SHELF DRILLING HOLDINGS, LTD.
INDEX TO FORM 10-Q
NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016
(UNAUDITED)

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NINE MONTHS ENDED SEPTEMBER 30, 2017 AND 2016
(UNAUDITED)

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

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

	Three months ended September 30, 2017	Three months ended September 30, 2016	Nine months ended September 30, 2017	Nine months ended September 30, 2016
Revenues				
Operating revenues	$ 134,015	$ 174,469	$ 413,886	$ 517,106
Other revenue	3,760	4,191	12,982	11,135
	137,775	178,660	426,868	528,241
Operating costs and expenses				
Operating and maintenance	74,603	79,858	216,232	269,279
Depreciation	20,743	17,869	58,853	53,446
Amortization of deferred costs	15,412	27,543	48,740	72,034
General and administrative	7,531	2,815	30,202	25,990
Loss on impairment of assets	-	-	34,802	-
Loss on disposal of assets	47	1,929	362	3,710
	118,336	130,014	389,191	424,459
Operating income	19,439	48,646	37,677	103,782
Other (expense) / income, net				
Interest income	417	128	821	284
Interest expense and financing charges	(18,723)	(10,391)	(63,492)	(29,706)
Other, net	(1,140)	(827)	(1,928)	(1,457)
	(19,446)	(11,090)	(64,599)	(30,879)
(Loss) / income before income taxes	(7)	37,556	(26,922)	72,903
Income tax expense	5,178	6,940	8,919	16,976
Net (loss) / income	$ (5,185)	$ 30,616	$ (35,841)	$ 55,927

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	**2016**	**2017**	**2016**
Net (loss) / income	$ (5,185)	$ 30,616	$ (35,841)	$ 55,927
Other comprehensive income, net of tax				
Foreign currency forward exchange contracts				
Changes in unrealized gains	77	406	162	478
Reclassification of net gain from other comprehensive income to net income	(97)	(179)	(121)	(204)
	$ (20)	$ 227	$ 41	$ 274
Total comprehensive (loss) / income	$ (5,205)	$ 30,843	$ (35,800)	$ 56,201

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

SHELF DRILLING

SHELF DRILLING HOLDINGS, LTD.
CONDENSED CONSOLIDATED INTERIM BALANCE SHEETS

(In thousands, except share data)
(Unaudited)

	September 30, 2017	December 31, 2016
Assets		
Cash and cash equivalents	$ 106,544	$ 113,106
Accounts and other receivables, net	146,762	171,530
Asset held for sale	1,386	-
Other current assets	88,012	94,423
Total current assets	342,704	379,059
Property and equipment	1,612,380	1,326,361
Less accumulated depreciation	350,329	295,685
Property and equipment, net	1,262,051	1,030,676
Deferred tax assets	1,771	3,137
Other assets	96,756	118,441
Total assets	$ 1,703,282	$ 1,531,313
Liabilities and equity		
Accounts payable	$ 56,839	$ 70,159
Interest payable	20,997	6,828
Obligations under sale and leaseback	35,115	15,977
Short-term debt	1,715	-
Other current liabilities	36,025	32,665
Total current liabilities	150,691	125,629
Long-term debt	526,117	466,857
Obligations under sale and leaseback	287,666	228,728
Deferred tax liabilities	4,080	8,525
Other long-term liabilities	19,259	25,197
Total long-term liabilities	837,122	729,307
Commitments and contingencies (Note 10)		
Ordinary shares of $0.01 par value; 5,000,000 shares authorized at September 30, 2017 and December 31, 2016; one share issued and outstanding at September 30, 2017 and December 31, 2016	-	-
Additional paid-in capital	751,566	647,787
Accumulated other comprehensive income	41	-
(Accumulated losses) / retained earnings	(36,138)	28,590
Total equity	715,469	676,377
Total liabilities and equity	$ 1,703,282	$ 1,531,313

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

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

	Nine months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
	Shares		Amount	
Ordinary shares				
Balance, beginning of period	1	1	$ -	$ -
Balance, end of period	1	1	$ -	$ -
Additional paid-in capital				
Balance, beginning of period			$ 647,787	$ 647,608
Ordinary shares dividend			(111,855)	-
Capital contribution by parent - proceeds from issuance of shares			215,000	-
Capital contribution by parent - share-based compensation			634	23
Balance, end of period			$ 751,566	$ 647,631
Accumulated other comprehensive income				
Balance, beginning of period			$ -	$ -
Net unrealized gain on outstanding foreign currency forward exchange contracts			41	274
Balance, end of period			$ 41	$ 274
(Accumulated losses) / retained earnings				
Balance, beginning of period			$ 28,590	$ 153,369
Ordinary shares dividend			(28,887)	(135,644)
Net (loss) / income			(35,841)	55,927
Balance, end of period			$ (36,138)	$ 73,652
Total equity				
Balance, beginning of period			$ 676,377	$ 800,977
Capital contribution by parent - proceeds from issuance of shares			215,000	-
Capital contribution by parent - share-based compensation			634	23
Ordinary shares dividend			(140,742)	(135,644)
Total comprehensive (loss) / income			(35,800)	56,201
Balance, end of period			$ 715,469	$ 721,557

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

SHELF DRILLING

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

	Nine months ended September 2017	Nine months ended September 2016
Cash flows from operating activities		
Net (loss) / income	$ (35,841)	$ 55,927
Adjustments to reconcile net (loss) / income to net cash provided by operating activities		
Depreciation	58,853	53,446
Loss on impairment of assets	34,802	-
Reversal of provision for doubtful accounts, net	(4,802)	(7,815)
Amortization of deferred revenue	(11,926)	(19,816)
Gain on foreign currency forward exchange contracts	(121)	(204)
Capital contribution by Parent -share-based compensation	634	23
Non-cash portion of loss on debt extinguishment	7,495	-
Amortization of debt issue costs and discounts	2,664	2,894
Loss on disposal of assets	362	3,710
Deferred tax benefit, net	(3,079)	(25)
Proceeds from settlement of foreign currency forward exchange contracts	121	204
Changes in deferred costs, net *	20,898	32,983
Changes in operating assets and liabilities		
Intercompany receivables	43,759	(3,139)
Other operating assets and liabilities, net	7,921	14,259
Net cash provided by operating activities	121,740	132,447
Cash flows from investing activities		
Additions to property and equipment *	(248,500)	(40,746)
Proceeds from disposal of property and equipment	1,405	1,207
Proceeds from sale and leaseback	16,880	-
Change in restricted cash	(5,981)	921
Net cash used in investing activities	(236,196)	(38,618)
Cash flows from financing activities		
Short-term debt	1,715	-
Proceeds from capital contribution by Parent	215,000	-
Payments for obligations under sale and leaseback	(15,978)	-
Ordinay shares dividend paid	(53,992)	(135,644)
Payments to retire long-term debt	(28,500)	-
Payments of debt issuance costs	(10,351)	-
Net cash provided by / (used in) financing activities	107,894	(135,644)
Net decrease in cash and cash equivalents	(6,562)	(41,815)
Cash and cash equivalents at beginning of period	113,106	115,656
Cash and cash equivalents at end of period	$ 106,544	$ 73,841

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

Note 1 — Nature of Business

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

SDHL, through its majority and wholly owned subsidiaries, provides safe and reliable fit-for-purpose independent cantilever jack-up 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 September 30, 2017, the Company owns 39 independent cantilever jack-up rigs and one swamp barge.

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 nine months ended September 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 August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. This ASU refines and expands hedge accounting for both financial (e.g. interest rate) and commodity risks and creates more transparency around how economic results are presented, both on the face of the financial statements and in the footnotes, for investors and analysts. The amendments are effective for annual periods beginning after December 15, 2018 and December 15, 2019 for public and private entities, respectively, including interim periods within those periods, 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 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 will adopt this standard as of January 1, 2018. Management believes that the adoption will not have a material effect on the condensed consolidated interim financial statements.

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 will adopt this standard as of January 1, 2018. 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 will adopt this standard as of January 1, 2018. Management believes that the adoption will not have a material effect on the condensed consolidated interim financial statements.

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. Upon adoption, the Company will include the restricted cash balance as part of cash, cash equivalents and restricted cash on the condensed consolidated interim statements of cash flows and the change in restricted cash will no longer be presented as a separate line item under cash flows from investing activities. The adoption of this ASU has no impact on the condensed consolidated interim balance sheet.

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. Management believes that the adoption will not have a material effect on the condensed consolidated interim financial statements, except the presentation of certain debt retirement costs which will be presented as cash flows from financing activities under the retrospective treatment of this ASU.

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. Management believes that the adoption will not have a material effect 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 and implement the implications of Topic 842 and Topic 606 and the related amendments (together, "the Standards") on the Company's condensed consolidated interim financial statements. The project team has undergone training, completed an initial assessment of the implications of the Standards and is currently in the process of finalizing the assessment.

