SHELF DRILLING, LTD.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
QUARTER ENDED MARCH 31, 2017

INDEX

SHELF DRILLING, LTD.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS
(In thousands, except share data)
(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	103,309
Depreciation	18,369	18,302
Amortization of deferred costs	16,844	20,735
General and administrative	9,086	11,829
	112,848	154,175
Gain / (loss) on disposal of assets	138	(103)
Operating income	33,543	25,376
Other (expense) / income, net		
Interest income	147	65
Interest expense and financing charges	(30,360)	(19,811)
Other, net	(314)	667
	(30,527)	(19,079)
Income before income taxes	3,016	6,297
Income tax expense	4,550	5,512
Net (loss) / income	$ (1,534)	$ 785
(Loss) / earnings per share:		
Basic - Class A shares	$ (3.45)	$ 1.76
Diluted - Class A shares	$ (3.45)	$ 1.76
Basic and Diluted - Class B shares	nil	nil
Basic and Diluted - Class C shares	nil	nil
Weighted average shares outstanding:		
Basic - Class A shares	444,594	446,436
Diluted - Class A shares	444,594	446,436
Basic - Class B shares	18,147	18,192
Diluted - Class B shares	20,508	20,991
Basic - Class C shares	5,110	5,131
Diluted - Class C shares	5,410	5,131

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

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

	Three months ended March 31,	
	2017	**2016**
Net (loss) / income	$ (1,534)	$ 785
Other comprehensive income before income taxes	-	-
Income taxes related to other comprehensive income	-	-
Total comprehensive (loss) / income	$ (1,534)	$ 785

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

	March 31, 2017	December 31, 2016
Assets		
Cash and cash equivalents	$ 81,105	$ 213,139
Accounts and other receivables, net	131,379	125,312
Other current assets	89,664	95,235
Total current assets	302,148	433,686
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	$ 1,436,239	$ 1,585,940
Liabilities and equity		
Accounts payable	$ 54,523	$ 70,605
Interest payable	11,576	15,773
Obligations under sale and leaseback	17,460	15,977
Other current liabilities	30,647	32,665
Total current liabilities	114,206	135,020
Long-term debt	525,060	809,016
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	1,071,466
Mezzanine equity, net of issuance costs	165,978	-
Commitments and contingencies		
Ordinary shares of $0.01 par value; 5,001,020 and 5,000,000 shares authorized at March 31, 2017 and December 31, 2016, respectively; 476,011 and 475,768 shares issued and outstanding at March 31, 2017 and December 31, 2016, respectively	5	5
Shares held in trust of $0.01 par value; 16,087 and 15,844 shares at March 31, 2017 and December 31, 2016, respectively	-	-
Additional paid-in capital	459,329	462,914
Accumulated losses	(84,999)	(83,465)
Total equity	374,335	379,454
Total liabilities and equity	$ 1,436,239	$ 1,585,940

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

SHELF DRILLING

SHELF DRILLING, 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	475,768	477,326	$ 5	$ 5
Shares issued to trust	243	1,494	-	-
Repurchase and retirement of shares	-	(3,045)	-	-
Balance, end of period	476,011	475,775	$ 5	$ 5
Shares held in trust				
Balance, beginning of period	15,844	15,487	$ -	$ -
Shares issued to trust	243	1,494	-	-
Retirement of shares	-	(2,195)	-	-
Balance, end of period	16,087	14,786	$ -	$ -
Additional paid-in capital				
Balance, beginning of period			$ 462,914	$ 464,403
Preferred shares dividend			(3,805)	-
Share-based compensation expense / (benefit), net of forfeitures			220	(323)
Repurchase and retirement of shares			-	(850)
Balance, end of period			$ 459,329	$ 463,230
Accumulated losses				
Balance, beginning of period			$ (83,465)	$ (51,861)
Net (loss) / income			(1,534)	785
Balance, end of period			$ (84,999)	$ (51,076)
Total equity				
Balance, beginning of period			$ 379,454	$ 412,547
Share-based compensation expense / (benefit), net of forfeitures			220	(323)
Preferred shares dividend			(3,805)	-
Repurchase and retirement of shares			-	(850)
Total comprehensive (loss) / income			(1,534)	785
Balance, end of period			$ 374,335	$ 412,159

