SHELF DRILLING, LTD.
CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS
SIX MONTHS ENDED JUNE 30, 2017 AND 2016
(UNAUDITED)

INDEX

SHELF DRILLING

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Revenues				
Operating revenues	$ 137,462	$ 166,357	$ 279,870	$ 342,636
Other revenue	5,377	3,569	9,222	6,944
	142,839	169,926	289,092	349,580
Operating costs and expenses				
Operating and maintenance	73,080	85,881	141,630	189,190
Depreciation	19,740	17,275	38,110	35,577
Amortization of deferred costs	16,484	23,756	33,328	44,491
General and administrative	14,091	12,489	23,177	24,318
Loss on impairment of assets	34,802	-	34,802	-
Loss on disposal of assets	454	1,677	316	1,780
	158,651	141,078	271,363	295,356
Operating (loss) / income	(15,812)	28,848	17,729	54,224
Other (expense) / income, net				
Interest income	258	90	405	155
Interest expense and financing charges	(16,233)	(20,324)	(46,593)	(38,368)
Other, net	(474)	(1,296)	(788)	(629)
	(16,449)	(21,530)	(46,976)	(38,842)
(Loss) / income before income taxes	(32,261)	7,318	(29,247)	15,382
Income tax (benefit) / expense	(809)	4,524	3,741	10,036
Net (loss) / income	$ (31,452)	$ 2,794	$ (32,988)	$ 5,346
(Loss) / earnings per share: *				
Basic - Common shares	$ (0.45)	$ -	$ (0.45)	$ -
Diluted - Common shares	$ (0.45)	$ -	$ (0.45)	$ -
Basic and Diluted - Class A shares	$ 1.22	$ 6.27	$ (10.79)	$ 11.99
Basic and Diluted - Class B shares	$ -	$ -	$ -	$ -
Basic and Diluted - Class C shares	$ -	$ -	$ -	$ -
Basic and Diluted - Class D shares	$ -	$ -	$ -	$ -
Weighted average shares outstanding:				
Basic - Common shares	81,538,112	-	81,538,112	-
Diluted - Common shares	81,716,776	-	81,716,776	-
Basic and Diluted - Class A shares	444,594	445,414	444,594	445,925
Basic - Class B shares	19,540	17,166	20,630	17,679
Diluted - Class B shares	20,431	19,752	22,455	20,371
Basic - Class C shares	5,110	5,120	5,110	5,125
Diluted - Class C shares	5,381	5,671	5,372	5,400
Basic - Class D shares	-	-	-	-
Diluted - Class D shares	-	-	-	-

* For the three and six months ended June 30, 2017, the (loss)/earnings per share are calculated based on information for two months ended June 30, 2017 for the common shares, and based on information for one and four months ended April 30, 2017, respectively, for the ordinary Class A, B, C and D shares. See Note 16 – (Loss) / Earnings Per Share.

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

SHELF DRILLING

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Net (loss) / income	$ (31,452)	$ 2,794	$ (32,988)	$ 5,346
Other comprehensive income, net of tax				
Foreign currency forward exchange contracts				
Changes in unrealized gains	85	72	85	72
Reclassification of net gain from other comprehensive income to net income	(24)	(25)	(24)	(25)
	$ 61	$ 47	$ 61	$ 47
Total comprehensive (loss) / income	$ (31,391)	$ 2,841	$ (32,927)	$ 5,393

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

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

	June 30, 2017	December 31, 2016
Assets		
Cash and cash equivalents	$ 172,975	$ 213,139
Accounts and other receivables, net	137,010	125,312
Other current assets	88,318	95,235
Total current assets	398,303	433,686
Property and equipment	1,539,697	1,326,361
Less accumulated depreciation	333,077	295,685
Property and equipment, net	1,206,620	1,030,676
Deferred tax assets	2,375	3,137
Other assets	103,361	118,441
Total assets	$ 1,710,659	$ 1,585,940
Liabilities and equity		
Accounts payable	$ 57,704	$ 70,605
Interest payable	8,399	15,773
Obligations under sale and leaseback	35,067	15,977
Short-term debt	1,358	-
Other current liabilities	38,853	32,665
Total current liabilities	141,381	135,020
Long-term debt	525,582	809,016
Obligations under sale and leaseback	296,371	228,728
Deferred tax liabilities	3,391	8,525
Other long-term liabilities	22,216	25,197
Total long-term liabilities	847,560	1,071,466
Mezzanine equity, net of issuance costs	165,978	-
Commitments and contingencies (Note 9)		
Common shares of $0.01 par value; 200,000,000 and 5,000,000 shares authorized at June 30, 2017 and December 31, 2016, respectively; issued and outstanding as follows:		
Common shares: 83,125,000 and nil at June 30, 2017 and December 31, 2016, respectively	831	-
Class A shares: nil and 444,594 at June 30, 2017 and December 31, 2016, respectively	-	5
Class B shares: nil and 25,099 at June 30, 2017 and December 31, 2016, respectively	-	-
Class C shares: nil and 6,075 at June 30, 2017 and December 31, 2016, respectively	-	-
Shares held in trust of $0.01 par value; 2,274,764 and 15,844 shares at June 30, 2017 and December 31, 2016, respectively	(23)	-
Additional paid-in capital	671,324	462,914
Accumulated other comprehensive income	61	-
Accumulated losses	(116,453)	(83,465)
Total equity	555,740	379,454
Total liabilities and equity	$ 1,710,659	$ 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)

	Six months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
	Shares		Amount	
Common shares				
Balance, beginning of period	475,768	477,326	$ 5	$ 5
Shares issued to trust	1,629	1,494	-	-
Repurchase and retirement of ordinary shares	(477,397)	(3,752)	(5)	-
Recapitalization	55,000,000	-	550	-
Issuance of common shares - Private Placement	28,125,000	-	281	-
Balance, end of period	83,125,000	475,068	$ 831	$ 5
Shares held in trust				
Balance, beginning of period	15,844	15,487	$ -	$ -
Shares issued to trust	1,629	1,494	-	-
Retirement of ordinary shares	(17,473)	(2,402)	-	-
Replaced for common shares	2,274,764	-	(23)	-
Balance, end of period	2,274,764	14,579	$ (23)	$ -
Additional paid-in capital				
Balance, beginning of period			$ 462,914	$ 464,403
Issuance of common shares - Private Placement			216,720	-
Recapitalization adjustment			(522)	
Preferred shares dividend			(8,213)	-
Share-based compensation expense / (benefit), net of forfeitures			425	(134)
Repurchase and retirement of shares			-	(1,195)
Balance, end of period			$ 671,324	$ 463,074
Accumulated other comprehensive income				
Balance, beginning of period			$ -	$ -
Net unrealized gain on outstanding foreign currency forward exchange contracts			61	47
Balance, end of period			$ 61	$ 47
Accumulated losses				
Balance, beginning of period			$ (83,465)	$ (53,629)
Net (loss) / income			(32,988)	5,346
Balance, end of period			$ (116,453)	$ (48,283)
Total equity				
Balance, beginning of period			$ 379,454	$ 410,779
Issuance of common shares - Private Placement			217,001	-
Share-based compensation expense / (benefit), net of forfeitures			425	(134)
Preferred shares dividend			(8,213)	-
Repurchase and retirement of ordinary shares			-	(1,195)
Total comprehensive (loss) / income			(32,927)	5,393
Balance, end of period			$ 555,740	$ 414,843