Based on the initial assessment of the drilling contracts entered into with the Company's customers, the project team has concluded that a standard drilling contract has a lease component relating to the provision of the drilling rig and the related equipment and a non-lease component relating to the drilling services. No other significant changes are expected in the Company's revenue recognition based on the initial assessment. The Company is currently considering the appropriate approach for separating the dayrates of a drilling contract into lease and nonlease components. In respect of the Company's leases as a lessee, any impact on the balance sheet as a result of recording the Company's operating lease as right-of-use assets is not expected to be significant. No significant changes are also expected with respect to the Company's finance leases. The Company also expects an increase in both quantitative and qualitative disclosures as a result of the adoption of the Standards. As both Standards interact with respect to the Company's revenue recognition, the Company intends to adopt both Standards concurrently from 1 January 2018. The Company has also decided that the modified retrospective approach for transition provided under Topic 842 will be adopted along with all the practical expedients. With respect to Topic 606, the Company will apply the cumulative effects approach for transition. As the assessment process has not concluded, the above-mentioned conclusions are subject to change.

Note 3 — Consolidated Variable Interest Entities

The Company 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
September 30, 2017:					
Total assets	$ 82	$ 14,919	$ 18,696	$ 3,019	$ 36,716
Total liabilities	795	2,968	5,851	671	10,285
Net carrying amount	$ (713)	$ 11,951	$ 12,845	$ 2,348	$ 26,431
December 31, 2016:					
Total assets	$ 125	$ 5,997	$ 22,556	$ 3,081	$ 31,759
Total liabilities	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 September 30, 2017 and December 31, 2016 consisted of the following (in thousands):

	September 30, 2017	December 31, 2016
Drilling rigs and equipment	$ 1,553,247	$ 1,138,016
Spares	37,053	33,866
Construction in progress	4,245	136,834
Land and building	1,354	1,228
Other	16,481	16,417
Total property and equipment	$ 1,612,380	$ 1,326,361
Less: Accumulated depreciation	(350,329)	(295,685)
Total property and equipment, net	$ 1,262,051	$ 1,030,676

The Company added four drilling rigs to its drilling fleet during the nine months ended September 30, 2017 consisting of one Newbuild rig and three rigs purchased from a third party. There were no rig additions during the nine months ended September 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 $227.0 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 jack-up drilling rigs from a third party for $75.4 million each. On May 18, 2017, two rigs were delivered, and on September 8, 2017, the third rig was delivered. These rigs are capitalized along with the associated transaction costs of $0.2 million under “Drilling rigs and equipment”.

Total capital expenditures for the nine months ended September 30, 2017 and 2016 were $323.1 million and $167.6 million, respectively. This includes $92.2 million and $158.3 million related to progress payments, internal project costs, change orders, owner furnished equipment and capitalized interest for the Newbuilds during the nine months ended September 30, 2017 and 2016, respectively. It also includes $226.9 million related to the three rigs acquired during the nine months ended September 30, 2017.

Total capital expenditures through September 30, 2017 and 2016 on the Newbuilds were $455.8 million and $329.8 million, respectively, of which $330.0 million and $203.7 million, respectively, were paid by the Lessor (see Note 8 – Sale and Leaseback).

Interest capitalized on the Newbuild rigs totaled $4.7 million and $12.7 million for the nine months ended September 30, 2017 and 2016, respectively, which included $2.6 million and $7.3 million, respectively, related to the sale and leaseback financing agreements.

On September 14, 2017, the Company entered into an agreement with a third party to sell the stacked rig Adriatic IX and the rig is reported under Asset held for sale as of September 30, 2017 (see Note 5 – Asset Held for Sale). The Company sold two stacked rigs, Adriatic V and Adriatic VI, for $0.8 million during the nine months ended September 30, 2016. The carrying value of both rigs was $1.6 million and disposal costs were $0.3 million, which resulted in a loss on disposal of $1.1 million. Disposals of other property and equipment with a net carrying value of $1.4 million and $3.4 million which were sold for $1.0 million and $0.8 million resulted in a loss on disposal of assets of $0.4 million and $2.6 million during the nine months ended September 30, 2017 and 2016, respectively.

During the third quarter of 2017, the Company evaluated certain rigs with indicators for impairment and determined that the carrying values for these rigs were recoverable from the estimated undiscounted cash flows measured under an income approach.

During the interim period ended June 30, 2017, as crude oil prices declined further 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 its rigs, out of which one was impaired to salvage value, during the three months ended June 30, 2017. 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.

The Company did not record an impairment charge during the nine months ended September 30, 2016.

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 an operating lease.

The drilling rigs under a capital lease had a total cost of $455.8 million and $228.6 million, and accumulated depreciation of $9.1 million and $1.1 million, as of September 30, 2017 and December 31, 2016, respectively.

As of September 30, 2017 and December 31, 2016, the rig under an operating lease had a net carrying value of $15.0 million and $16.4 million, and accumulated depreciation of $8.4 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 September 30, 2017, following is the summary of future minimum rentals receivable on operating lease (in thousands):

For the twelve months ending September 30,		
2018	$	8,395
2019		2,829
2020		-
Thereafter		-
Total future minimum rentals	$	11,224

Due to payment delays by the lessee, the Company has deferred revenue recognition from May 2017 onwards and has recorded a net provision of $1.5 million against the total outstanding receivable from the lessee during the nine months ended September 30, 2017.

Note 5 – Asset Held for Sale

On September 14, 2017, the Company entered into a Memorandum of Agreement with a third party to sell the Adriatic IX. The rig was stacked and not being marketed for contract drilling. The Company received a deposit of $2.2 million for the sale which was recorded under "other current liabilities" in the condensed consolidated interim balance sheet as at September 30, 2017. The closing of this transaction occurred on October 13, 2017 and the Company will record a gain of approximately $2.7 million in the fourth quarter of 2017.

Note 6 — Income Taxes

Tax Rate — SDHL, a holding company and Cayman Islands resident, 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 (33.1%) and 23.3 % for the nine months ended September 30, 2017 and 2016, respectively. The difference in effective tax rate for the nine months ended September 30, 2017 as compared to the nine months ended September 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 nine months ended September 30, 2017, despite having a loss before income taxes, resulting in a negative effective tax rate.

Income Tax Expense — Income tax expense was $5.2 million and $8.9 million for the three and nine months ended September 30, 2017, respectively, compared to $6.9 million and $17.0 million for the three and nine months ended September 30, 2016, respectively. The decrease in income tax expense for the nine months ended September 30, 2017 as compared to the nine months ended September 30, 2016 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 2017.

Income tax expense for the three and nine months ended September 30, 2017 is calculated using a discrete approach whereby income tax expense is determined by estimating the actual income tax liability that will result from earnings from continued operations for the three and nine months ended September 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 September 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 September 30, 2017, the amount of indefinitely reinvested earnings was approximately $15.2 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 the 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):

	September 30, 2017	December 31, 2016
Liabilities for uncertain tax positions, excluding interest and penalties	$ 2,165	$ 2,455
Interest and penalties	-	-
Liabilities for uncertain tax positions, including interest and penalties	$ 2,165	$ 2,455

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

	September 30, 2017	December 31, 2016
Balance, beginning of period	$ 2,455	$ 1,357
Reductions for prior period tax positions	(280)	(458)
Reductions related to statute of limitation expirations	(81)	(100)
Additions for current period tax positions	71	1,656
Balance, end of period	$ 2,165	$ 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.

Note 7 — Debt

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

	September 30, 2017	December 31, 2016
Short-term debt		
Unsecured overdraft facility (see note (i) below)	$ 1,715	$ -

(i) Unsecured overdraft facility

On April 26, 2017, Shelf Drilling Egypt Limited, a wholly owned subsidiary of the Company, entered into a $5 million equivalent of foreign currency unsecured and uncommitted 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):

	September 30, 2017	December 31, 2016
Long-term debt		
9.5% Senior Secured Notes, due November 2, 2020 (see note (ii) below)	$ 496,022	$ -
8.625% Senior Secured Notes, due November 1, 2018 (see note (iii) below)	30,095	466,857
Revolving Credit Facility, due April 30, 2020 (see note (iv) below)	-	-
	$ 526,117	$ 466,857

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

For the twelve months ending September 30,	
2018	$ -
2019	30,095
2020	-
2021	496,022
Total debt	$ 526,117

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

	September 30, 2017		
	Principal Amount	Unamortized Debt Issuance Costs	Carrying Value
9.5% Senior Secured Notes, due November 2, 2020	$ 502,835	$ (6,813)	$ 496,022
8.625% Senior Secured Notes, due November 1, 2018	30,415	(320)	30,095
Total	$ 533,250	$ (7,133)	$ 526,117

	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

The effective interest rates on the 9.5% Senior Secured Notes due November 2, 2020 and 8.625% Senior Secured Notes due November 1, 2018 are 10.02% and 9.79%, 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 $0.6 million ($55 thousand was incurred in December 2016). These transactions were recorded as expense under “interest expense and financing charges”.