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

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

	Three months ended March 31, 2017	Three months ended March 31, 2016
Cash flows from operating activities		
Net (loss) / income	$ (1,534)	$ 785
Adjustments to reconcile net (loss) / 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)
Share-based compensation expense / (benefit), net of forfeitures	220	(323)
Non-cash portion of loss on debt extinguishment	4,371	-
Payment of original issue discount	(10,500)	-
Amortization of debt issue costs and discounts	1,070	2,256
(Gain) / loss on disposal of assets	(138)	103
Deferred tax expense, net	913	-
Changes in operating assets and liabilities	(20,535)	(7,270)
Net cash provided by operating activities	2,985	27,888
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		
Payments for redemption of ordinary shares	-	(850)
Payments for obligations under sale and leaseback	(2,822)	-
Payments to retire long-term debt	(103,750)	-
Payments of debt issuance costs	(10,351)	-
Payments of preferred shares issuance costs	(688)	-
Preferred shares dividend paid	(957)	-
Net cash used in financing activities	(118,568)	(850)
Net decrease in cash and cash equivalents	(132,034)	(6,041)
Cash and cash equivalents at beginning of period	213,139	115,685
Cash and cash equivalents at end of period	$ 81,105	$ 109,644

* See Note 14 – 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, LTD.
NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
(Unaudited)

Note 1 — Nature of Business

Business

Shelf Drilling, Ltd ("SDL") was incorporated on August 14, 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. SDL 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 principal investors in the Company are affiliates of Castle Harlan, Inc., CHAMP Private Equity and Lime Rock Partners (together, the "Sponsors").

SDL, 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"), the Company 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 $166.67 million preferred shares to certain equity sponsors which are classified as mezzanine equity. In addition, Shelf Drilling Holdings, Ltd ("SDHL"), an indirect wholly owned subsidiary of SDL, 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 and Note 11 – Mezzanine Equity.

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, through its wholly owned indirect subsidiary SDHL, 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 — SDL 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 150.9% and 87.5% 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
Term Loan Facility, due October 8, 2018 (see note (iii) below)	-	342,159
Revolving Credit Facility, due April 30, 2020 (see note (iv) below)	-	-
Total debt	$ 525,060	$ 809,016

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

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 Discount and Debt Issuance Costs	Carrying Value
8.625% Senior Secured Notes, due November 1, 2018	$ 475,000	$ 8,143	$ 466,857
Term Loan Facility, due October 8, 2018	350,000	7,841	342,159
Total	$ 825,000	$ 15,984	$ 809,016

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) Term Loan Facility, due October 2018

On January 12, 2017, the Company fully settled the outstanding $350 million Midco Term Loan for an aggregate consideration of $339.17 million, which included the issuance of $166.67 million of SDL Preferred Shares to certain equity Sponsors, issuance of $86.75 million aggregate principal amount of 9.5% Senior Secured Notes and $85.75 million in cash.

The Company recognized a total loss on debt extinguishment of $2.0 million, of which $477 thousand was recorded during the three months ended March 31, 2017 under "interest expense and financing charges". This includes $5.1 million for legal fees (of which $1.5 million was incurred in December 2016), $4.3 million for the write-off of the unamortized original issue discount and $3.4 million for the write-off of the unamortized debt issuance cost, partly offset by the $10.8 million settlement gain.

(iv) 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 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
Term Loan Facility, due October 8, 2018	-	-	342,159	258,620
Total debt	$ 525,060	$ 499,045	$ 809,016	$ 657,620

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 — Mezzanine Equity

On January 12, 2017, SDL issued 1,000,000 preferred shares at $166.667 per share for a value of $166.67 million to certain equity Sponsors as part of the retirement of the Midco Term Loan. There were no preferred shares issued and outstanding at December 31, 2016.

The preferred shares are redeemable at the option of the Company at the Liquidation Preference (which corresponds to the preferred shares purchase price plus dividend paid in kind and, without duplication, accrued but unpaid dividends) paid in cash out of the legally available funds at any time with 30 days prior notice.

The preferred shares are mandatorily redeemable upon the occurrence of a change of control, exit event or initial public offering. While circumstances requiring mandatory redemption are generally within the control of the Company, there are certain external factors beyond the Company's control that may lead to an earlier redemption. In such events, the Company would be required to redeem the preferred shares. Although there is only a remote likelihood of this mandatory redemption due to factors beyond the Company's control, the Company has classified the preferred shares as mezzanine equity rather than equity.