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

SHELF DRILLING

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

	Six months ended June 30, 2017	Six months ended June 30, 2016
Cash flows from operating activities		
Net (loss) / income	$ (32,988)	$ 5,346
Adjustments to reconcile net (loss) / income to net cash provided by operating activities		
Depreciation	38,110	35,577
Loss on impairment of assets	34,802	-
Provision for / (reversal of) doubtful accounts	(177)	-
Amortization of deferred revenue	(8,398)	(13,877)
Gain on foreign currency forward exchange contracts	(24)	(25)
Share-based compensation expense / (benefit), net of forfeitures	425	(134)
Non-cash portion of loss on debt extinguishment	4,371	-
Payment of original issue discount	(10,500)	-
Amortization of debt issue costs and discounts	1,927	2,827
Loss on disposal of assets	316	1,780
Deferred tax benefit, net	(4,372)	(24)
Proceeds from settlement of foreign currency forward exchange contracts	24	25
Changes in deferred costs, net *	19,244	9,413
Changes in operating assets and liabilities	(19,041)	(7,599)
Net cash provided by operating activities	23,719	33,309
Cash flows from investing activities		
Additions to property and equipment *	(169,788)	(28,011)
Advance payment for property and equipment	(1,508)	-
Proceeds from disposal of property and equipment	613	1,021
Proceeds from sale and leaseback	16,880	-
Change in restricted cash	(5,996)	5,981
Net cash used in investing activities	(159,799)	(21,009)
Cash flows from financing activities		
Short-term debt	1,358	-
Proceeds from issuance of common shares - Private Placement	225,000	-
Payments for common and preferred shares issuance costs	(8,209)	-
Payments for redemption of ordinary shares	-	(1,195)
Payments for obligations under sale and leaseback	(7,175)	-
Payments to retire long-term debt	(103,750)	-
Payments of debt issuance costs	(10,351)	-
Preferred shares dividend paid	(957)	-
Net cash provided by / (used in) financing activities	95,916	(1,195)
Net (decrease) / increase in cash and cash equivalents	(40,164)	11,105
Cash and cash equivalents at beginning of period	213,139	115,685
Cash and cash equivalents at end of period	$ 172,975	$ 126,790

* See Note 15 – Supplemental Cash Flow Information for a reconciliation of cash payment for additions to property and equipment and changes in deferred costs, net to total capital expenditures and deferred costs.

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. On September 9, 2012, the Company entered into a definitive agreement to acquire 37 jackup rigs and one swamp barge (the "Acquisition") from Transocean Inc. (the "Seller"). The Acquisition closed on November 30, 2012. 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 June 30, 2017, the Company owns 38 independent cantilever jackup rigs and one swamp barge.

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 was delivered on April 6, 2017 and started a five-year contract with Chevron on June 1, 2017 after completion of final customer acceptance requirements. See Note 4 – Property and Equipment and Note 7 – Sale and Leaseback.

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 statement 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. Operating results for the six months ended June 30, 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 May 2017, the FASB issued ASU No. 2017-09, Compensation — Stock Compensation (Topic 718): Scope of Modification. The amendments applies to entities that change the terms or conditions of a share-based payment award. The FASB Accounting Standards Codification currently defines the term modification as “a change in any of the terms or conditions of a share-based payment award”.

These amendments require the entity to account for the effects of a modification unless all of the following conditions are met:

- The fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or value using an alternative measurement method) of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification;
- The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; and
- The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified.

The amendments are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, with early adoption permitted. The Company does not intend to early adopt this standard and will apply the amendments for any future modifications to its share-based compensation plan from January 1, 2018.

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.

In January 2017, the FASB has issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The amendments affect all companies and other reporting organizations that must determine whether they have acquired or sold a business. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The amendments are intended to help companies and other organizations evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments provide a more robust framework to use in determining when a set of assets and activities is a business. They also provide more consistency in applying the guidance, reduce the costs of application, and make the definition of a business more operable. The amendments are effective for annual periods beginning after December 15, 2017 and December 15, 2018 for public and private entities, respectively, including interim periods within those periods. The Company does not intend to early adopt this standard and will apply the requirements of the amendments for all acquisitions and disposals from January 1, 2018 onwards.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments do not provide a definition of restricted cash or restricted cash equivalents. The amendments should be applied using a retrospective transition method to each period presented. This update is effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. The Company does not intend to early adopt this standard and is currently evaluating the impact of this standard on the condensed consolidated interim financial statements.

In August 2016, the FASB issued ASU No. 2016-15 Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The amendments provide guidance on eight specific cash flow issues thereby addressing the diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The eight specific cash flow issues include: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (COLIs) (including bank-owned life insurance policies (BOLIs)); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The amendments should be applied retrospectively effective for fiscal years beginning after December 15, 2018, and interim periods within fiscal years beginning after December 15, 2019, with early adoption permitted. If it is impracticable to apply the amendments retrospectively for some of the issues, the amendments for those issues would be applied prospectively as of the earliest date practicable. The Company does not intend to early adopt this standard and is currently evaluating the impact of this standard on the condensed consolidated interim financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The main objective of this ASU is to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments and to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments with enhanced disclosures that are held by a reporting entity at each reporting date. The guidance is effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Company does not intend to early adopt this standard and is currently evaluating the impact of this standard on the condensed consolidated interim financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). Under the new guidance, lessees will be required to recognize the following for all leases (with the exception of short-term leases) at the commencement date:

- A lease liability, which is a lessee’s obligation to make lease payments arising from a lease, measured on a discounted basis; and
- A right-of-use asset, which is an asset that represents the lessee’s right to use, or control the use of, a specified asset for the lease term.

Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers.

The applicability of this standard to the Company is discussed below along with ASU 2014-09, Revenues from Contracts with Customers due to the significant interaction between both the Standards.

In May 2014, FASB issued ASU 2014-09, Revenues from Contracts with Customers, a new guidance intended to change the criteria for recognition of revenue. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, an additional guidance ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date was issued to delay the effective date by one year. ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) is now effective for annual and interim periods for fiscal years beginning after December 15, 2018, though companies have an option of adopting the standard for fiscal years beginning after December 15, 2017.

In March 2016 and April 2016, the FASB issued ASU No. 2016-08 Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) and ASU No. 2016-10 Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, respectively. The amendments in ASU No. 2016-08 and ASU No. 2016-10 do not change the core principle of ASU No. 2014-09, but instead clarify the implementation guidance on principal versus agent considerations and identify performance obligations and the licensing implementation guidance, respectively. In addition, in May 2016 and December 2016, FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients and ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers, respectively which are intended to provide clarifying guidance in certain narrow areas and add some practical expedients.

The Company has formed a project team to assess the implications of ASU 2014-09 and ASU 2016-02 and the related amendments (together, “the Standards”) on the Company’s condensed consolidated interim financial statements. The Company does not intend to early adopt these standards. The project team has identified a set of representative drilling contracts and is assessing, in particular, whether the drilling contracts have a lease component and the potential implications of the Standards on the Company’s revenues, related costs, assets and liabilities. The project team is also assessing the impact of the Standards on presentation and disclosure matters in relation to its drilling contracts. The Company expects that most of its operating lease commitments will be recognized as operating lease liabilities and right-of-use assets on the balance sheet. Information about the Company's undiscounted future operating lease payments and the timing of those payments is provided in Note 9 to these condensed consolidated interim financial statements. The assessment project is still at a preliminary stage and the assessments may change as the project progresses.