As of September 30, 2017, $30.415 million aggregate principal amount of 8.625% Senior Secured Notes remains outstanding with $0.3 million 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) 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 and to permanently reduce the facility from $200 million to $160 million with certain other terms of this agreement amended. 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 totaling $14.6 million and $28.5 million as of September 30, 2017 and December 31, 2016, respectively, against the SDHL Revolver. As a result, the remaining available balance under the revolving credit facility is $145.4 million and $171.5 million as of September 30, 2017 and December 31, 2016, respectively. As of December 31, 2016, the available amount for drawdown under the SDHL Revolver was $141.5 million as the second lien note indenture restricted the SDHL Revolver capacity to $170 million.

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 September 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:

	September 30, 2017	December 31, 2016
Current	$ 1,343	$ 1,706
Non-current	2,126	568
Total	$ 3,469	$ 2,274

The amortization of debt issuance costs on the SDHL Revolver amounted to $0.3 million and $1.0 million during the three and nine months ended September 30, 2017, and $0.4 million and $1.3 million during the three and nine months ended September 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 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 8 — Sale and Leaseback

On October 10, 2015, two wholly owned subsidiaries of SDHL, 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 jack-up 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 5.99% and 6.03% and require scheduled monthly average principal payments of approximately $1.5 million each and average interest payments of $0.6 million for each rig for the remaining lease term from October 1, 2017, through December 5, 2021 and June 5, 2022, respectively.

As of September 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 September 30,		
2018	$	52,488
2019		51,477
2020		49,894
2021		47,824
2022		187,782
Thereafter		-
Total future rental payments	$	389,465

The Company made rental payments, including interest, of $13.2 million and $23.9 million during the three and nine months ended September 30, 2017. There were no such transactions during the three and nine months ended September 30, 2016.

The total outstanding balance of obligations under the Sale and Leaseback Transactions is $322.8 million and $244.7 million as of September 30, 2017 and December 31, 2016, respectively.

The Lessor paid $74.1 million and $129.6 million directly to the Builder during the nine months ended September 30, 2017 and 2016, respectively. The Lessor also paid $16.8 million to the Company during the nine months ended September 30, 2017 for cost incurred during the construction period. There were no such payments to the Company during the nine months ended September 30, 2016.

In addition, the Company recorded $3.1 million and $4.2 million for interest in kind on the obligations under the Sale and Leaseback Transactions during the nine months ended September 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 September 30, 2017, the Company was in compliance with all applicable requirements.

Note 9 — 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. The remeasured end of service liability under this plan was $1.3 million, which resulted in a $0.2 million gain which offset the end of service benefit expense in the three months ended September 30, 2016.

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.

The contribution expense related to this plan is $67 thousand and $0.2 million during the three and nine months ended September 30, 2017, respectively, and $52 thousand from the effective date of August 1, 2016 to September 30, 2016. The expenses were previously recorded as end of service benefit expense during the period from January 1, 2016 to July 31, 2016.

End of Service Plans — The Company offers end of service plans to employees in certain countries in accordance with the labor laws in these countries or the Company policy. The Company has recorded approximately $0.9 million and $4.1 million in expense related to employee end of service plans during the three and nine months ended September 30, 2017, respectively, compared to $1.5 million and $9.2 million for the three and nine months ended September 30, 2016, respectively.

Retention Plans —The Company has recorded approximately $0.6 million and $2.2 million in expense related to its employee retention plans for the three and nine months ended September 30, 2017, and approximately $0.3 million and $1.2 million for the three and nine months ended September 30, 2016, respectively. The estimated total cash payments under the retention plans for 2018 are $3.3 million.

Note 10 — Commitments and Contingencies

Operating Leases and Other Commitments – The Company has operating leases and other 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 September 30, 2017. See Note 8 - Sale and Leaseback.

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

	Operating leases and other commitments	Sale and leaseback obligations	Total
For the twelve months ending September 30,			
2018	$ 7,005	$ 52,488	$ 59,493
2019	3,177	51,477	54,654
2020	1,676	49,894	51,570
2021	1,229	47,824	49,053
2022	397	187,782	188,179
Thereafter	-	-	-
Total	$ 13,484	$ 389,465	$ 402,949

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 September 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 $94.3 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 $28.8 million and $33.3 million at September 30, 2017 and December 31, 2016, respectively.

In addition, the Company had outstanding bank guarantees and performance bonds amounting to $14.6 million and $28.5 million as of September 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 $43.4 million and $61.8 million as of September 30, 2017 and December 31, 2016, respectively.

Note 11 — 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):

	September 30, 2017		December 31, 2016	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
9.5% Senior Secured Notes, due November 2, 2020	$ 496,022	$ 507,552	$ -	$ -
8.625% Senior Secured Notes, due November 1, 2018	30,095	30,666	466,857	399,000
Total debt	$ 526,117	$ 538,218	$ 466,857	$ 399,000

The estimated fair value of the Company's long-term debt was determined using quoted market prices. Where more than one quoted market price was obtained, the average of all the quoted market prices was applied (Level 2 measurement). See Note 7 – Debt.

Derivative financial instrument was measured at fair value on a recurring basis using Level 2 inputs. See Note 13 – Derivative Financial Instrument.

Note 12 — Share-based Compensation

SDL had a share-based compensation plan under which it had granted time-based Class B and performance-based Class C restricted shares to the Company's management as remuneration for future service of employment. During Q1 and April 2017, SDL granted additional 554 Class B shares and 55 Class C shares to members of the Company's management while 2,145 Class B shares vested during the same period.

During Q1 2017, the SDL board of directors approved a new ordinary share class (Class D) in addition to its existing A, B and C Classes and authorized to issue of 1,020 Class D shares. These shares were granted to members of the Company's management during April 2017 as performance-based awards under its share-based compensation plan. These Class D shares had no rights to dividends or distributions and would vest immediately upon an exit event or IPO. 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 expense related to the grant date fair value of the Class D shares were to be recognized upon vesting.

All the Class B, C and D shares associated with the employee share-based compensation awards were held in a voting trust on employees' behalf.

On April 28, 2017, SDL executed a recapitalization to simplify its capital structure whereby it repurchased all ordinary shares in Classes A, B, C, and D from the shareholders, retired and replaced these shares with 55,000,000 single class new common shares (the "SDL Recapitalization"). The employee share-based compensation awards in ordinary share Classes B and D were replaced with common shares on a relative value basis consistent with the overall allocation of shareholder equity value in SDL. No other changes were made to the terms of the awards. The new SDL common shares associated with the employee share-based compensation awards continue to be held in a voting trust on employees' behalf. There were no new grants subsequent to the SDL recapitalization date until September 30, 2017 and during the third quarter of 2016.

The table below summarizes the repurchase and replacement of share-based compensation awards for new common shares at the Recapitalization date:

	Ordinary Shares 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 SDL 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 performance based shares on Recapitalization, 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 performance based awards will be recognized in a future period upon IPO or other exit event.

Note 13 — 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.

The Company settled forex contracts, designated as an accounting hedge, with aggregate notional values of approximately $4.7 million and $8.3 million during the three and nine months ended September 30, 2017, respectively, and approximately $9.1 million and $12.7 million during the three and nine months ended September 30, 2016, respectively.

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 nine months ended September 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 September 30,		Three months ended September 30,		Three months ended September 30,	
	2017	2016	2017	2016	2017	2016
Cash flow hedges						
Foreign currency forward contracts...	$ 77	$ 406	$ 97	$ 179	$ -	$ -

	Gain recognized through AOCIL		Gain reclassified from AOCIL to "Operating and maintenance"		Gain recognized through "Other, net"	
	Nine months ended September 30,		Nine months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016	2017	2016
Cash flow hedges						
Foreign currency forward contracts...	$ 162	$ 478	$ 121	$ 204	$ -	$ -

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

	Balance sheet classification	September 30, 2017	December 31, 2016
Asset derivatives			
Cash flow hedges			
Short-term foreign currency forward contracts.....	Other current assets	$ 41	$ -

As of September 30, 2017, the estimated amount of net unrealized gains associated with the forex contracts that will be reclassified to earnings during the next three months was $41 thousand. The net unrealized gains associated with this derivative financial instrument will be reclassified to "Operating and maintenance", to the extent fully effective.

Note 14 — Supplemental Cash Flow Information

As part of the sale and leaseback agreements for the Newbuilds, contractual commitments totaling $74.1 million and $129.6 million were paid by a third party financial institution directly to the Builder during the nine months ended September 30, 2017 and 2016, respectively.

Interest in kind of $3.1 million and $4.2 million were recorded as obligations under the Sale and Leaseback Transactions during the nine months ended September 30, 2017 and 2016, respectively. These non-cash transactions were not reflected on the condensed consolidated interim statements of cash flows for the nine months ended September 30, 2017 and 2016.

