cancel the contract without additional payments and in certain instances, with little or no termination notice.

Average dayrate — The average dayrate realized for the three months ended March 31, 2017 was $68.5 thousand, a decrease of 16.3% from the average dayrate of $81.8 thousand realized for the three months ended March 31, 2016. During Q1, 2017, a combination of two new drilling contracts, with a weighted average dayrate of $65.0 thousand, and one non-drilling contract, were signed.

''Average dayrate'' is defined as the average contract dayrate earned by marketable rigs over the reporting period excluding amortization of lump sum mobilization fees, contract preparation and capital expenditure reimbursements, recharges, bonuses and other revenues.

Marketed Utilization — ''Marketed utilization'' is defined as the actual number of calendar days during which marketable rigs generate dayrate revenues divided by the maximum number of calendar days during which those same rigs could have generated dayrate revenues. Marketed utilization during the three months ended March 31, 2017 was 70.1% compared to 72.4% for the three months ended March 31, 2016. Marketed utilization fluctuations between periods are primarily driven by the number of in service rigs which are working under contract versus the number of in service rigs which are undergoing contract preparations, scheduled maintenance or which are idle.

Marketed utilization in Q1 2017 of 70.1% was lower than the marketed utilization in Q1 2016 of 72.4% mainly due to more rigs awaiting marketing opportunities in Q1 2017 compared with Q1 2016. There were eight rigs idle awaiting marketing opportunities at the end of Q1 2017 compared to three rigs at the end of Q1 2016.

We have continued to experience a decline in demand for our services resulting in some of our rigs becoming idle or stacked. We will continue to actively market our idle rigs and evaluate strategic options for our remaining cold stacked rigs which could include disposal.

Marketable rigs — As at March 31, 2017, 31 rigs are marketable, two rigs are under non-drilling contract and three rigs are stacked. This compares with 31 marketable rigs, one rig under non-drilling contract and five stacked rigs as at March 31, 2016.

Operating Results

Three months ended March 31, 2017 ("Q1 2017") compared to three months ended March 31, 2016 ("Q1 2016")

Revenue — Revenue for Q1 2017 was $146.3 million compared to $179.7 million for the same period in 2016. The revenue for Q1 2017 consisted of $142.4 million (97.3%) of operating revenue and $3.9 million (2.7%) of other operating revenue. In Q1 2016, these same revenues were $176.3 million (98.1%) and $3.4 million of revenue (1.9%), respectively.

Revenue in Q1 2017 decreased by $33.4 million compared to the same period in 2016 primarily due to $35.6 million lower average earned dayrates ($68.5 thousand in Q1 2017 compared to $81.8 thousand in Q1 2016), $8.5 million for lower marketed utilization as more rigs were awaiting marketing opportunities in Q1 2017 compared to Q1 2016, $2.9 million lower mobilization revenue amortization in Q1 2017, partly offset by $13.5 million for the first newbuild that started operations on December 1, 2016.

Marketed utilization for Q1 2017 of 70.1% was lower than the marketed utilization for Q1 2016 of 72.4% mainly due to more rigs in between contracts awaiting marketing opportunities in Q1 2017 compared with Q1 2016, partly offset by a lower number of out of service days for contract preparation and underwater inspections in lieu of drydock ("UWILD") during Q1 2017. There were five rigs which totaled 154 out of service days for contract preparation and UWILD during Q1 2017 compared with seven rigs for 323 out of service days during Q1 2016.

Operating and Maintenance Expenses — Total operating and maintenance expenses for Q1 2017 were $68.5 million or 46.8% of total revenue compared to $103.5 million or 57.6% of total revenue for the same period in 2016. Operating and maintenance expenses included $45.3 million for personnel expenses, $13.2 million for asset management and maintenance expenses and $10.0 million for miscellaneous operating and administrative expenses, including insurance premiums, compared to the same period in 2016 when such expenses were $68.4 million, $22.6 million and $12.5 million for those respective categories.