Note 3 — Consolidated Variable Interest Entities

The Company, through its wholly owned indirect subsidiary Shelf Drilling Holdings Ltd ("SDHL"), is the primary beneficiary of four variable interest entities ("VIEs") which are Shelf Drilling Ventures Malaysia Sdn. Bhd. ("SDVM"), PT Hitek Nusantara Offshore Drilling ("PT Hitek"), Shelf Drilling Nigeria Ltd. ("SDNL") and Shelf Drilling Offshore Services Limited ("SDOSL"), which are included in these condensed consolidated interim financial statements. These VIEs are incorporated in jurisdictions where majority or significant foreign ownership of domestic companies is restricted or alternatively, commercially incompatible with local contents requirements. To comply with such foreign ownership and/or local contents restrictions, the Company and the relevant third parties have contractual arrangements to convey decision-making and economic rights to the Company. These VIEs provide drilling and other services.

SDVM is a Malaysian incorporated entity that is 60% owned by a Malaysian third party. The Company has the power to direct the operating and marketing activities of SDVM, which are the activities that most significantly impact SDVM's economic performance. The Malaysian third party is not in a position to provide additional financing and does not participate in any losses of SDVM.

PT Hitek is an Indonesian incorporated entity that is 20% owned by an Indonesian partner. The Company has the power to direct the operating and marketing activities of PT Hitek, which are the activities that most significantly impact such entity's economic performance. The Indonesian partner does not participate in any losses of PT Hitek, does not have capital at risk and is not in a position to provide additional financing.

SDNL is 51% owned by Nigerian third parties. The Company has the power to direct the operating and marketing activities of SDNL, which are the activities that most significantly impact SDNL's economic performance and has the obligation to absorb losses.

SDOSL is 20% owned by Nigerian third parties. The Company is responsible to provide additional subordinated financial support to SDOSL to carry on its activities because the equity contributed by the third parties collectively at risk in times of distress is not sufficient.

Based on the facts discussed above, the Company has determined that these four entities met the criteria of VIEs for accounting purpose because the Company has the power to direct the operating and marketing activities, which are the activities that most significantly impact each entity's economic performance, and has the obligation to absorb losses or the right to receive a majority of the benefits that could be potentially significant to these VIEs.

The carrying amounts associated with the VIEs, after eliminating the effect of intercompany transactions, were as follows (in thousands):

	Shelf Drilling Ventures (Malaysia) Sdn. Bhd	PT Hitek Nusantara Offshore Drilling	Shelf Drilling (Nigeria) Ltd.	Shelf Drilling Offshore Services Limited	Total
June 30, 2017:					
Total assets	$ 24	$ 33,659	$ 22,017	$ 3,224	$ 58,924
Total libilities	366	679	5,974	739	7,758
Net carrying amount	(342)	32,980	16,043	2,485	51,166
December 31, 2016:					
Total assets	$ 125	$ 5,997	$ 22,556	$ 3,081	$ 31,759
Total libilities	477	786	5,526	775	7,564
Net carrying amount	(352)	5,211	17,030	2,306	24,195

Note 4 — Property and Equipment

Property and equipment as of June 30, 2017 and December 31, 2016 consisted of the following (in thousands):

	June 30, 2017	December 31, 2016
Drilling rigs and equipment	$ 1,484,760	$ 1,138,016
Spares	34,177	33,866
Construction in progress	2,953	136,834
Land and building	1,328	1,228
Other	16,479	16,417
Total property and equipment	$ 1,539,697	$ 1,326,361
Less: Accumulated depreciation	(333,077)	(295,685)
Total property and equipment, net	$ 1,206,620	$ 1,030,676

The Company added three drilling rigs to its drilling fleet during the six months ended June 30, 2017 consisting of one Newbuild rig and two rigs purchased from a third party. There were no rig additions during the six months ended June 30, 2016.

On April 6, 2017, the Company took delivery of the second Newbuild which started its drilling contract with Chevron on June 1, 2017 after completion of final customer acceptance procedures. As a result of this addition, the Company transferred $226.7 million from construction in progress to drilling rigs and equipment. The first Newbuild rig was delivered on September 29, 2016 and started its drilling contract with Chevron on December 1, 2016.

On April 29, 2017, the Company entered into three separate asset purchase agreements to acquire three premium jackup drilling rigs from a third party for $75.4 million each using the net proceeds from the Private Placement – See Note 12 – Shareholders' Equity. On May 18, 2017, two rigs were delivered and are capitalized along with the associated transaction costs of $73 thousand under "Drilling rigs and equipment". The third rig is expected to be delivered in Q3 2017.

Total capital expenditures for the six months ended June 30, 2017 and 2016 were $245.0 million and $79.8 million, respectively. This includes $91.9 million and $71.4 million related to progress payments, internal project costs, change orders, owner furnished equipment and capitalized interest for the Newbuilds during the six months ended June 30, 2017 and 2016, respectively. It also included $150.8 million related to the two rigs acquired during the six months ended June 30, 2017.

Total capital expenditures through June 30, 2017 and 2016 on the Newbuilds were $453.4 million and $242.9 million, respectively, of which $330.0 million and $129.6 million, respectively, were paid by the Lessor (see Note 7 – Sale and Leaseback).

Interest capitalized on the Newbuild rigs totaled $4.7 million and $8.2 million for the six months ended June 30, 2017 and 2016, respectively. Interest capitalized during the six months ended June 30, 2017 and 2016 included $2.6 million and $4.6 million, respectively, related to the sale and leaseback financing agreements.

There were no rigs sold by the Company during the six months ended June 30, 2017. The Company sold two stacked rigs, Adriatic V and Adriatic VI, for $750 thousand during the six months ended June 30, 2016. The carrying value of both rigs was $1.6 million and disposal costs were $260 thousand, which resulted in a loss on disposal of $1.1 million. Disposals of other property and equipment with a net carrying value of $906 thousand and $982 thousand which were sold for $590 thousand and $259 thousand resulted in a loss on disposal of assets of $316 thousand and $723 thousand during the six months ended June 30, 2017 and 2016, respectively.

As crude oil prices declined further during the interim period ended June 30, 2017, and the Company observed continued pressure on dayrates and experienced an increase in the number of idle rigs, the Company recognized an additional impairment loss of $34.8 million on four of the Company's rigs, out of which one rig was impaired to salvage value, during the six months ended June 30, 2017. The Company did not record an impairment charge during the six months ended June 30, 2016.

The fair value of the drilling rigs was calculated using the income approach based on estimated discounted cash flows expected to result from the use of the rigs. The estimate of fair value required the Company to use significant unobservable inputs such as rig utilization rates, dayrates, operating, overhead and overhaul costs, remaining useful life and salvage value, representing a Level 3 fair value measurement.

Drilling rigs under capital and operating leases

The net carrying amount of drilling rigs and equipment includes two Newbuild rigs (December 31, 2016: one) held under a capital lease and one rig leased to a customer under operating lease.