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(Unaudited)

In relation to the refinancing of the Company's debt, $86.75 million 9.5% Senior Secured Notes were issued for the partial settlement of the Midco Term Loan which was fully retired, 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 nine months ended September 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):

	Nine months ended September 30,	
	2017	**2016**
Regulatory and capital maintenance	$ 20,377	$ 25,975
Contract preparation	9,592	20,372
Fleet spares and others	-	1,944
	$ 29,969	$ 48,291
Rig acquisitions	228,947	-
Newbuilds	92,002	158,333
Total capital expenditures and deferred costs	$ 350,918	$ 206,624

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):

	Nine months ended September 30,	
	2017	**2016**
Cash payments for additions to property and equipment	$ 248,500	$ 40,746
Net change in accrued but unpaid additions to property and equipment	(1,706)	(6,961)
	$ 246,794	$ 33,785
Add: Asset addition related to sale and leaseback transactions	76,282	133,788
Total capital expenditures	$ 323,076	$ 167,573
Changes in deferred costs, net	$ (20,898)	$ (32,983)
Add: Amortization of deferred costs	48,740	72,034
Total deferred costs	$ 27,842	$ 39,051
Total capital expenditures and deferred costs	$ 350,918	$ 206,624

The total cash and cash equivalents excludes restricted cash amounting to $15.2 million and $9.3 million as of September 30, 2017 and December 31, 2016, respectively. These amounts were included under other assets except for the current portion of $0.6 million 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 15 — Related Parties

The Company has transactions with SDIL, Midco and SDL and these companies are related to the Company by common ownership. These transactions in which one entity pays expenses on behalf of the other entity result in related party receivable and payable balances. The Company has $2.5 million and $46.2 million as receivable under such transactions as of September 30, 2017 and December 31, 2016, respectively. The receivables are recorded in accounts and other receivables, net on the condensed consolidated interim balance sheets.

On April 28, 2017, SDL successfully completed an offering of 28,125,000 new common shares for total gross proceeds of $225 million, of which $215 million was contributed to SDHL as Additional paid-in capital. The related proceeds were used to acquire three premium jack-up drilling rigs, two of which have been delivered on May 18, 2017 and the third one on September 8, 2017. (See Note 4 – Property and Equipment).

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 totalled $0.8 million and $2.4 million during the three and nine months ended September 30, 2017 and $0.8 million and $2.5 million during the three and nine months ended September 30, 2016, respectively. The total liability recorded under accounts payable for such transactions was $0.6 million and $0.6 million as of September 30, 2017 and December 31, 2016, respectively.

The Company recorded $1.3 million and $4.0 million for the three and nine months ended September 30, 2017 and $1.2 million and $3.9 million for the three and nine months ended September 30, 2016, respectively, of Sponsors' (affiliates of Castle Harlan, Inc., CHAMP Equity and Lime Rock Partners) costs related to the $0.4 million 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 $0.1 million and $0.2 million as of September 30, 2017 and December 31, 2016, respectively.

Note 16 — Accounts and Other Receivables, net

The accounts and other receivables are net of a provision for doubtful accounts amounting to $3.4 million as at September 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 against receivables of $91.4 million for certain customers and cash collections of $7.8 million.

Note 17 — Subsequent Events

The Company has evaluated subsequent events through November 14, 2017, the date of issuance of the condensed consolidated interim financial statements.

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

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

This Quarterly Report on Form 10-Q equivalent includes "forward-looking statements" within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. All statements other than statements of historical facts included in this report regarding any of the matters in the list immediately below are forward-looking statements. Forward-looking statements in this report include, but are not limited to, statements about the following subjects:

- our ability to renew or extend contracts, enter into new contracts when such contracts expire, and negotiate the dayrates and other terms of such contracts;
- the demand for our drilling rigs, including the preferences of some of our customers for newer and/or higher specification rigs;
- changes in worldwide rig supply and demand, competition or technology, including as a result of delivery of newbuild rigs;
- the expectations of our customers relating to future energy prices and ability to obtain drilling permits;
- the impact of variations in oil and gas production and prices and demand in hydrocarbons;
- the impact of variations in demand for our products and services;
- sufficiency and availability of funds and adequate liquidity for required capital expenditures and deferred costs, working capital and debt service;
- our levels of indebtedness, covenant compliance and access to future capital;
- the level of reserves for accounts receivables;
- the disproportionate changes in operating and maintenance costs compared to changes in operating revenues;
- downtime and other risks associated with offshore rig operations or rig relocations, including rig or equipment failure, damage and other unplanned repairs;
- the expected completion of shipyard projects including the timing of construction and delivery of newbuild rigs and the return of idle rigs to operations;
- the acquisition and integration of additional rigs;
- future capital expenditures and deferred costs, refurbishment, reactivation, transportation, repair and upgrade costs;
- our strategies and their effects and results;
- our ability to reactivate rigs;
- complex laws and regulations, including environmental, anti-corruption and tax laws and regulations, that can adversely affect the cost, manner or feasibility of doing business;
- litigations, investigations, claims and disputes and their effects on our financial condition and results of operations;
- effects of accounting changes and adoption of accounting policies;
- expectations, trends, and outlook regarding offshore drilling activity and dayrates, industry and market conditions, operating revenues, operating and maintenance expense, insurance coverage, insurance expense and deductibles, interest expense and other matters with regard to outlook and future earnings;
- potential asset impairments as a result of future decline in demand for shallow water drilling rigs;
- the market value of our drilling rigs and of any rigs we acquire in the future may decrease;
- the effects of our acquisition of three premium jack-up rigs in 2017;
- effects of customer interest or inquiries;
- the global number of contracted rigs, and our ability to benefit from any increased activity;
- our ability to attract and retain skilled personnel on commercially reasonable terms, whether due to labor regulations, unionization or otherwise;
- the security and reliability of our technology systems and service providers;
- adverse changes in foreign currency exchange rates;
- changes in general economic, fiscal and business conditions in jurisdictions in which we operate and elsewhere; and
- our ability to obtain financing and pursue other business opportunities may be limited by our debt levels, debt agreement restrictions and the credit ratings assigned to our debt by independent credit rating agencies.

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

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

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

Business

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

The Company's fleet comprises 39 independent cantilever jack-up rigs and one swamp barge, and currently operates in four broad geographic markets: the Middle East/North Africa/Mediterranean, Southeast Asia, India and West Africa. At September 30, 2017, the Company was the world's largest contractor of independent-leg cantilever jack-up rigs by number of rigs.

Recent events

On January 12, 2017, SDHL and its Parents, Midco and SDL, successfully refinanced their long term debt. SDHL issued $502.835 million of new 9.5% Senior Secured Notes due November 2020 in exchange for and cancellation of $444.585 million of 8.625% Senior Secured Notes due November 2018 (of which $28.5 million was a principal payment in cash), and $86.75 million in exchange for partial settlement of the $350 million Midco Term Loan. The remaining balance of the Midco Term Loan was settled through the issuance of $166.7 million of SDL preference shares to certain equity sponsors and payment of $85.8 million cash by Midco. In addition, the Company successfully amended the revolving credit facility to extend its maturity date from April 2018 to April 2020 and permanently reduced the facility from $200 million to $160 million. See *Note 6– Debt*.

On April 6, 2017, the Company took delivery of the second Newbuild high specification jack-up rig from the Builder which was under construction since 2014. The rig, which is under a sale and leaseback arrangement, commenced a five-year contract with Chevron Thailand Exploration and Production, Ltd ("Chevron") on June 1, 2017, after completion of all customer acceptance requirements.

On April 28, 2017, SDL 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"). 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. SDL contributed $215.0 million of the gross proceeds to SDHL. In connection with the Private Placement, SDL also converted its classes of A, B, C and D ordinary shares into a single class of new common shares.

On April 29, 2017, the Company entered into three separate asset purchase agreements to acquire three premium jack-up drilling rigs from a third party for $75.4 million each. Two of the rigs were delivered to the Company in May 2017 and the third rig was delivered in September 2017. The proceeds received by SDL from the Private Placement were used to fund these rig acquisitions.

At June 30, 2017, the Company recorded a non-cash impairment loss of $34.8 million in relation to four rigs out of which one rig was impaired to salvage value. This non-cash impairment is included in loss on impairment of assets in the condensed consolidated interim statements of operations.

During the third quarter of 2017, the Company secured a two-year contract for each of the Shelf Drilling Tenacious and the Shelf Drilling Mentor, two of the recently acquired premium jack-up drilling rigs, with Dubai Petroleum Establishment with a planned startup date of January 2018. In addition, the Company secured a contract for the Shelf Drilling Resourceful, the third recently acquired premium jack-up rig, as a substitute for another Company owned rig with an international oil company with a planned startup date of December 2017.