The preferred shares are entitled to a dividend rate equal to LIBOR plus 9% per annum paid semi-annually on January 31 and July 31. If the preferred dividend is not declared and paid in cash on each due date, the dividend amount is added to the Liquidation Preference of the preferred shares at a rate of LIBOR plus 9.75% per annum.

In the event of the occurrence of any liquidation, dissolution or winding up of the Company, preferred shareholders have the first right over the assets available for distribution amongst SDL shareholders up to the Liquidation Preference.

Management estimates the fair value of the preferred shares is approximately equal to net carrying value due to the preferred shares being recently issued.

The Company incurred $688 thousand of incremental direct costs to issue the preferred shares which was recorded as a reduction of the preferred shares balance in mezzanine equity of the condensed consolidated interim balance sheet as at March 31, 2017.

Note 12 — Shareholders' Equity

During the three months ended March 31, 2017, the board approved to create a new class of shares (Class D) and authorized 1,020 Class D shares. The Company has not issued any Class D shares as of March 31, 2017. As a result, the Company has amended its Articles to increase the authorized capital to 5,001,020 ordinary shares with a par value of $0.01 per share for a total amount of $50 thousand. Following is the summary of ordinary shares authorized:

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	Three months ended March 31, 2017				
	Number of ordinary shares authorized				
	Class A	Class B	Class C	Class D	Total
Number of ordinary shares authorized	4,666,080	269,560	64,360	1,020	5,001,020
Amount of ordinary shares authorized	$ 46,660	$ 2,696	$ 644	$ 10	$ 50,010

	Year ended December 31, 2016			
	Number of ordinary shares authorized			
	Class A	Class B	Class C	Total
Number of ordinary shares authorized	4,666,080	269,560	64,360	5,000,000
Amount of ordinary shares authorized	$ 46,660	$ 2,696	$ 644	$ 50,000

During the three months ended March 31, 2017 and 2016, the Company granted 243 ordinary shares (228 Class B shares and 15 Class C shares) and 1,494 ordinary shares (1,401 Class B shares and 93 Class C shares), respectively, under the time-based and performance-based share compensation plan to members of the Company’s management (see Note 13 – Share-based Compensation). These shares were issued to a Trust for further issuance to the employees upon fulfilling the vesting conditions.

There were no repurchase or retirement of ordinary shares during the three months ended March 31, 2017. On March 31, 2016, 850 ordinary shares (822 Class A shares, 19 Class B shares and 9 Class C shares) were repurchased and cancelled for an aggregate consideration of $850 thousand. These shares were issued in March 2014 at a lower value compared to the fair value at the date of exercise, which resulted in a benefit of $433 thousand recorded to share-based compensation during the three months ended March 31, 2016. See Note 13 – Share-based Compensation.

During the three months ended March 31, 2016, 2,195 ordinary shares (2,059 Class B shares and 136 Class C shares) previously issued under share-based compensation plans were forfeited for nil consideration, which resulted in a benefit of $39 thousand recorded to share-based compensation during the three months ended March 31, 2016. See Note 13 – Share-based Compensation.

Holders of Class A, B and C vested shares are entitled to such dividends as may be declared by the board of directors of the Company out of legally available funds. Class D shares have no dividend rights. The A, B, and C ordinary shares participate in cumulative distributions based on preference (the “Waterfall”), and are allocated to the three classes based on the Waterfall methodology which specifies the accretion of earnings to the three classes at different rates, giving effect to total cumulative distributions since issuance of the shares. This Waterfall treatment was established and is defined in the Articles. The Waterfall specifies an increasingly disproportionate distribution accretion rate with Class A shares ranking highest in terms of preference, followed by B and C, respectively. The current classes of A, B, C and D ordinary shares were converted into a single class of new common shares subsequent to March 31, 2017. See Note 19 – Subsequent Events.

The Company did not pay any dividend during the three months ended March 31, 2017 and March 31, 2016. The Company is restricted in declaring and paying dividends to its ordinary shareholders until the preferred shares are fully redeemed.