The drilling rigs under capital lease had a total cost of $455.3 million and $228.6 million, and accumulated depreciation of $5.6 million and $1.1 million, as of June 30, 2017 and December 31, 2016, respectively.

As of June 30, 2017 and December 31, 2016, the rig under operating lease had a net carrying value of $15.4 million and $16.4 million, and accumulated depreciation of $8.0 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 June 30, 2017, following is the summary of future minimum rentals receivable on operating lease (in thousands):

For the twelve months ending June 30,		
2018	$	8,302
2019		4,945
2020		-
Thereafter		-
Total future minimum rentals	$	13,247

Due to payment delays by the lessee, the Company has stopped recognizing income from May 2017 onwards and has recorded a provision of $3.0 million against the total outstanding receivable from the lessee during the six months ended June 30, 2017.

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) changes in rig operating structures which may alter the basis on which the Company is taxed in a particular jurisdiction.

The effective income tax rate for the Company's continuing operations was (12.8%) and 65.2% for the six months ended June 30, 2017 and 2016, respectively. The difference in effective tax rate for the six months ended June 30, 2017 as compared to the six months ended June 30, 2016 is 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. As a result, the Company has an income tax expense for the six months ended June 30, 2017, despite having a loss before income taxes, resulting in a negative effective tax rate.

Income Tax (Benefit) / Expense — Income tax (benefit) / expense was ($809) thousand and $3.7 million for the three and six months ended June 30, 2017, respectively, compared to $4.5 million and $10.0 million for the three and six months ended June 30, 2016, respectively. The income tax benefit for the three months ended June 30, 2017 is primarily the result of a reduction in deferred tax liabilities related to the future income tax cost of repatriating the unremitted earnings of a certain subsidiary, due to a decrease in the amount of unremitted earnings which the Company believes will be repatriated in the foreseeable future, as well as tax benefits related to an increase in the amount of income tax refunds the Company believes it will recover in certain jurisdictions primarily due to a favorable court order received during Q2 2017.

Income tax (benefit) / expense for the three and six months ended June 30, 2017 is calculated using a discrete approach whereby income tax (benefit) / expense is determined by estimating actual income tax liability that will result from earnings from continued operations for the three and six months ended June 30, 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 June 30, 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 considers the earnings of a certain subsidiary to be indefinitely reinvested. As such, the Company has not provided for taxes on these unremitted earnings. At June 30, 2017, the amount of indefinitely reinvested earnings was approximately $21 million. The Company did not consider any part of its unremitted earnings to be indefinitely reinvested as at December 31, 2016. Should the Company make a distribution from these unremitted earnings in the future, such distributions may be subject to withholding taxes; however, it is not practicable to determine precisely the amount of withholding tax that may be payable on the eventual distribution of these earnings.

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. Any interest and penalties related to such liabilities are included as a component of income tax expense. The liabilities for uncertain tax positions, including any related interest and penalties, recorded as "Other long-term liabilities", were as follows (in thousands):

	June 30, 2017	December 31, 2016
Liabilities for uncertain tax positions, excluding interest and penalties	$ 2,442	$ 2,455
Interest and penalties	-	-
Liabilities for uncertain tax positions, including interest and penalties	$ 2,442	$ 2,455

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

	June 30, 2017	December 31, 2016
Balance, beginning of period	$ 2,455	$ 1,357
Reductions for prior period tax positions	(4)	(458)
Reductions related to statute of limitation expirations	(81)	(100)
Additions for current period tax positions	72	1,656
Balance, end of period	$ 2,442	$ 2,455

The liabilities for uncertain tax positions include certain amounts which were acquired from the Seller as part of the Acquisition. The Company is fully indemnified by the Seller for all such acquired liabilities. The indemnity related receivable is recorded in "Other assets".

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.

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

Note 6 — Debt

Short-term debt is comprised of the following (in thousands):

	June 30, 2017	December 31, 2016
Short-term debt		
Unsecured overdraft facility (see note (i) below)	$ 1,358	$ -

(i) Unsecured overdraft facility

On April 26, 2017, Shelf Drilling Egypt Limited, one of the wholly owned subsidiaries of the Company, entered into an equivalent of $5 million foreign currency unsecured and uncommitted line of credit facility. The facility is available in foreign currency to finance the subsidiary's running expenses, overheads and payments to suppliers. Interest is paid monthly on the drawn balance and is calculated using the Central Bank of Egypt Mid Corridor rate plus 3% per annum. Further, an additional stamp duty of 0.2% per annum is to be paid quarterly on actual utilization.

Long-term debt is comprised of the following (in thousands):

	June 30, 2017	December 31, 2016
Long-term debt		
9.5% Senior Secured Notes, due November 2, 2020 (see note (ii) below)	$ 495,556	$ -
8.625% Senior Secured Notes, due November 1, 2018 (see note (iii) below)	30,026	466,857
Term Loan Facility, due October 8, 2018 (see note (iv) below)	-	342,159
Revolving Credit Facility, due April 30, 2020 (see note (v) below)	-	-
	$ 525,582	$ 809,016

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

For the twelve months ending June 30,	
2018	$ -
2019	30,026
2020	-
2021	495,556
Total debt	$ 525,582

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

	June 30, 2017		
	Principal Amount	Unamortized Debt Issuance Costs	Carrying Value
9.5% Senior Secured Notes, due November 2, 2020	$ 502,835	$ (7,279)	$ 495,556
8.625% Senior Secured Notes, due November 1, 2018	30,415	(389)	30,026
Total	$ 533,250	$ (7,668)	$ 525,582

	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 due November 2, 2020, 8.625% Senior Secured Notes due November 1, 2018 and Midco Term Loan Facility due October 8, 2018 are 10.02%, 9.79% and 10.79%, respectively.

(ii) 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"). 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 (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 term loan entered into on October 8, 2013 (the "Midco Term Loan"). As a result of this transaction, SDHL has incurred $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 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.

(iii) 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 $416.09 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 June 30, 2017, $30.415 million aggregate principal amount of 8.625% Senior Secured Notes remains outstanding with $389 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.

(iv) 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 (see Note 11 – Mezzanine Equity), 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 first quarter of 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.

(v) Revolving Credit Facility, due April 2020

On February 24, 2014, SDHL entered into a $150 million revolving credit facility ("SDHL Revolver") 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 $10.1 million and $28.5 million as of June 30, 2017 and December 31, 2016, respectively, against the SDHL Revolver. As a result, the remaining available balance under the revolving credit facility is $149.9 million as of June 30, 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 5.0% 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 and tested quarterly. The Company is in compliance with this ratio as of June 30, 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 which were carried as both current and long-term assets on the condensed consolidated interim balance sheets were as follows:

	June 30, 2017	December 31, 2016
Current	$ 1,343	$ 1,706
Long-term	2,407	568
Total	$ 3,750	$ 2,274

The amortization of debt issuance costs on the SDHL Revolver amounted to $335 thousand and $677 thousand during the three and six months ended June 30, 2017, and $426 thousand and $825 thousand during the three and six months ended June 30, 2016, 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 was paying 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 was paid in full for each rig. The commitment fee was 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 was capitalized at intervals of three months from the date of payment of each installment until the charter hire accrual date, as defined in the lease contract.

The Bareboat Charter Agreements require scheduled monthly rent payments ("Rent") with variable and fixed payment components from the charter hire accrual dates, 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 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 are to be made in advance every 5th day of the month.