Drilling fleet

The following table summarizes the Company's offshore drilling rigs as of September 30, 2017 and 2016:

	As of September 30,	
	2017	2016
Jackups	39	34
Swamp barge	1	1
Under construction	-	2
Total	40	37

The Company added three premium jack-up drilling rigs and one Newbuild rig to its active fleet during the nine months ended September 30, 2017. The three premium jack-up drilling rigs, Shelf Drilling Resourceful, Shelf Drilling Tenacious and Shelf Drilling Mentor, were part of the three separate asset purchase agreements from a third party for $75.4 million each.

The Shelf Drilling Resourceful and Shelf Drilling Mentor rigs are a LeTourneau Super 116 design, capable of operating in water depths of up to 350 feet and for use in constructing wells with maximum drilling depth of 30,000 feet. The Shelf Drilling Tenacious rig is a Baker Marine Pacific Class 375 design, capable of operating in water depths of up to 375 feet and for use in constructing wells with maximum drilling depth of 30,000 feet. These rigs have proven designs, reputable operating histories and are expected to commence drilling operations in the Middle East and West Africa in January 2018 and December 2017, respectively.

In addition, the second Newbuild rig, the Shelf Drilling Krathong was delivered on April 6, 2017. This rig is a LeTourneau Super 116 E design, capable of operating in water depths of up to 350 feet and for use in constructing wells with maximum drilling depth of 30,000 feet. This highly-customized, “fit-for-purpose” newbuild rig was uniquely designed to meet Chevron’s specific needs in the Gulf of Thailand.

On September 14, 2017, the Company entered into a Memorandum of Agreement to sell the Adriatic IX, which was stacked and not being marketed for contract drilling, with the final closing of this transaction on October 13, 2017. The rig is reported under Asset held for sale as of September 30, 2017.

Outlook

The business environment for offshore drilling contractors continues to be challenging with continued pressure on market dayrates. The Company however believes there are indications of an improving market for jack-up rig services. Crude oil prices, which are a key driver of exploration, development and production activity by our customers, strengthened in Q3 2017 with Brent crude oil establishing at $64.27 per barrel on November 6, 2017, from a high of $115.06 per barrel on June 19, 2014 to a low of $27.88 per barrel on January 20, 2016. During the commodity price down-cycle, however, the Middle East and India, two of our core operating regions, have remained relatively steady and represent a growing share of the contracted jack-up rig market.

The relatively low breakeven prices and short cycles of shallow water projects promoted their resiliency in recent years as compared to other oil and gas resources, such as North American shale and deepwater projects. Moreover, as the market for offshore drilling services improves, it is expected that “brownfield projects,” or projects related to infill drilling and workovers, will benefit earlier as compared to “greenfield” exploration and development projects, due to their comparatively attractive breakeven points. The lower-risk and short-cycle of these brownfield projects, and their general location in mature shallow water basins, mean that jack-ups are frequently contracted for these projects, and it is the Company’s view that such brownfield projects are expected to more than double the number of rig years dedicated to such projects compared to greenfield exploration and development projects. As our core operating regions feature a large proportion of potential brownfield projects, we believe we may benefit earlier in any recovery for contract drilling services than many of our competitors that focus on greenfield exploration and development activities involving resources with higher breakeven points, such as deepwater projects.

While price competition among offshore drilling contractors remains intense, the global number of contracted jack-up rigs has begun to increase, growing by 3% from December 2016 to September 2017. Further, there has been a significant rise in tendering activity in 2017 compared to 2016, which has the potential to result in a continued increase in the global number of contracted rigs. We experienced an increase in market and tender inquiries from our customers to date in 2017, particularly in the Middle East and other key markets. Oil and gas companies have expressed a high interest to date in 2017 in increasing their drilling activity in our core operating regions. We believe that we will be well-positioned to benefit from any increase in demand for jack-up rig services due to our operating track record and competitive low cost structure.

Key Performance Indicators

Contract backlog — Contract backlog was $1.4 billion across 26 contracted rigs with a weighted average backlog dayrate of $96.2 thousand per day and average contracted days of 551 per rig as of September 30, 2017, compared with $1.9 billion across 27 contracted rigs with a weighted average dayrate of $93.4 thousand per day and average contracted days of 749 per rig as of September 30, 2016.

"Contract backlog" is defined as the maximum contract drilling dayrate revenue that can be earned from a drilling contract based on the contracted operating dayrate less any planned out-of-service periods during the firm contract period for regulatory inspections and surveys or other work. Contract backlog excludes revenue resulting from mobilization and demobilization fees, capital or upgrade reimbursement, recharges, bonuses and other revenue sources. Our contract backlog includes only firm commitments for contract drilling services represented by definitive agreements. Contract backlog also includes revenues under non-drilling contracts for the use of our rigs such as bareboat charters and contracts for accommodation units. For these contracts, contract backlog includes the maximum contract amount of revenue. The contract period excludes additional periods resulting from the future exercise of extension options under our contracts, and such extension periods are included only when such options are exercised. The contract operating dayrate may temporarily change due to mobilization, weather and repairs, among other factors.

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

Average dayrate — The average dayrate realized for the three and nine months ended September 30, 2017 was $71.5 thousand and $69.4 thousand, a decrease of 1.7 % and 9.3 %, respectively, from the average dayrate of $72.7 thousand and $76.5 thousand realized for the three and nine months ended September 30, 2016, respectively. The decrease in the average dayrate reflects the continued pressure on dayrates due to intense price competition.

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

Marketable rigs — As of September 30, 2017, 35 rigs are marketable, one rig is under non-drilling contract and four rigs are stacked compared to 31 marketable rigs, one rig under non-drilling contract and three stacked rigs as of September 30, 2016. The increase in the marketable rigs is a result of the delivery of the second Newbuild and acquisition of three premium jack-up rigs.

"Marketable rigs" are defined as all of our rigs that are operating or are available to operate, which excludes stacked rigs, rigs undergoing reactivation projects, rigs under non-drilling contracts and Newbuild rigs under construction.

Marketed Utilization — Marketed utilization in Q3 2017 of 58% was lower than the marketed utilization in Q3 2016 of 77%. The decrease was primarily driven by the contract expirations of four rigs in India in 2017. There were ten rigs idle awaiting marketing opportunities at the end of Q3 2017 compared to seven rigs at the end of Q3 2016.

"Marketed utilization" measures the dayrate revenue efficiency of our marketable rigs and is defined as the number of days during which marketable rigs generate dayrate revenue divided by the maximum number of days during which those rigs could have generated dayrate revenue. Marketed utilization varies due to changes in operational uptime, planned downtime for periodic surveys, timing of underwater inspections, contract preparation and upgrades, time between contracts and the use of alternative dayrates for waiting-on-weather periods, repairs, standby, force majeure, mobilization or other rates that apply under certain circumstances. We exclude all other types of revenue from marketed utilization. Marketed utilization fluctuations between periods are primarily driven by the number of in service rigs which are working under contract versus the number of in service rigs which are undergoing contract preparations, scheduled maintenance or which are idle.

Operating Results

Three months ended September 30, 2017 ("Q3 2017") compared to three months ended September 30, 2016 ("Q3 2016")

Revenue — Revenue for Q3 2017 was $137.8 million compared to $178.7 million for Q3 2016. Q3 2017 revenue consisted of $134.0 million (97.3%) of operating revenue and $3.8 million (2.7%) of other operating revenue. In Q3 2016, these same revenues were $174.5 million (97.6%) and $4.2 million of revenue (2.4%), respectively.

Revenue in Q3 2017 decreased by $40.9 million compared to Q3 2016 primarily due to $35.5 million related to lower marketed utilization (58% in Q3 2017 compared to 77% in Q3 2016), $22.8 million related to lower average earned dayrates ($71.5 thousand in Q3 2017 compared to $72.7 thousand in Q3 2016), $9.3 million lower revenue related to contract termination fees received in Q3 2016 and $1.4 million of lower other revenue in Q3 2017. This was partly offset by $28.1 million of higher operating revenue due to the operations of the two newbuilds.

Operating and Maintenance Expenses — Total operating and maintenance expenses for Q3 2017 were $74.6 million, or 54.1% of total revenue, compared to $79.9 million, or 44.7% of total revenue, for Q3 2016. Operating and maintenance expenses for Q3 2017 consisted of $66.7 million rig-related expenses and $7.9 million shore-based expenses. In Q3 2016, these same expenses were $71.6 million and $8.3 million, respectively.

In Q3 2017, rig-related expenses included $37.2 million for personnel expenses, $21.4 million for rig maintenance expenses and $8.1 million for other rig-related expenses. This compares to $41.9 million, $18.5 million and $11.2 million for those respective categories in Q3 2016. Compared to Q3 2016, the $4.9 million decrease in rig-related expenses was due to $8.0 million lower expenses for stacked and idle rigs awaiting marketing opportunities, $3.2 million of cost savings and $2.5 million lower maintenance across the fleet. This was partly offset by $6.3 million of higher costs related to the operating costs of the two newbuilds for which contracts started on December 1, 2016 and June 1, 2017, respectively, and $2.5 million of operating and reactivation expenses for the premium jack-up rigs that were acquired in May and September 2017.