Operating and maintenance expenses decreased by $35.0 million mainly due to $21.1 million lower expenses for idle rigs awaiting marketing opportunities in Q1 2017, $13.5 million of cost savings across the rig fleet and shorebase offices ($11.1 million across rigs and $2.4 million in shorebase offices), and $3.4 million lower costs for stacked rigs in Q1 2017 compared with Q1 2016. This was partly offset by $3.2 million additional costs for the first newbuild that started operations on December 1, 2016.

Depreciation Expense — Depreciation expense for Q1 2017 was $18.4 million compared to $18.3 million for the same period in 2016. The increase of $0.1 million primarily related to $1.8 million higher depreciation for one newbuild that started operations on December 1, 2016 and depreciation on the total additions to property and equipment including the capital expenditure transferred from construction in progress to completed assets related to rig based capital equipment and shipyard costs, offset by lower depreciation on drilling rigs which were impaired in December 2016.

Amortization of Deferred Costs - The amortization of deferred costs for Q1 2017 was $16.8 million compared to $20.7 million for Q1 2016. The $3.9 million decrease in amortization primarily related to one rig that was fully impaired in December 2016 and fully amortized contract preparation costs on two rigs that ended their contracts in Q2 and Q3 2016.

General and Administrative Expenses — General and administrative expenses for Q1 2017 were $9.1 million compared to $11.7 million for the same period in 2016. The $2.6 million decrease primarily resulted from the release of $2.3 million provision for doubtful debts in Q1 2017 and $0.8 million of cost reductions, partly offset by $0.5 million higher share-based compensation expense.

Other (Expense) / Income, net — Other (expense) / income, net totaled $28.7 million for Q1 2017 and $9.3 million for the same period in 2016. Other expense consisted primarily of interest expense and financing charges of $28.5 million and $10.0 million during the three months ended March 31, 2017 and 2016, respectively.

Interest expense and financing charges for Q1 2017 were $18.5 million higher compared with Q1 2016 primarily due to the $13.7 million loss on debt extinguishment for the refinancing of the Company's debt and $2.5 million lower capitalized interest following the start of the drilling contract for the first newbuild in December 2016.

The loss on debt extinguishment of $13.7 million included the $7.5 million write-off of unamortized debt issuance costs of, $5.7 million incentive fees paid to lenders and $0.5 million legal fees. Other, net was $314 thousand unfavorable in Q1 2017 compared to $667 thousand favorable in Q1 2016.

Income Tax Expense — Income tax expense for Q1 2017 was $4.6 million compared to income tax expense for the same period in 2016 of $5.5 million. 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 and (d) the Company's rig operating structures.

The primary reason for the decrease in income tax expense for Q1 2017 compared to Q1 2016 is that overall taxable income for the Company has decreased in Q1 2017 as compared to Q1 2016, primarily due to reduced revenues in Q1 2017 as compared to Q1 2016.

Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization ("Adjusted EBITDA")

The table below reconciles Net income to Adjusted EBITDA. The information in the table below has been extracted without material adjustment from the financial information for the Company set out in Item 1 "Financial Statements'' or the underlying accounting records of the Company which formed the basis of this financial information.

	Three months ended March 31,	
	2017	**2016**
	(In thousands)	
Net income	$ 297	$ 10,474
Add back:		
Interest expense and financing charges, net of interest income (1)	28,390	9,979
Depreciation (2)	18,369	18,302
Amortization of deferred costs (3)	16,844	20,735
Income tax expense (4)	4,550	5,512
Sponsors' fee (5)	1,125	1,125
Exclusion of non-income tax related costs (6)	283	184
Share-based compensation expense / (benefit), net of forfeitures (7)	220	(323)
(Gain) / loss on disposal of assets	(138)	103
Severance costs (8)	-	3,323
Rig reactivation costs (9)	-	(25)
Others (10)	314	(667)
Adjusted EBITDA	$ 70,254	$ 68,722

(1) ''Interest expense and financing charges, net of interest income" represents interest expenses incurred and accrued on the Company's debt and the amortization of debt issuance fees and costs over the term of the debt net of capitalized interest and interest income. This also includes the loss on debt extinguishment in relation to the refinancing of the Company's debt during the three months ended March 31, 2017.