The first and second Newbuild commenced five-year contracts with Chevron after completion of the final customer acceptance requirements on December 1, 2016 and June 1, 2017, respectively. The Company accounted for these Sale and Leaseback Transactions as capital leases and transferred $228.6 million for the first Newbuild rig and $226.7 million for the second Newbuild rig from construction in progress to drilling rigs and equipment in property and equipment, respectively. See Note 4 – Property and Equipment. The capital lease contracts have an estimated average interest rate of 5.863% and 5.909% and require scheduled monthly average principal payments of approximately $1.5 million each and average interest payments of $598 thousand and $629 thousand for each rig for the remaining lease term from July 1, 2017, through December 5, 2021 and June 5, 2022, respectively.

As of June 30, 2017, the following is a summary of the estimated future rental payments on capital leases including the Purchase Obligation Price (in thousands):

For the twelve months ending June 30,		
2018	$	52,342
2019		51,367
2020		50,028
2021		48,157
2022		117,091
Thereafter		82,500
Total future rental payments	$	401,485

The Company made rental payments, including interest, of $6.5 million and $10.7 million during the three and six months ended June 30, 2017. There were no such transactions during the three and six months ended June 30, 2016.

The total outstanding balance of obligations under the Sale and Leaseback Transactions is $331.4 million and $244.7 million as of June 30, 2017 and December 31, 2016, respectively.

The Lessor paid $74.1 million and $55.5 million directly to the Builder during the six months ended June 30, 2017 and 2016, respectively. The Lessor also paid $16.8 million to the Company during the six months ended June 30, 2017 for cost incurred during the construction period. There were no such payments to the Company during the six months ended June 30, 2016.

In addition, the Company recorded $3.0 million and $2.4 million for interest in kind on the obligations under the Sale and Leaseback Transactions during the six months ended June 30, 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 June 30, 2017, the Company is 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 $70 thousand and $132 thousand during the three and six months ended June 30, 2017, respectively. The expenses were previously recorded as end of service benefit expense during the three and six months ended June 30, 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 $1.5 million and $3.3 million in expense related to employee end of service plans during the three and six months ended June 30, 2017, respectively, compared to $2.3 million and $7.6 million for the three and six months ended June 30, 2016, respectively.

Retention Plan —The Company has recorded approximately $687 thousand and $1.6 million in expense related to its employee retention plans for the three and six months ended June 30, 2017, and approximately $281 thousand and $879 thousand for the three and six months period June 30, 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 June 30, 2017. See Note 7 - Sale and Leaseback.

Purchase Commitment — The Company has a commitment to acquire a premium jackup rig from a third party at a purchase price of $75.4 million. The rig is expected to be delivered in Q3 2017. A 2% advance has been paid against this purchase commitment which is included under "Other current assets" and will be offset against the purchase price on delivery.

As of June 30, 2017, contractual payments related to those matters were as follows (in thousands):

	Operating leases	Purchase commitments	Sale and leaseback obligations	Total commitments
For the twelve months ending June 30,				
2018	$ 6,535	$ 73,867	$ 52,342	$ 132,744
2019	3,442	-	51,367	54,809
2020	1,084	-	50,028	51,112
2021	786	-	48,157	48,943
2022	45	-	117,091	117,136
Thereafter	-	-	82,500	82,500
Total	$ 11,892	$ 73,867	$ 401,485	$ 487,244

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 June 30, 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 $99.3 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 $33.4 million and $33.3 million at June 30, 2017 and December 31, 2016, respectively.

In addition, the Company had outstanding bank guarantees and performance bonds amounting to $10.1 million and $28.5 million as of June 30, 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 $43.5 million and $61.8 million as of June 30, 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, accrued liabilities and short-term debt, 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):

	June 30, 2017		December 31 , 2016	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
9.5% Senior Secured Notes, due November 2, 2020	$ 495,556	$ 489,575	$ -	$ -
8.625% Senior Secured Notes, due November 1, 2018	30,026	30,373	466,857	399,000
Term Loan Facility, due October 8, 2018	-	-	342,159	258,620
Total debt	$ 525,582	$ 519,948	$ 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). See Note 6 – Debt.

Derivative financial instrument was measured at fair value on a recurring basis using Level 2 inputs. See Note 14 – Derivative Financial Instrument.

Note 11 — Mezzanine Equity

On January 12, 2017, SDL issued 1,000,000 preferred shares at $166.67 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 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. The total dividend as of June 30, 2017 was $8.2 million of which $957 thousand was paid during the first quarter of 2017.

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. These costs were netted against the issue value of the preferred shares.

Note 12 — Shareholders' Equity

During Q1 2017, a new ordinary share class (Class D) was approved with an authorized share capital of 1,020 shares. Class D shares had no dividend rights. The Company also amended its Articles of Association (the "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.

During Q1 and April 2017, the Company granted 1,629 ordinary shares (554 Class B shares, 55 Class C shares and 1,020 Class D shares) under the time-based and performance-based share compensation plan to members of the Company's management. These shares were issued to a Voting Trust, managed under the voting trust agreement by one of the Sponsors, for further issuance to the employees upon fulfilling the vesting conditions. See Note 13 – Share-based Compensation.

The changes in ordinary shares by class from December 31, 2016 to April 28, 2017 were as follows:

	Number of ordinary shares issued and outstanding				
	Class A	**Class B**	**Class C**	**Class D**	**Total**
Balance, at January 1, 2017	444,594	25,099	6,075	-	475,768
Shares issued to trust	-	554	55	1,020	1,629
Balance, at April 28, 2017	444,594	25,653	6,130	1,020	477,397

Recapitalization and Common Share Issuance

On April 28, 2017, the Company executed a recapitalization to simplify its capital structure. The Company repurchased and retired all the ordinary shares in Classes A, B, C, and D from the Shareholders and replaced these with a new single class of common shares (the "Recapitalization"). The Company also increased its authorized capital from 5,001,020 ordinary shares to 200,000,000 single class new common shares with a par value of $0.01 per share for a total par value of $2 million.

The Company issued 55,000,000 of new common shares to replace the existing A, B, C, and D ordinary share classes as follows:

	Outstanding ordinary shares before Recapitalization	**Equivalent new common shares at the Recapitalization date**
Class A	444,594	51,970,799
Class B	25,653	1,893,553
Class C	6,130	-
Class D	1,020	1,135,648
Total	477,397	55,000,000

In order to determine the number of new common shares to be allocated against each ordinary share repurchased, the Company determined the fair value of each ordinary share class by allocating the estimated equity value before the Recapitalization to the ordinary share classes in accordance with the Waterfall provisions within the Articles in effect at that date. Accordingly, it was determined that Class C shares have no value, resulting in allocation of no new common shares to the Class C shareholders. The 1,020 Class D shares were only in existence briefly before being exchanged into common shares and were only used for performance-based restricted share awards, which were unvested at the Recapitalization date. Accordingly, Class D had no consequence on the Waterfall considerations for the Recapitalization. However, pursuant to the Articles, a value was allocated from Class A to Class D shares.