There were $0.4 million of cost savings across local shore-based offices (a 4.8% decrease from Q3 2016), primarily attributable to headcount reductions and cost restructuring throughout 2016 due to the reduction in rig activity.

Depreciation Expense — Depreciation expense for Q3 2017 was $20.7 million compared to $17.9 million in Q3 2016. The increase of $2.8 million related to $3.5 million depreciation of the two newbuilds which were placed into service in December 2016 and June 2017, respectively, and $1.6 million depreciation on the recently acquired premium jack-up rigs. This was partially offset by $2.3 million lower depreciation on drilling rigs and equipment which were impaired in June 2017 and December 2016.

Amortization of Deferred Costs — The amortization of deferred costs for Q3 2017 was $15.4 million compared to $27.5 million for Q3 2016. The $12.1 million decrease in amortization primarily related to fully amortized contract preparation costs on three rigs and two rigs that were terminated or ended their contracts in 2016 and first quarter of 2017, respectively, and one rig that was fully impaired in each period in June 2017 and December 2016.

Loss on disposal of assets — Loss on disposal of assets was $47 thousand and $1.9 million for Q3 2017 and Q3 2016, respectively. The $1.9 million decrease in loss on disposal of assets was primarily due to the lower loss on disposal and sale of other equipment in Q3 2017 compared to Q3 2016.

General and Administrative Expenses — General and administrative expenses for Q3 2017 were $7.5 million compared to $2.8 million for Q3 2016. The $4.7 million increase in general and administrative expenses was due to $3.2 million of lower releases of provision for doubtful accounts in Q3 2017 as there were $7.8 million releases in Q3 2016 compared to $4.6 million in Q3 2017 and $1.5 million of higher costs primarily related to legal and audit fees.

Other (Expense) / Income, net — Other (expense) / income, net totaled $19.4 million in Q3 2017 and $11.1 million for Q3 2016. Other expense consisted primarily of interest expense and financing charges of $18.7 million and $10.4 million during Q3 2017 and Q3 2016, respectively. Interest expense and financing charges are related to the Senior Secured Notes, Revolving Credit Facility and sale and leaseback financing facilities. Interest expense and financing charges for Q3 2017 were $8.3 million higher compared with Q3 2016 due to $6.7 million higher interest on the sale and leaseback financing facility in Q3 2017 and $1.5 million higher interest due to the debt restructuring of the Senior Secured Notes and Revolving Credit Facility that took place in January 2017. Also included in the Other Income / (Expense), net are the foreign exchange (losses)/gains classified under "Other, net" which are $1.1 million unfavorable in Q3 2017 compared to $0.8 million unfavorable in Q3 2016.

Income Tax Expense — Income tax expense for Q3 2017 was $5.2 million compared to Q3 2016 income tax expense of $6.9 million. While the Company is exempt from all income taxation in the Cayman Islands, a provision for income taxes is recorded based on the tax laws and rates applicable in the jurisdictions in which the Company operates and earns income or is considered resident for income tax purposes. The relationship between the provision for or benefit from income taxes and the income or loss before income taxes can vary significantly from period to period considering, among other factors, (a) the overall level of income or loss before income taxes, (b) changes in the blend of income that is taxed based on gross revenues rather than income or loss before taxes, (c) rig movements between taxing jurisdictions and (d) changes to the Company's rig operating structures which may alter the basis on which the Company is taxed in a particular jurisdiction.

Income tax expense for Q3 2017 is lower than in Q3 2016 primarily due to lower revenue in Q3 2017 as the Company is taxed in various jurisdictions based on a percentage of gross revenue.

Nine months ended September 30, 2017 compared to Nine months ended September 30, 2016

Revenue — Revenue for the nine months ended September 30, 2017 was $426.9 million compared to $528.2 million for the same period in 2016. The revenue for the nine months ended September 30, 2017 consisted of $413.9 million (97.0 %) of operating revenue and $13.0 million (3.0%) of other operating revenue. In 2016, these same revenues were $517.1 million (97.9%) and $11.1 million of revenue (2.1%), respectively.

Revenue for the nine months ended September 30, 2017 decreased by $101.3 million compared to the same period in 2016 due to $85.0 million lower average earned dayrates ($69.4 thousand in 2017 compared to $76.5 thousand in 2016), $65.0 million lower marketed utilization (64% in 2017 compared to 75% in 2016), $9.3 million lower revenue related to contract termination fees and $1.1 million lower other revenue in 2017. This was partly offset by $59.1 million higher operating revenue due to the operations of the two newbuilds.

Operating and Maintenance Expenses — Total operating and maintenance expenses for the nine months ended September 30, 2017 were $216.2 million, or 50.6% of total revenue, compared to $269.3 million, or 51.0% of total revenue, for the same period in 2016. Operating and maintenance expenses for the nine months ended September 30, 2017 consisted of $192.0 million rig-related expenses and $24.2 million shore-based expenses. During the same period in 2016, these expenses were $240.9 million and $28.4 million, respectively.

During the nine months ended September 30, 2017, rig-related expenses included $115.9 million for personnel expenses, $52.3 million for rig maintenance expenses and $23.8 million for other rig-related expenses. This compares to $147.8 million, $66.6 million and $26.7 million for those respective categories during the same period in 2016. Compared to the nine months ended September 30, 2016, the decrease in rig-related expenses of $48.9 million was due to $40.6 million lower expenses for stacked and idle rigs awaiting marketing opportunities, $18.6 million of cost savings across the fleet and $3.6 million lower other costs. This was partly offset by $13.9 million higher costs related to the operating costs of the two newbuilds for which contracts started on December 1, 2016 and June 1, 2017, respectively.

There were $4.2 million of cost savings across local shore-based offices (a 14.8% decrease from 2016), primarily attributable to headcount reductions and cost restructuring throughout 2016 due to the reduction in rig activity.

Depreciation Expense — Depreciation expense for the nine months ended September 30, 2017 was $58.9 million compared to $53.4 million for the same period in 2016. The increase of $5.5 million related to $7.8 million depreciation of the two newbuilds which were placed into service in December 2016 and September 2017, respectively, and $2.5 million of depreciation on the acquired premium jack-up rigs. This was partly offset by $4.8 million lower depreciation on drilling rigs and equipment which were impaired in June 2017 and December 2016.

Amortization of Deferred Costs - The amortization of deferred costs for the nine months ended September 30, 2017 was $48.7 million compared to $72.0 million for the same period in 2016. The $23.3 million decrease primarily related to fully amortized contract preparation costs on three rigs and four rigs that were terminated or ended their contract in 2017 and 2016, respectively, and one rig that was fully impaired in each period in June 2017 and December 2016.

General and Administrative Expenses — General and administrative expenses for the nine months ended September 30, 2017 were $30.2 million compared to $26.0 million for the same period in 2016. The $4.2 million increase in general and administrative expenses resulted from $3.1 million of lower releases related to the provision for doubtful accounts in 2017, $0.5 million higher costs primarily related to legal fees and $0.6 million higher share-based compensation in 2017.

Loss on Impairment of Assets — Loss on impairment of assets was $34.8 million and nil for the nine months ended September 30, 2017 and 2016, respectively. This non-cash impairment loss represented an impairment loss on four of the Company's rigs, out of which one rig was impaired to salvage value during Q2 2017. The impairment loss was recorded as a result of crude oil prices further declining in Q2 2017, continued pressure on market dayrates and an increase in the number of idle rigs.

Loss on disposal of assets — Loss on disposal of assets was $0.4 million and $3.7 million for the nine months ended September 30, 2017 and 2016, respectively. The $3.3 million decrease in loss on disposal of assets primarily resulted from the $2.2 million lower loss on disposal and sale of other capital equipment in 2017 compared to 2016 and $1.1 million loss on retirement in 2016 related to the sale of two rigs that were stacked since the initial acquisition.

Other (Expense) / Income, net — Other (expense) / income, net was an expense of $64.6 million for the nine months ended September 30, 2017 and $30.9 million for the same period in 2016. Interest expense and financing charges for the nine months ended September 30, 2017 were $33.8 million higher compared to the same period in 2016 due to the $13.7 million loss on debt extinguishment associated with the refinancing of our debt, $8.0 million lower capitalized interest, $6.8 million higher interest on Senior Secured Notes and $6.0 million higher interest expense on the sale and leaseback financing facility. This was partly offset by $0.7 million lower other interest expense primarily relating to the Revolving Credit Facility.

The loss on debt extinguishment of $13.7 million included the $7.5 million write-off of unamortized debt issuance costs, $5.7 million of incentive fees paid to bondholders and $0.5 million legal fees.

Also included in the Other Income / (Expense), net are Other, net which was $1.9 million unfavorable during the nine months ended September 30, 2017 compared to $1.5 million unfavorable in the nine months ended September 30, 2016. The difference of $0.4 million was mainly due to foreign currency exchange fluctuations. The interest income of $0.8 million was also higher by $0.5 million during the nine months ended September 30, 2017 compared to the corresponding period in 2016 due to a higher cash balance.