(2) ''Depreciation'' represents the depreciation of property, equipment and rig inventory over its estimated useful life.

(3) ''Amortization of deferred costs" represents the amortization of deferred expenditures such as periodic surveys, underwater inspections, contract preparation, mobilization, and major overhauls over the expected benefit period of the expenditure.

(4) "Income tax expense" represents income tax expense incurred by the Company.

(5) ''Sponsors' fee'' represents the fee to the sponsors in respect of their role as advisors to the Company.

(6) ''Exclusion of non-income tax related costs'' represents certain charges incurred by the Company whereby a fee of a percentage of an Egyptian entity's consolidated revenues is levied bi-annually by the Egyptian General Authority for Investment. For U.S. GAAP reporting purposes the Company recognizes these costs as operating and maintenance expenses.

(7) ''Share-based compensation expense / (benefit), net of forfeitures'' represents the net amount charged to income related to compensatory stock awards made to certain employees.

(8) "Severance costs" represents one time employee termination costs.

(9) ''Rig reactivation costs'' represents the expenditure accounted for as operating expense in accordance with U.S. GAAP incurred by the Company on the re-activation of stacked rigs.

(10) ''Others'' represents currency exchange gain or loss and other income and expense.

Management believes that Adjusted EBITDA is useful because it is widely used by investors in the Company's industry to measure a company's operating performance without regard to items such as interest expense / (income), income tax expense (benefit), depreciation and amortization and non-recurring expenses (benefits), which can vary substantially from company to company, and is also useful to an investor in evaluating the performance of the business. Adjusted EBITDA has significant limitations, including not reflecting the Company's cash requirements for capital or deferred expenditures, contractual commitments, taxes, working capital or debt service. Therefore, Adjusted EBITDA should not be considered in isolation or as a substitute for operating income, net income, other income or cash flow statements data prepared in accordance with U.S. GAAP.

Management uses and expects to use Adjusted EBITDA in presentations to the Company's Board of Directors to enable it to have the same consistent measurement basis of operating performance used by Management, as a measure for planning and forecasting overall expectations and for evaluating actual results against such expectations, and in communications with its equity holders, lenders, note holders, rating agencies and others, concerning the Company's financial performance.

Sources and uses of cash

The Company had $81.1 million and $113.1 million in cash and cash equivalents as at March 31, 2017 and December 31, 2016, respectively. Our sources of liquidity principally consisted of cash balances in banks, cash generated from operations, availability under the SDHL Revolver and the Newbuild sale and leaseback financing facility. Our primary uses of cash were dividend distributions to the parent, repayment of long term debt, capital expenditures and deferred costs payments, debt issuance costs payments, and interest and income tax payments. As at March 31, 2017 and December 31, 2016, there were $31.9 million and $28.5 million of surety bonds issued under the SDHL Revolver, respectively. In addition, there were no cash borrowings under the facility during the same periods.

At any given time, we may require a significant portion of cash on hand and amounts available under the SDHL Revolver for working capital and other needs related to the operation of our business. The Company believes it will have adequate liquidity to fund its operations over the next twelve months.

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The following table sets out certain information regarding the Company's cash flow statements (in thousands):

	Three months ended March 31, 2017	Three months ended March 31, 2016
Cash flows from operating activities		
Net income	$ 297	$ 10,474
Adjustments to reconcile net income to net cash provided by operating activities		
Depreciation	18,369	18,302
Amortization of deferred costs	16,844	20,735
Reversal of provision for doubtful accounts	(2,316)	-
Amortization of deferred revenue	(3,779)	(6,700)
Capital contribution by parent - share-based compensation	220	(323)
Non-cash portion of loss on debt extinguishment	7,495	-
Amortization of debt issue costs	938	1,336
(Gain) / loss on disposal of assets	(138)	103
Deferred tax expense, net	913	-
Changes in operating assets and liabilities		
Intercompany receivables	44,525	(727)
Other operating assets and liabilities, net	(11,957)	1,626
Net cash provided by operating activities	71,411	44,826
Cash flows from investing activities		
Additions to property and equipment	(7,423)	(13,968)
Additions to deferred costs	(9,807)	(25,119)
Proceeds from disposal of property and equipment	198	27
Change in restricted cash	581	5,981
Net cash used in investing activities	(16,451)	(33,079)
Cash flows from financing activities		
Ordinary shares dividend paid	(45,312)	(17,792)
Payments for obligations under sale and leaseback	(2,822)	-
Payments to retire long-term debt	(28,500)	-
Payments of debt issuance costs	(10,351)	-
Net cash used in financing activities	(86,985)	(17,792)
Net decrease in cash and cash equivalents	(32,025)	(6,045)
Cash and cash equivalents at beginning of period	113,106	115,656
Cash and cash equivalents at end of period	$ 81,081	$ 109,611