The Recapitalization has been accounted for as a repurchase of ordinary shares for new common shares. Therefore, the numbers for previously presented Class A, Class B and Class C ordinary shares, for all share count references and per-share information, have been retained for periods prior to the Recapitalization. The Recapitalization did not result in a change in total shareholder equity as there were no cash proceeds. The par values of the ordinary shares and the new common shares are identical at $0.01 per share.

Private Placement

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 $225.0 million (the "Private Placement"). The incremental direct costs of the Private Placement were $8.0 million, resulting in approximately $217.0 million of net proceeds.

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.

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Following is the summary of all classes of ordinary shares / common shares issued and outstanding during the six months ended June 30, 2017 and 2016 (in thousands, except share data):

	Six months ended June 30, 2017					
	Number of ordinary / new common shares issued and outstanding					
	Class A	Class B	Class C	Class D	New common shares	Total
Balance, beginning of period	444,594	25,099	6,075	-	-	475,768
Shares issued to trust	-	554	55	1,020	-	1,629
Repurchase and retirement of ordinary shares	(444,594)	(25,653)	(6,130)	(1,020)	-	(477,397)
Recapitalization	-	-	-	-	55,000,000	55,000,000
Issuance of new common shares - Private Placement	-	-	-	-	28,125,000	28,125,000
Balance, end of period	-	-	-	-	83,125,000	83,125,000

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	Six months ended June 30, 2017					
	Amount of ordinary / new common shares issued and outstanding (at par value)					
	Class A	Class B	Class C	Class D	New common shares	Total
Balance, beginning of period	$ 5	$ -	$ -	$ -	$ -	$ 5
Shares issued to trust	-	-	-	-	-	-
Repurchase and retirement of ordinary shares	(5)	-	-	-	-	(5)
Recapitalization	-	-	-	-	550	550
Issuance of new common shares- Private Placement	-	-	-	-	281	281
Balance, end of period	$ -	$ -	$ -	$ -	$ 831	$ 831

	Six months ended June 30, 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
Shares issued to trust	-	1,401	93	1,494
Repurchase and retirement of shares	(1,305)	(2,271)	(176)	(3,752)
Balance, end of period	445,140	23,919	6,009	475,068

	Six months ended June 30, 2016			
	Amount of ordinary shares issued and outstanding (at par value)			
	Class A	Class B	Class C	Total
Balance, beginning of period	$ 5	$ -	$ -	$ 5
Shares issued to trust	-	-	-	-
Repurchase and retirement of ordinary shares	-	-	-	-
Balance, end of period	$ 5	$ -	$ -	$ 5

All common shares have pari passu rights to participate in any common share dividends declared and represent the residual claim on the Company's assets. The Company did not pay any ordinary or common dividend during the six months ended June 30, 2017 and 2016. The Company is restricted in declaring and paying dividends to its new common shareholders until the preferred shares are fully redeemed. See Note 11 – Mezzanine Equity.

In connection with the Private Placement, the Sponsors and the Company amended and restated a sponsor shareholders agreement. Under the amended agreement, a Sponsor has preferential governance rights if it maintains a minimum level of ownership of 7% in the Company. Subject to certain exceptions and conditions, these preferential governance rights include, but are not limited to, the right to appoint and remove directors, a veto right on the approval of significant corporate transactions and certain corporate actions, pre-emptive rights, a consent right to any articles' amendment and the right to require the Company to file a registration statement for a public offering of common shares. Investors participating in the Private Placement were not provided these equivalent rights. The sponsor shareholders agreement and the preferential governance rights provided therein terminate upon (i) the consummation of an initial public offering, (ii) when only one sponsor continues to hold common shares or all sponsors become affiliates or (iii) an exit event, including a sale of the Company or substantially all of its assets.

Note 13 — Share-based Compensation

The Company has a share-based compensation plan under which it had issued time-based Class B and performance-based Class C and Class D restricted shares prior to the Recapitalization (See Note 12 – Shareholder's Equity). These Class B, C and D shares were awarded to certain members of the Company's management as remuneration for future services of employment and were held in a voting trust on the employees' behalf.

Time-based restricted Class B shares typically vest in equal proportion over a five-year required service period from the date of grant. In the event of an initial public offering ("IPO") or other exit event, all time-based unvested shares would vest immediately, regardless of grant date. In the event of an IPO, the shares were non-transferable and were required to remain in the voting trust pursuant to the terms of a management shareholder agreement. These transfer restrictions would lapse ratably over three years, at one year intervals beginning twelve months after an IPO. Compensation cost was to be recognized over a period of five years from the grant date subject to acceleration as discussed above in the event of an IPO or other exit event.

Performance-based restricted Class C shares had rights to dividends or distributions while Class D shares had none of these rights. Upon an exit event or IPO, Class C and Class D shares would vest immediately. Class C and Class D shares were subject to the same transferability restrictions as described above regarding Class B shares upon an IPO. Compensation expense related to the grant date fair value of the performance-based shares were to be recognized upon vesting.

During the three months ended March 31, 2017, the Company had granted 243 additional ordinary shares (228 Class B shares and 15 Class C shares) to members of the Company's management. The Company had also granted 326 Class B shares, 40 Class C shares and 1,020 Class D shares to members of the Company's management during April 2017.

The grant date fair values for the Class B and Class C grants during Q1 2017 were estimated using standard quantitative modeling techniques performed by an independent third party. The estimates were established using a zero premium option, with reference to the volatility of a group of broadly similar offshore drilling service companies. The following assumptions were used in the valuation calculations for shares awarded during the periods presented:

	Three months ended March 31, 2017		Six months ended June 30, 2016	
	Class B	**Class C**	**Class B**	**Class C**
Valuation assumptions:				
Expected term	2 years	2 years	2 years	2 years
Risk free interest rate	1.20% p.a.	1.20% p.a.	0.75% p.a.	0.75% p.a.
Expected volatility	65.0%	65.0%	60.0%	60.0%

Expected Term: The expected term represented the period from the grant date to the expected date of vesting, either through an IPO or other exit event.

Risk Free interest rate: The US Treasury Bond rate as of the grant date over a similar period to the Expected Term.

Expected Volatility: The average historical 36-month period volatility of the quoted share prices of a group of broadly similar publicly quoted offshore drilling service companies. The variables are adjusted to reflect the gross debt to capitalization ratio of each company.

Dividend Yield: The Company had not historically issued any dividends on these classes of shares and did not expect to in the future nor were the unvested shares entitled to dividends at the time of the grant.

The grant date fair values of all the share awards in April 2017 were measured based on the number of new common shares allocated against the awards at the Recapitalization date and the Private Placement value of $8 per share.

The following table summarizes the awards held by Company's management under the share-based compensation plans at the date of Recapitalization:

	Time - based restricted shares		Performance based shares				Total	
	Class B shares		Class C shares		Class D shares			
	Vested	Unvested	Vested	Unvested	Vested	Unvested	Vested	Unvested
Balance, at December 31, 2016	7,174	7,704	-	965	-	-	7,174	8,669
Granted	-	554	-	55	-	1,020	-	1,629
Vested	2,145	(2,145)	-	-	-	-	2,145	(2,145)
Balance, at April 28, 2017	9,319	6,113	-	1,020	-	1,020	9,319	8,153

There were no new grants or vesting of new common shares subsequent to the Recapitalization date.