Income Tax Expense — Income tax expense for the nine months ended September 30, 2017 was $8.9 million compared to $17.0 million for the same period in 2016. While the Company is exempt from all income taxation in the Cayman Islands, a provision for income taxes is recorded based on the tax laws and rates applicable in the jurisdictions in which the Company operates and earns income or is considered resident for income tax purposes. The relationship between the provision for or benefit from income taxes and the income or loss before income taxes can vary significantly from period to period considering, among other factors, (a) the overall level of income or loss before income taxes, (b) changes in the blend of income that is taxed based on gross revenues rather than income or loss before taxes, (c) rig movements between taxing jurisdictions and (d) changes to the Company's rig operating structures.

Income tax expense for the nine months ended September 30, 2017 is lower than for the same period in 2016 primarily due to (a) a reduction in deferred tax liabilities related to the future income tax cost of repatriating the unremitted earnings of certain subsidiaries due to a decrease in the amount of unremitted earnings which the Company believes will be repatriated in the foreseeable future, (b) 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 2017, and (c) lower revenue for the 2017 period as we are taxed in various jurisdictions based on a percentage of gross revenue.

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

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

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2017	2016	2017	2016
	(In thousands)		(In thousands)	
Net (loss) / income	$ (5,185)	$ 30,616	$ (35,841)	$ 55,927
Add back:				
Interest expense and financing charges, net of interest income (1)	18,306	10,263	62,671	29,422
Income tax expense (2)	5,178	6,940	8,919	16,976
Depreciation (3)	20,743	17,869	58,853	53,446
Amortization of deferred costs (4)	15,412	27,543	48,740	72,034
Loss on impairment of asset	-	-	34,802	-
Loss on disposal of assets	47	1,929	362	3,710
Sponsors' fee (5)	1,125	1,125	3,375	3,375
Share-based compensation expense, net of forfeitures (6)	209	157	634	23
Acquired rig reactivation costs (7)	2,140	-	2,140	-
Adjusted EBITDA	$ 57,975	$ 96,442	$ 184,655	$ 234,913

(1) "Interest expense and financing charges, net of interest income" represents interest expenses incurred and accrued on the Company's debt and the amortization of debt issuance fees and costs over the term of the debt net of capitalized interest and interest income. This also includes the loss on debt extinguishment in relation to the refinancing of the Company's debt during the Q1 2017.

(2) "Income tax (benefit) / expense" comprises income tax expense incurred by the Company.

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

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

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

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

(7) "Acquired rig reactivation costs" represent the expenditures accounted for as operating expenses in accordance with GAAP, which were incurred in connection with the reactivation of stacked or idle rigs acquired with the specific intention to reactivate and deploy.

For the three and nine months ended September 30, 2017, the Company's unrestricted subsidiaries accounted for $18.7 million (32.2%) and $37.5 million (20.3%), respectively, of the Company's Adjusted EBITDA. In 2016, the corresponding figures were $8.9 million (9.2%) and $9.0 million (3.8%), respectively. As of September 30, 2017 and December 31, 2016, the Company's unrestricted subsidiaries had assets of $716.6 million, representing 42.1%, and $402.9 million, representing 26.3%, of the Company's total assets, respectively.

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

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

Sources and uses of cash

Our sources of liquidity principally consisted of cash balances in banks, cash generated from operations, availability under the SDHL Revolver and the unsecured line of credit, the sale and leaseback financing of the Newbuild rigs and capital contribution by SDL. Our primary uses of cash were capital expenditures and deferred costs payments, dividend distributions to the parent, repayment of long term debt, debt issuance costs payments, and interest and income tax payments.

The Company had $106.5 million and $113.1 million in cash and cash equivalents as of September 30, 2017 and December 31, 2016, respectively. Under the SDHL Revolver, the Company had $14.6 million of surety bonds issued as of September 30, 2017 compared to $28.5 million as of December 31, 2016. In addition, there were no cash borrowings under the facility during this period. The Company has utilized $1.7 million from the unsecured line of credit facility as of September 30, 2017. There was no such transaction as of December 31, 2016.

We may consider establishing additional financing arrangements with banks or other capital providers. Subject in each case to then existing market conditions and to our then-expected liquidity needs, among other factors, we may use a portion of our internally generated cash flows to reduce debt prior to scheduled maturities through debt repurchases, either in the open market or in privately negotiated transactions or through debt redemptions or tender offers.

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

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

	Nine Months Ended September 30,	
	2017	**2016**
Net cash provided by operating activites before changes in operating assets and liabilities	$ 70,060	$ 121,327
Changes in operating assets and liabilites		
Intercompany receivables	43,759	(3,139)
Other operating assets and liabilities, net	7,921	14,259
Net cash provided by operating activities	121,740	132,447
Net cash used in investing activities	(236,196)	(38,618)
Net cash provided by / (used in) financing activities	107,894	(135,644)
Net decrease in cash and cash equivalents	(6,562)	(41,815)
Cash and cash equivalents at beginning of period	113,106	115,656
Cash and cash equivalents at end of period	$ 106,544	$ 73,841

Net cash provided by operating activities

Net cash provided by operating activities totaled $121.7 million during the nine months ended September 30, 2017, compared to $132.4 million during the corresponding 2016 period. The decrease of $10.7 million primarily resulted from the decrease in operating cash flows before working capital changes of $51.3 million partly offset by the $44.5 million collection from settlement of intercompany receivables from its Parents.

During the nine months ended September 30, 2017 and 2016, the Company made cash payments of $36.9 million and $16.7 million in interest and financing charges, respectively, net of interest amounts capitalized of $2.5 million and $8.5 million in relation to our Newbuilds rig construction, respectively. The amounts for capitalized interest are included in cash used in investing activities as capital expenditures.

The Company also made cash payments of $13.1 million and $20.2 million in income taxes during the nine months ended September 30, 2017 and 2016, respectively. The decrease of $7.1 million is primarily due to reduced revenue during the nine months ended September 30, 2017 as compared to the same period in 2016.

Net cash used in investing activities

Net cash used in investing activities totaled $236.2 million during the nine months ended September 30, 2017 compared to $38.6 million during the nine months ended September 30, 2016. Our primary use of cash for investing activities in 2017 included $248.5 million of additions to property and equipment, partially offset by the $16.9 million paid to us by the Lessor under the sale and leaseback transactions for costs incurred on a Newbuild rig.

Cash used for capital expenditures, including capitalized interest, totaled $248.5 million during the nine months ended September 30, 2017 and $40.7 million during the nine months ended September 30, 2016. The increase of $207.8 million is primarily attributable to the $226.1 million for the purchase of the three premium jack-up drilling rigs, partly offset by the lower expenditures on the Newbuilds and reduced capital spending initiatives across the fleet for the nine months ended September 30, 2017.

As part of the sale and leaseback agreements for the Newbuilds, contractual commitment payments totaling $74.1 million and $129.6 million were made by the third party financial institutions directly to the shipyard constructing the rigs during the nine months ended September 30, 2017 and 2016, respectively, and $3.1 million and $4.2 million of interest in kind was recorded as capitalized interest and obligation under sale and leaseback during the nine months ended September 30, 2017 and 2016, respectively. These non-cash transactions were not reflected on the condensed consolidated interim statements of cash flows for the nine months ended September 30, 2017 and 2016.

Capital expenditures and deferred costs

Capital expenditures and deferred costs include fixed asset purchases, investments associated with the construction of Newbuild rigs and certain expenditures associated with regulatory inspections, major equipment overhauls, contract preparation, including rig upgrades, mobilization and stacked rig reactivations. Capital expenditures and deferred costs can vary from quarter to quarter and year to year depending upon the requirements of existing and new customers, the number and scope of out-of-service projects, the timing of regulatory surveys and inspections, and the number of rig reactivations. Capital additions are included in property and equipment and are depreciated over the estimated remaining useful life of the assets. Deferred costs are included in other current assets and other assets on the balance sheet and are amortized over the relevant periods covering: (i) the underlying firm contractual period to which the expenditures relate, or; (ii) the period until the next planned similar expenditure is to be made. The cash payments related to additions to property and equipment are included under investing activities while the additions to deferred costs are included under operating activities in the statements of cash flows.

The following table sets out the Company's capital expenditures and deferred costs for the nine months ended September 30, 2017 and 2016 (in thousands):

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Regulatory and capital maintenance (1)	$ 20,377	$ 25,975
Contract preparation (2)	9,592	20,372
Fleet spares and others (3)	-	1,944
	$ 29,969	$ 48,291
Rig acquisitions (4)	228,947	-
Newbuilds (5)	92,002	158,333
Total capital expenditures and deferred costs	$ 350,918	$ 206,624

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

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

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

(4) Includes all capital expenditures and deferred costs associated with the acquisition of three premium jack-up drilling rigs in 2017.