Net cash provided by operating activities

Net cash provided by operating activities totaled $71.4 million during the three months ended March 31, 2017, compared to $44.8 million during the corresponding 2016 period. The increase of $26.6 million primarily resulted from the $44.5 million settlement of intercompany receivables from the parent.

During the three months ended March 31, 2017 and 2016, the Company made cash payments of $14.2 million and $16.2 million in interest and financing charges, net of interest amounts capitalized of $1.6 million and $3.0 million in relation to our Newbuild rigs construction, respectively, included under "other operating assets and liabilities, net".

The Company also made cash payments of $3.0 million and $4.5 million in income taxes included under "other operating assets and liabilities, net" during the three months ended March 31, 2017 and 2016, respectively.

Net cash used in investing activities

Net cash used in investing activities totaled $16.5 million during the three months ended March 31, 2017 compared to $33.1 million during the three months ended March 31, 2016, including the net decrease in restricted cash of $581 thousand and $6.0 million, respectively.

Cash used for capital expenditures, including capitalized interest, totaled $7.4 million and $14.0 million during the three months ended March 31, 2017 and 2016, respectively. The decrease of $6.6 million was primarily attributable to lower expenditures on the newbuilds following the delivery of the first newbuild in September 2016 and reduced capital spending across the fleet in the current period.

As part of the sale and leaseback agreements for the Newbuilds, contractual commitments totalling $37.0 million were paid by third party financial institution directly to the Builder during the three months ended March 31, 2016. There were no payments made during the three months ended March 31, 2017. Interest in kind of $965 thousand and $1.1 million were recorded as obligations under sale and leaseback during the three months ended March 31, 2017 and 2016, respectively. These non-cash transactions were not reflected on the condensed consolidated interim statements of cash flows for the three months ended March 31, 2017 and 2016.

Cash payments for deferred costs decreased by $15.3 million from $25.1 million during the three months ended March 31, 2016 to $9.8 million during the comparable 2017 period as fewer rigs were undergoing contract preparation for new contracts in 2017 compared to 2016. See discussion of these expenditures below in capital expenditures and deferred 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 assets on the balance sheet and are amortized over the relevant periods covering either: (i) the underlying firm contractual period to which the expenditures relate, or; (ii) the period until the next planned similar expenditure is to be made.

The following table sets out the Company's capital expenditures and deferred costs for the three months ended March 31, 2017 and 2016 (in thousands):

	Three months ended March 31,	
	2017	**2016**
Regulatory and maintenance (1)	$ 4,990	$ 14,663
Contract preparation (2)	1,928	11,477
Fleet spares and others (3)	(743)	316
	$ 6,175	$ 26,456
Newbuilds (4)	9,811	43,590
Total capital expenditures and deferred costs	$ 15,986	$ 70,046

(1) Includes major overhauls, regulatory costs, general upgrades and sustaining capital expenditures on rigs in operation.

(2) Includes specific upgrade, mobilization and preparation costs associated with a customer contract. It excludes contract preparation costs associated with reactivation projects (such amounts are included under "Reactivation projects").

(3) Includes (i) acquisition and certification costs for the rig fleet spares pool which is allocated to specific rig expenditure as and when required by that rig which will result in an expenditure charge to that rig and a credit to Fleet spares and (ii) office and infrastructure expenditure.

(4) Includes all payments made under the construction contracts with Lamprell shipyard for the two newbuild jackup rigs, internal costs associated with project management, machinery and equipment provided to the project by the Company and capitalized interest.