Effects of Recapitalization

As part of the Recapitalization, the employee share-based compensation awards in ordinary share Classes B and D were replaced with new common shares on a relative value basis consistent with the overall allocation of shareholder equity value. No other changes were made to the terms of the awards. The new common shares associated with the employee share-based compensation awards continue to be held in a voting trust on employees' behalf.

The table below summarizes the replacement of the Class B, C and D shares with new common shares at the Recapitalization date:

	Prior to Recapitalization			Equivalent new common shares at the Recapitalization date		
	Vested	Unvested	Total	Vested	Unvested	Total
Class B	9,319	6,113	15,432	687,876	451,240	1,139,116
Class C	-	1,020	1,020	-	-	-
Class D	-	1,020	1,020	-	1,135,648	1,135,648
Total	9,319	8,153	17,472	687,876	1,586,888	2,274,764

At the Recapitalization date, the unamortized cumulative compensation cost for the former Class B, Class C and Class D shares amounted to $3.0 million, $5.8 million and $9.1 million, respectively.

The $3.0 million unamortized compensation cost for the former Class-B time based awards will continue to be recognized over the remaining applicable vesting period subject to acceleration in the event of an IPO or other exit event.

As no value was allocated to the former Class C on Recapitalization due to the application of the Waterfall provisions within the Articles, and therefore Class C awards had no applicable exchange ratio and were effectively cancelled pursuant to the Recapitalization, the Company will not recognize the previously measured and unrecognized cumulative compensation cost of $5.8 million relating to Class C awards.

The unamortized compensation cost of $9.1 million relating to the former Class D awards will be recognized in a future period upon IPO or other exit event.

The Company has recorded a share-based compensation expense related to the share-based compensation plan of $205 thousand and $425 thousand during the three and six months ended June 30, 2017, respectively, and a share-based compensation expense of $189 thousand (inclusive of $5 thousand benefit related to forfeitures and an additional expense of $23 thousand for vested shares) and a net benefit of $134 thousand (inclusive of a $477 thousand benefit related to forfeitures and an additional expense of $23 thousand for vested shares) for the three and six months ended June 30, 2016, respectively. No income tax benefit was recognized for these plans.

Total unrecognized compensation cost as of June 30, 2017, for unvested time-based and unvested performance-based awards, approximated $3.0 million and $9.1 million, respectively. The following table summarizes the total unrecognized compensation expense and the expected weighted average period for the shares to be recognized:

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	Six months ended June 30,			
	2017		2016	
	Time based restricted shares	Performance based shares	Time based restricted shares	Performance based shares
	New common shares		Class B	Class C
Total unrecognized compensation expense (in thousands)	$ 3,011	$ 9,085	$ 2,497	$ 5,076
Weighted-average period unvested compensation expense	3.14 years	N/A	3.05 years	N/A

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

	Time based restricted shares	Performance based shares		Weighted average grant date fair value per share		
	Class B	Class C	Class D	Class B	Class C	Class D
Non-vested ordinary shares at January 1, 2017	7,704	965	-	$ 357.05	$ 5,808.48	$ -
Granted	554	55	1,020	73.81	2,979.67	8,907.05
Vested	(2,145)	-	-	39.60	-	-
Forfeited	-	-	-	-	-	-
Non-vested ordinary shares at April 28, 2017	6,113	1,020	1,020	$ 442.80	$ 5,653.33	$ 8,907.05

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

	Number of shares		Weighted average grant date fair value per share	
	Time based restricted shares	Performance based shares	Time based restricted shares	Performanc e based shares
Non-vested ordinary shares at April 28, 2017	6,113	2,040	$ 442.80	$ 7,281.50
Replaced for new common shares	451,240	1,135,648	6.67	8.00
Vested	-	-	-	-
Surrender of ordinary shares	(6,113)	(2,040)	(442.80)	(7,281.50)
Non-vested common shares at June 30, 2017	451,240	1,135,648	$ 6.67	$ 8.00

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

	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 ordinary shares at January 1, 2016	9,041	961	$ 236.68	$ 5,728.39
Granted	1,401	93	372.00	3,140.00
Vested	(2,262)	-	78.55	-
Forfeited	(1,428)	(161)	193.06	4,460.94
Non-vested ordinary shares at June 30, 2016	6,752	893	$ 369.77	$ 5,691.27

The total grant date fair value of the time based restricted vested ordinary shares was $85 thousand and $85 thousand during the three and six months ended June 30, 2017, respectively, and $92 thousand and $178 thousand during the three and six months ended June 30, 2016, respectively.

Note 14 — Derivative Financial Instrument

Foreign Currency Forward Exchange Contracts

The Company may enter into foreign exchange ("forex") contracts when management believes that market conditions are favorable to purchase contracts for future settlement with the expectation that such contracts, when settled, will reduce the exposure to foreign currency gains and losses on future foreign currency expenditures. The amount and duration of such contracts are based on the monthly forecast of expenditures in the significant currencies in which the Company conducts business and for which there is a financial market. These forward contracts are derivatives as defined by U.S. GAAP. Any change in fair value resulting from ineffectiveness is recognized immediately in earnings.

During the three and six months ended June 30, 2017 and 2016, respectively, the Company settled forex contracts with aggregate notional values of approximately $3.5 million and $3.6 million, of which the entire aggregate amounts were designated as an accounting hedge.

The following table presents the amounts recognized in the Company's condensed consolidated interim balance sheets and condensed consolidated interim statements of operations related to the derivative financial instruments designated as cash flow hedges for the three and six months ended June 30, 2017 and 2016 (in thousands). The effective portion of gain / (loss) reclassified from accumulated other comprehensive income / loss ("AOCIL") is recorded under "Operating and maintenance", while the ineffective portion of gain / (loss) as a result of effectiveness testing is recorded under "Foreign currency transaction gain / (loss)" which is part of "Other, net".

	Gain recognized through AOCIL		Gain reclassified from AOCIL to "Operating and maintenance"		Gain recognized through "Other, net"	
	Three months ended June 30,		Three months ended June 30,		Three months ended June 30,	
	2017	2016	2017	2016	2017	2016
Cash flow hedges						
Foreign currency forward contracts...	$ 85	$ 72	$ 24	$ 25	$ -	$ -

	Gain recognized through AOCIL		Gain reclassified from AOCIL to "Operating and maintenance"		Gain recognized through "Other, net"	
	Six months ended June 30,		Six months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016	2017	2016
Cash flow hedges						
Foreign currency forward contracts...	$ 85	$ 72	$ 24	$ 25	$ -	$ -

The following table presents the fair values of the derivative forex contracts designated as hedging (in thousands):

	Balance sheet classification	June 30, 2017	December 31, 2016
Asset derivatives			
Cash flow hedges			
Short-term foreign currency forward contracts........................	Other current assets	$ 61	$ -

As of June 30, 2017, the estimated amount of net unrealized gains associated with the forex contracts that will be reclassified to earnings during the next six months was $61 thousand. The net unrealized gains associated with this derivative financial instrument will be reclassified to "Operating and maintenance", to the extent fully effective.

Note 15 — Supplemental Cash Flow Information

As part of the sale and leaseback agreements for the Newbuilds, contractual commitments totaling $74.1 million and $55.5 million were paid by a third party financial institution directly to the Builder during the six months ended June 30, 2017 and 2016, respectively.