Following is the summary of all classes of ordinary shares issued and outstanding (in thousands, except share data):

	Three months ended March 31, 2017			
	Number of ordinary shares issued and outstanding			
	Class A	Class B	Class C	Total
Balance, beginning of period	444,594	25,099	6,075	475,768
Issuance of shares under share-based compensation plans	-	-	-	-
Shares issued to trust	-	228	15	243
Repurchase and retirement of shares	-	-	-	-
Balance, end of period	444,594	25,327	6,090	476,011

	Three months ended March 31, 2017			
	Amount of ordinary shares issued and outstanding (at par value)			
	Class A	Class B	Class C	Total
Balance, beginning of period	$ 5	$ -	$ -	$ 5
Issuance of shares under share-based compensation plans	-	-	-	-
Shares issued to trust	-	-	-	-
Repurchase and retirement of shares	-	-	-	-
Balance, end of period	$ 5	$ -	$ -	$ 5

	Three months ended March 31, 2016			
	Number of ordinary shares issued and outstanding			
	Class A	Class B	Class C	Total
Balance, beginning of period	446,445	24,789	6,092	477,326
Issuance of shares under share-based compensation plans	-	-	-	-
Shares issued to trust	-	1,401	93	1,494
Repurchase and retirement of shares	(822)	(2,078)	(145)	(3,045)
Balance, end of period	445,623	24,112	6,040	475,775

	Three months ended March 31, 2016			
	Amount of ordinary shares issued and outstanding (at par value)			
	Class A	Class B	Class C	Total
Balance, beginning of period	$ 5	$ -	$ -	$ 5
Issuance of shares under share-based compensation plans	-	-	-	-
Shares issued to trust	-	-	-	-
Repurchase and retirement of shares	-	-	-	-
Balance, end of period	$ 5	$ -	$ -	$ 5

Note 13 — Share-based Compensation

The Company has a share-based compensation plan under which it issues Class B time-based restricted shares, Class C performance-based shares and Class D shares. Such shares are awarded to certain members of the Company's management as remuneration for future service of employment.

Class D Ordinary Shares

Class D ordinary shares have no rights to dividends or distributions. Upon an initial public offering (the "IPO"), Class D shares vest immediately and are non-transferable pursuant to the terms of a management shareholder agreement. These transferability restrictions lapse ratably over a three year period beginning on the first anniversary of the IPO, and at the end of the third year after the IPO, all the restrictions would be lifted. In case of an exit event, Class D shares vest immediately and have no transferability restrictions. Compensation expense related to the grant date fair value of the Class D shares will be recognized upon vesting.

The Company has recorded a share-based compensation expense related to the share-based compensation plan of $220 thousand and a net benefit of $323 thousand (inclusive of a $472 thousand benefit related to forfeitures) during the three months ended March 31, 2017 and 2016, respectively. No income tax benefit was recognized for these plans.

The following table summarizes the awards held by the Company's management under the Company's two share-based compensation plans:

	Time based restricted shares	Performance based shares	Weighted average grant date fair value per share	
	Class B	Class C	Class B	Class C
Non-vested shares at January 1, 2017	7,704	965	$ 357.05	$ 5,808.48
Granted	228	15	672.00	11,088.00
Vested	(2,184)	-	39.13	-
Forfeited	-	-	-	-
Non-vested shares at March 31, 2017	5,748	980	$ 490.32	$ 5,889.71

	Time based restricted shares	Performance based shares	Weighted average grant date fair value per share	
	Class B	Class C	Class B	Class C
Non-vested shares at January 1, 2016	9,041	961	$ 261.93	$ 4,259.24
Granted	1,401	93	1,045.49	1,990.00
Vested	(2,210)	-	38.83	-
Forfeited	(1,245)	(137)	56.20	1,778.69
Non-vested shares at March 31, 2016	6,987	917	$ 535.00	$ 5,945.91

Total unrecognized compensation cost related to non-vested Class B and C shares was $8.6 million and $9.2 million at March 31, 2017 and 2016, respectively.

Note 14 — 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, $166.67 million of preferred shares were issued to certain equity Sponsors and $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	Three months ended March 31, 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 15 — (Loss) / Earnings Per Share

The following table set forth the computation of basic and diluted net (loss) / income per share for each class of SDL (in thousands, except share data):

	Three months ended March 31, 2017			Three months ended March 31, 2016		
	Class A	Class B	Class C	Class A	Class B	Class C
Numerator for (loss) / earnings per share						
Net (loss) / income attributable to ordinary shares	$ (1,534)	$ -	$ -	$ 785	$ -	$ -
Denominator for (loss) / earnings per share						
Weighted average shares:						
Basic outstanding per Class	444,594	18,147	5,110	446,436	18,192	5,131
Effect of stock options and other share-based awards	-	2,361	300	-	2,799	-
Diluted per Class	444,594	20,508	5,410	446,436	20,991	5,131
Basic (loss) / earnings per share per Class	$ (3.45)	$ -	$ -	$ 1.76	$ -	$ -
Diluted (loss) / earnings per share per Class	$ (3.45)	$ -	$ -	$ 1.76	$ -	$ -

Net (loss) / income is allocated to the three classes of common stock under the provisions of the Waterfall distribution set forth in the Articles.