The following table reconcile the cash payments related to additions to property and equipment and deferred costs to the total capital expenditures and deferred costs (in thousands):

	Three months ended March 31, 2017	2016
Cash payments for additions to property and equipment	$ 7,423	$ 13,968
Net change in accrued but unpaid additions to property and equipment	2,308	(4,191)
	$ 9,731	$ 9,777
Add: Asset addition related to sale and leaseback transactions	965	38,072
Total capital expenditures	$ 10,696	$ 47,849
Cash payments for additions to deferred costs	$ 9,807	$ 25,119
Net change in accrued but unpaid additions to deferred costs	(4,517)	(2,922)
Total deferred costs	$ 5,290	$ 22,197
Total capital expenditures and deferred costs	$ 15,986	$ 70,046

Net cash used in financing activities

In connection with the refinancing transaction, the Company used $28.5 million of cash to partially pay for the exchange and cancellation of the $444.585 million 8.625% SDHL Senior Secured Notes due November 2018 for $416.085 million 9.5% Senior Secured Notes due November 2020 during the three months ended March 31, 2017. In addition, the Company issued $86.75 million 9.5% Senior Secured Notes for the partial settlement of the $350 million Midco Term Loan. As a result, the Company issued a total of $502.835 million 9.5% Senior Secured Notes during the current period which were not reflected on the condensed consolidated interim statements of cash flows as these are non-cash transactions.

The Company also successfully amended the SDHL Revolver to extend its maturity date to April 2020 and permanently reduced the facility from $200 million to $160 million.

During the three months ended March 31, 2017, the Company incurred $10.9 million of legal fees for the refinancing transaction, of which $10.4 million were capitalized as debt issuance costs and $501 thousand recorded as loss on debt extinguishment and included in "interest expense and financing charges" in our condensed consolidated statement of operations.

The Company paid $45.3 million and $17.8 million in dividend to its parent during the three months ended March 31, 2017 and 2016, respectively. The dividends paid to its parent during Q1 2017 include $34.3 million to settle an intercompany payable, $10.1 million to facilitate the Midco Term Loan's interest payment and $950 thousand for the SDL's dividend to its preferred shareholders. The dividend paid to parent during the comparative 2016 period was used to settle the bi-annual interests on its loan.

During the three months ended March 31, 2017, the Company made rental payments to the Lessor of $4.2 million, of which $2.8 million was related to principal payments, for the newbuild rig which entered into capital lease in December 2016. There were no such transactions during the Q1 2016.

Contractual Obligations

As of March 31, 2017, the Company's estimated contractual obligations stated at face value were as follows (in thousands):

	Years ended March 31, 2018	2019	2020	2021	2022	Thereafter	Total
Debt repayment (1)	$ -	$ 30,415	$ -	$ 502,835	$ -	$ -	$ 533,250
Interest on debt (2)	53,407	51,542	50,011	28,061	-	-	183,022
Sale and lease back obligations (3)	46,061	52,239	51,069	49,176	123,550	88,315	410,410
Operating leases	6,168	4,359	900	625	198	-	12,250
Total	$ 105,636	$ 138,555	$ 101,980	$ 580,697	$ 123,748	$ 88,315	$ 1,138,932

(1) Debt includes 8.625% Senior Secured Notes and 9.5% Senior Secured Notes.

(2) Assumes no change in the current variable interest rate applied. Includes commitment fees on the SDHL Revolver assuming the undrawn balance stays the same as of March 31, 2017.

(3) This represents minimum annual rental payments and Purchase Obligation Price assuming estimated average interest rates pursuant to the sale and leaseback transactions as of March 31, 2017.

Other Commercial Commitments

We have other commercial commitments which contractually obligate us to settle with cash under certain circumstances. Surety bonds and parent company guarantees entered into between certain customers and governmental bodies guarantee the Company's performance regarding certain drilling contracts, customs import duties and other obligations in various jurisdictions.

The Company has surety bond facilities in either U.S. dollars or local currencies of approximately $85.5 million provided by several banks to guarantee various contractual, performance, and customs obligations. The Company entered into these facilities in India, Egypt, UAE and Nigeria. The outstanding surety bonds were $32.3 million and $33.3 million at March 31, 2017 and December 31, 2016, respectively.