Interest in kind of $3.0 million and $2.4 million were recorded as obligations under the Sale and Leaseback Transactions during the six months ended June 30, 2017 and 2016, respectively. These non-cash transactions were not reflected on the condensed consolidated interim statements of cash flows for the six months ended June 30, 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 full 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 six months ended June 30, 2017.

Capital expenditures and deferred costs

Capital expenditures and deferred costs include rig acquisition and other 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):

	Six months ended June 30,	
	2017	**2016**
Regulatory and capital maintenance	$ 11,176	$ 22,271
Contract preparation	4,769	20,008
Fleet spares and others	475	1,222
	$ 16,420	$ 43,501
Rig acquisitions	150,823	-
Newbuilds	91,887	71,390
Total capital expenditures and deferred costs	$ 259,130	$ 114,891

The following table reconciles the cash payment for additions to property and equipment and changes in deferred costs, net to total capital expenditures and deferred costs (in thousands):

	Six months ended June 30,	
	2017	**2016**
Cash payments for additions to property and equipment	$ 169,788	$ 28,011
Net change in accrued but unpaid additions to property and equipment	(1,024)	(6,181)
	$ 168,764	$ 21,830
Add: Asset addition related to sale and leaseback transactions	76,282	57,983
Total capital expenditures	$ 245,046	$ 79,813
Changes in deferred costs, net	$ (19,244)	$ (9,413)
Add: Amortization of deferred costs	33,328	44,491
Total deferred costs	$ 14,084	$ 35,078
Total capital expenditures and deferred costs	$ 259,130	$ 114,891

The total cash and cash equivalents excludes restricted cash amounting to $15.3 million and $9.3 million as of June 30, 2017 and December 31, 2016, respectively. These amounts were included under other assets except for the current portion of $626 thousand as of December 31, 2016 which was included under other current assets. Restricted cash is primarily used for the reserve requirements for the sale and leaseback transaction and also as collateral for bid tenders and performance bonds.

Note 16 — (Loss) / Earnings Per Share

The net (loss) / income is allocated to the three classes of common stock under the provisions of the Waterfall distribution set forth in the Articles until Recapitalization date. See Note 12 – Shareholders' Equity. The Company presented the (loss) / earnings per share information into pre and post Recapitalization periods for the three and six months ended June 30, 2017.

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

	For the three months ended June 30, 2017				
	One month ended April 30, 2017				Two months ended June 30, 2017
	Class A	Class B	Class C	Class D	Common Shares
Numerator for earnings / (loss) per share					
Net income / (loss)	$ 1,994	$ -	$ -	$ -	$ (33,446)
Less: Preferred shares dividend	1,450	-	-	-	2,958
Net income / (loss) attributable to ordinary shares	$ 544	$ -	$ -	$ -	$ (36,404)
Denominator for loss per share					
Weighted average shares:					
Basic outstanding per Class	444,594	19,540	5,110	-	81,538,112
Effect of stock options and other share-based awards	-	891	271	-	178,664
Diluted per Class	444,594	20,431	5,381	-	81,716,776
Basic earnings / (loss) per share per Class	$ 1.22	$ -	$ -	$ -	$ (0.45)
Diluted earnings / (loss) per share per Class	$ 1.22	$ -	$ -	$ -	$ (0.45)

	For the six months ended June 30, 2017				
	Four months ended April 30, 2017				Two months ended June 30, 2017
	Class A	Class B	Class C	Class D	Common Shares
Numerator for loss per share					
Net income / (loss)	$ 458	$ -	$ -	$ -	$ (33,446)
Less: Preferred shares dividend	5,255	-	-	-	2,958
Net loss attributable to ordinary shares	$ (4,797)	$ -	$ -	$ -	$ (36,404)
Denominator for loss per share					
Weighted average shares:					
Basic outstanding per Class	444,594	20,630	5,110	-	81,538,112
Effect of stock options and other share-based awards	-	1,825	262	-	178,664
Diluted per Class	444,594	22,455	5,372	-	81,716,776
Basic loss per share per Class	$ (10.79)	$ -	$ -	$ -	$ (0.45)
Diluted loss per share per Class	$ (10.79)	$ -	$ -	$ -	$ (0.45)

	Three months ended June 30, 2016			Six months ended June 30, 2016		
	Class A	Class B	Class C	Class A	Class B	Class C
Numerator for earnings per share						
Net income	$ 2,794	$ -	$ -	$ 5,346	$ -	$ -
Less: Preferred shares dividend	-	-	-	-	-	-
Net income attributable to ordinary shares	$ 2,794	$ -	$ -	$ 5,346	$ -	$ -
Denominator for earnings per share						
Weighted average shares:						
Basic outstanding per Class	445,414	17,166	5,120	445,925	17,679	5,125
Effect of stock options and other share-based awards	-	2,586	551	-	2,692	275
Diluted per Class	445,414	19,752	5,671	445,925	20,371	5,400
Basic earnings per share per Class	$ 6.27	$ -	$ -	$ 11.99	$ -	$ -
Diluted earnings per share per Class	$ 6.27	$ -	$ -	$ 11.99	$ -	$ -

For the three and six months ended June 30, 2017, there were 178,664 and 90,669 dilutive class B, class C shares and common shares which were not included in the computation of diluted loss per share as the effect of including these shares in the calculation would have been anti-dilutive.

Note 17 — 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.

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

	Three months ended June 30,		Six months ended June 30,	
	2017	2016	2017	2016
Saudi Arabia	$ 41,870	$ 31,967	$ 86,079	$ 75,209
India	26,127	49,505	70,294	93,693
Nigeria	25,661	21,409	42,894	31,440
Thailand	19,358	13,602	32,901	37,543
United Arab Emirates	12,061	24,699	23,958	45,039
Egypt	8,591	13,338	18,332	30,084
Other countries	9,171	15,406	14,634	36,572
As Reported Revenue	$ 142,839	$ 169,926	$ 289,092	$ 349,580

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):

	June 30, 2017	December 31, 2016
Thailand	$ 449,939	$ 227,400
United Arab Emirates	239,733	233,967
Saudi Arabia	179,022	228,331
India	107,685	140,180
Nigeria	89,937	55,660
Bahrain	78,926	49,966
Others	200,270	258,245
Total long-lived assets	$ 1,345,512	$ 1,193,749

A substantial portion of the Company's assets are mobile. 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 18 — 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 $857 thousand and $1.7 million during the three and six months ended June 30, 2017 and $901 thousand and $1.7 million during the three and six months ended June 30, 2016, respectively. The total liability recorded under accounts payable for such transactions were $594 thousand and $551 thousand as of June 30, 2017 and December 31, 2016, respectively.

The Company recorded $1.3 million and $2.7 million for the three and six months ended June 30, 2017 and $1.3 million and $2.7 million for the three and six months ended June 30, 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. The total liability recorded under accounts payable for such transactions were nil and $211 thousand as of June 30, 2017 and December 31, 2016, respectively.

Note 19 — Accounts and other receivables, net

The accounts and other receivables are net of a provision for doubtful accounts amounting to $40.0 million as at June 30, 2017 compared to $99.6 million as at December 31, 2016. The decrease in the provision for doubtful accounts was primarily due to the write-off of provision of $59.2 million for one customer.

Note 20 — Subsequent Events

The Company has evaluated subsequent events through August 21, 2017, the date of issuance of the condensed consolidated interim financial statements.