Note 16 — Segment and Related Information

The Company has one reportable segment, contract drilling services, which reflects how the Company manages its business, and the fact that all the drilling fleet is dependent upon the worldwide oil industry. The Company evaluates the performance of the operating segment based on revenues from external customers and segment Adjusted EBITDA. Adjusted EBITDA as used herein represents net income plus interest expense and financing charges, income tax expense, depreciation, amortization of deferred costs, severance costs, sponsors' fees, rig reactivation costs, exclusion of non-income tax related costs, gain/(loss) on disposal of assets, share-based compensation (expense)/benefit, net of forfeitures, and others.

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Summarized financial information for the Company reportable segment for the three months ended March 31, 2017 and March 31, 2016 is shown in the following schedule (in thousands):

	Three months ended March 31, 2017	Three months ended March 31, 2016
As Reported Revenue	$ 146,253	$ 179,654
Adjusted EBITDA	$ 70,247	$ 68,800
Amortization of deferred costs	(16,844)	(20,735)
Interest expense and financing charges	(30,360)	(19,811)
Depreciation	(18,369)	(18,302)
Income tax expense	(4,550)	(5,512)
Severance costs	-	(3,323)
Sponsors' fee	(1,125)	(1,125)
Exclusion of non-income tax related costs	(283)	(184)
Gain / (loss) on disposal of assets	138	(103)
Share-based compensation (expense) / benefit, net of forfeitures	(220)	323
Rig reactivation costs	-	25
Others	(168)	732
Net (loss) / income	$ (1,534)	$ 785

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

	Three months ended March 31, 2017	Three months ended March 31, 2016
Saudi Arabia	$ 44,208	$ 43,242
India	44,167	44,187
Nigeria	17,233	10,031
Thailand	13,542	23,941
United Arab Emirates	11,897	20,341
Egypt	9,741	16,746
Other countries	5,465	21,166
As Reported Revenue	$ 146,253	$ 179,654

Although the Company is incorporated under the laws of the Cayman Islands, the Company does not conduct any operations and does not have any operating revenues in the Cayman Islands.

Total long-lived assets, net of any impairment, by location based on the country in which the assets were located at the balance sheet date were as follows (in thousands):

	March 31, 2017	December 31, 2016
United Arab Emirates	$ 238,634	$ 233,967
Thailand	225,677	227,400
Saudi Arabia	221,168	228,331
India	133,808	140,180
Nigeria	93,494	55,660
Egypt	59,319	59,032
Others	202,353	249,179
Total long-lived assets	$ 1,174,453	$ 1,193,749

A substantial portion of the Company's assets are mobile. The assets in the UAE include $143.9 million and $134.1 million as of March 31, 2017 and December 31, 2016, respectively, relating to the Newbuild under construction. See Note 4 – Property and Equipment. Asset locations at the end of the period are not necessarily indicative of the geographic distribution of the revenue generated by such assets during the period.

Note 17 — Related Parties

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, of Sponsors' costs related to the $375 thousand monthly fee, directors' fees and reimbursement of costs incurred by Sponsors and directors for attendance at meetings relating to the management and governance of the Company.

Note 18 — 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	$ 124,044	$ 103,309
Amortization of deferred costs	-	20,735

Note 19 — 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.

In April 2017, the Board approved the award of 326 time-based restricted Class B ordinary shares, 41 performance Class C ordinary shares and 1,020 Class D ordinary shares to certain members of management in respect of compensation for future services provided.

On April 28, 2017, the Company successfully completed an offering of 28,125,000 new common shares at a price of $8.00 per share 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.

In connection with the Private Placement, the current classes of A, B, C and D ordinary shares have been converted into a single class of new common shares. The number of new common shares issued to the existing shareholders of the company through such conversion was 55,000,000.

The Company will use the net proceeds from the Private Placement 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.