In addition, the Company had outstanding bank guarantees and performance bonds amounting to $31.9 million and $28.5 million as of March 31, 2017 and December 31, 2016, respectively, against the SDHL Revolver.

Therefore, the total outstanding bank guarantees and surety bonds issued by the Company were $64.2 million and $61.8 million as of March 31, 2017 and December 31, 2016, respectively.

Contingencies

As of March 31, 2017, we are not exposed to any contingent liabilities that will result in a material adverse effect on the current consolidated financial position, results of operations or cash flows. The majority of the contingent liabilities that we are exposed to, relate to legal and tax cases, which are fully indemnified by Transocean. See financial information for the Company set out in "Item 1. Financial Statements" in *Note 5 - Income Taxes* and *Note 9 - Commitments and Contingencies*.

Critical Accounting Policies and Estimates

In the preparation of the financial statements, we are required to make estimates and judgments that affect the amounts reported in our condensed consolidated interim financial statements and related disclosures. On an ongoing basis, we evaluate these estimates, including those related to allowance for doubtful accounts, property and equipment, income taxes, other post-retirement benefits and contingencies. We base our estimates on various assumptions that we believe are reasonable under the circumstances, the results of which form the basis for making judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

For a discussion of the critical accounting policies and estimates that we use in the preparation of our condensed consolidated interim financial statements, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies, Key Judgements and Estimates" in Part II of our annual report on Form 10-K Equivalent for the year ended December 31, 2016. During the three months ended March 31, 2017, there were no material changes to the judgments, assumptions or policies upon which our critical accounting estimates are based.

New Accounting Pronouncements

See Note 2 – Recently Adopted and Issued Accounting Pronouncements in the accompanying condensed consolidated interim financial statements.

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

The Company is exposed to interest rate risk related to the fixed rate debt under the 9.5% Senior Secured Notes, 8.625% Senior Secured Notes and variable rate debts under the SDHL Revolver and the obligations under the sale and leaseback agreements. 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 maturing debt is refinanced with new debt. The variable rate debt, where the interest rate may be adjusted frequently over the life of the debt, exposes the Company to short-term changes in market interest rates.

Further, we may utilize derivative instruments to manage interest rate risk, for which we maintain documented policy and procedures to monitor and control the use of the derivative instruments. 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 may utilize foreign currency forward exchange (“FOREX”) contracts to manage foreign exchange risk, for which we maintain documented policy and procedures to monitor and control the use of the derivative instruments. We are not engaged in derivative transactions for speculative or trading purposes. 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 settlement date.

Credit Risk

Our financial instruments that potentially subject us to concentrations of credit risk are cash and cash equivalents and accounts receivables. We generally maintain cash and cash equivalents 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. The Company may from time to time require its customers to issue bank guarantee in its favor to cover non-payment under drilling contracts.

An allowance for doubtful accounts is established on a case-by-case basis, considering changes in the financial position of a customer, when it is believed that the required payment of specific amounts owed is unlikely to occur. The allowance for doubtful accounts was $97.1 million and $99.6 million as at March 31, 2017 and December 31, 2016, respectively.

Item 4. Controls and Procedures

Not included due to exemptions in the applicable credit agreement(s).

PART II.

OTHER INFORMATION

Item 1. Legal Proceedings

The Company may be involved in litigations, claims and disputes incidental to our business, which may involve claims for significant monetary amounts, some of which would not be covered by insurance. In the opinion of management, none of the existing disputes to which we are a party will have a material adverse effect on our financial position, results of operations or cash flows.

See *Note 9 – Commitments and Contingencies* to the condensed consolidated interim financial statements included in "Item 1. Financial Statements ".

Item 1A. Risk Factors

The information set forth under the caption “Forward-looking Information” of Management’s Discussion and Analysis of Financial Condition and Results of Operations in Item 2 of this report is incorporated by reference in response to this Item.

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

Not applicable.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Not included due to exemptions in the applicable credit agreement(s).