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

Capital expenditures and deferred costs increased by $144.3 million for the nine months ended September 30, 2017 compared to the same period in 2016 mainly due to $228.9 million related to the acquisition of three premium jack-up drilling rigs. This was partly offset by the decrease of $66.3 million attributable to the two Newbuild rigs under construction, from $158.3 million in the nine months ended September 30, 2016 to $92.0 million for the same period in 2017, and the $18.3 million decline in other capital expenditures and deferred costs from $48.3 million in the nine months ended September 30, 2016 to $30.0 million for the same period in 2017 mainly due to a $10.8 million reduction in contract preparation expenditure in 2017 and a $5.6 million reduction in regulatory and capital maintenance associated with the reduction in activity.

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

	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016
Cash payments for additions to property and equipment	$ 248,500	$ 40,746
Net change in accrued but unpaid additions to property and equipment	(1,706)	(6,961)
	$ 246,794	$ 33,785
Add: Asset addition related to sale and leaseback transactions	76,282	133,788
Total capital expenditures	$ 323,076	$ 167,573
Changes in deferred costs, net	$ (20,898)	$ (32,983)
Add: Amortization of deferred costs	48,740	72,034
Total deferred costs	$ 27,842	$ 39,051
Total capital expenditures and deferred costs	$ 350,918	$ 206,624

Net cash provided by / (used in) financing activities

Net cash provided by financing activities totaled $107.9 million during the nine months ended September 30, 2017 compared to net cash used in financing activities of $135.6 million during the nine months ended September 30, 2016.

In April 2017, concurrently with the successful completion of the $225 million Private Placement offering, SDL provided the Company $215.0 million of capital contribution which was used to purchase the three premium jack-up drilling rigs. Refer to the "Capital expenditures and deferred costs" section.

In connection with the refinancing of the Company's debt, the Company used $28.5 million of cash to partially pay for the exchange and cancellation of the $444.585 million 8.625% SDHL Senior Secured Notes due November 2018 for $416.085 million 9.5% Senior Secured Notes due November 2020 during the nine months ended September 30, 2017. In addition, the Company issued $86.75 million 9.5% Senior Secured Notes for the partial settlement of the $350 million Midco Term Loan. As a result, the Company issued a total of $502.835 million 9.5% Senior Secured Notes during the current period which were not reflected on the condensed consolidated interim statements of cash flows as these are non-cash transactions.

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

During the nine months ended September 30, 2017, the Company incurred $10.9 million of legal and other related fees for the refinancing transaction, of which $10.4 million were capitalized as debt issuance costs and $0.5 million were recorded as loss on debt extinguishment and included in "interest expense and financing charges" in our condensed consolidated statement of operations.

The Company paid $54.0 million and $135.6 million in dividend to its parent during the nine months ended September 30, 2017 and 2016, respectively. The dividend paid to its parent during 2017 included $34.3 million to settle an intercompany payable, $10.1 million to facilitate the Midco Term Loan's interest payment and $9.6 million for the SDL dividend to its preferred shareholders. The dividend paid to the parent during the comparative 2016 period was used to settle the bi-annual interests on its loan.

During the nine months ended September 30, 2017, the Company made rental payments to the Lessor of $23.9 million, of which $16.0 million was related to principal payments, for the Newbuild rigs which entered into capital leases in December 2016 and June 2017, respectively. Also, the Company has utilized $1.7 million from the unsecured line of credit facility during the same period. There were no such transactions during the nine months ended September 30, 2016.

Contractual Obligations

In the normal course of business, we enter into various contractual obligations that impact or could impact our liquidity. As of September 30, 2017, the Company's estimated contractual obligations stated at face value were as follows (in thousands):

	Years ended September 30,						
	2018	2019	2020	2021	2022	Thereafter	Total
Debt repayment (1)	$ -	$ 30,415	$ -	$ 502,835	$ -	$ -	$ 533,250
Interest on debt (2)	52,937	50,529	49,253	3,924	-	-	156,643
Sale and lease back obligations (3)	52,488	51,477	49,894	47,824	187,782	-	389,465
Operating leases and other commitments	7,005	3,177	1,676	1,229	397	-	13,484
Total	$ 112,430	$ 135,598	$ 100,823	$ 555,812	$ 188,179	$ -	$ 1,092,842

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

(2) Assumes no change in the current variable interest rate applied, where applicable. Includes commitment fees on the SDHL Revolver assuming the undrawn balance stays the same as of September 30, 2017.

(3) This represents minimum annual rental payments and Purchase Obligation Price assuming estimated average interest rates pursuant to the sale and leaseback transactions as of September 30, 2017.

Other Commercial Commitments

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

The Company has surety bond facilities in either U.S. dollars or local currencies of approximately $94.3 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 $28.8 million and $33.3 million at September 30, 2017 and December 31, 2016, respectively.

In addition, the Company had outstanding bank guarantees and performance bonds amounting to $14.6 million and $28.5 million as of September 30, 2017 and December 31, 2016, respectively, against the SDHL Revolver.

Therefore, the total outstanding bank guarantees and surety bonds issued by the Company were $43.4 million and $61.8 million as of September 30, 2017 and December 31, 2016, respectively.

Contingencies

As of September 30, 2017, we are not exposed to any contingent liabilities that will result in a material adverse effect on the current consolidated financial position, results of operations or cash flows. The majority of the contingent liabilities that we are exposed to, relate to legal and tax cases, which are fully indemnified by the Seller. See financial information for the Company set out in "Item 1. Financial Statements" in *Note 6 - Income Taxes and Note 10 - Commitments and Contingencies*.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our financial statements, which have been prepared in accordance with GAAP. The preparation of our financial statements requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses and related disclosure of contingent assets and liabilities. Certain accounting policies involve judgments and uncertainties to such an extent that there is a reasonable likelihood that materially different amounts could have been reported under different conditions, or if different assumptions had been used. We evaluate our estimates and assumptions on a regular basis. We base our estimates on historical experience and various other assumptions that are believed to be reasonable under the circumstances, the results of which form the basis for making judgments about the carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates and assumptions used in preparation of our financial statements.

For a discussion of the critical accounting policies and estimates that we use in the preparation of our condensed consolidated interim financial statements, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies, Key Judgements and Estimates" in Part II of our annual report on Form 10-K Equivalent for the year ended December 31, 2016. During the nine months ended September 30, 2017, there were no material changes to the judgments, assumptions or policies upon which our critical accounting estimates are based.

New Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

Interest Rate Risk

The Company is exposed to interest rate risk related to the fixed rate debt under the 9.5% Senior Secured Notes, 8.625% Senior Secured Notes and variable rate debts under the SDHL Revolver, the obligations under the sale and leaseback agreements and the unsecured overdraft facility. Fixed rate debt, where the interest rate is fixed over the life of the instrument and the instrument's maturity is greater than one year, exposes the Company to changes in market interest rates if and when maturing debt is refinanced with new debt. The variable rate debt, where the interest rate may be adjusted frequently over the life of the debt, exposes the Company to short-term changes in market interest rates.

Further, we may utilize derivative instruments to manage interest rate risk, for which we maintain documented policy and procedures to monitor and control the use of the derivative instruments. We are not engaged in derivative transactions for speculative or trading purposes.

Foreign Currency Risk

Our international operations expose us to currency exchange rate risk. This risk is primarily associated with compensation costs of employees and purchasing costs from non-U.S. suppliers, which are denominated in currencies other than the U.S. dollar. We do not have any non-U.S. dollar debt and thus are not exposed to currency risk related to debt.

Our primary currency exchange rate risk management strategy involves structuring certain customer contracts to provide for payment from the customer in both U.S. dollars and local currency. The payment portion denominated in local currency is based on anticipated local currency requirements over the contract term. Due to various factors, including customer acceptance, local banking laws, other statutory requirements, local currency convertibility and the impact of inflation on local costs, actual local currency needs may vary from those anticipated in the customer contracts, resulting in partial exposure to currency exchange rate risk. The currency exchange effect resulting from our international operations has not historically had a material impact on our operating results.

Further, we utilize forex contracts to manage a portion of foreign exchange risk, for which we maintain documented policy and procedures to monitor and control the use of the derivative instruments. We are not engaged in derivative transactions for speculative or trading purposes. Our forex contracts generally require us to net settle the spread between the contracted foreign currency exchange rate and the spot rate on the contract settlement date.

Credit Risk

Our financial instruments that potentially subject us to concentrations of credit risk are cash and cash equivalents and accounts receivables. We generally maintain cash and cash equivalents at commercial banks with high credit ratings.

Our trade receivables are with a variety of government owned or controlled energy companies, publicly listed integrated oil companies or independent exploration and production companies. We perform ongoing credit evaluations of our customers, and generally do not require material collateral. The Company may from time to time require its customers to issue bank guarantee in its favor to cover non-payment under drilling contracts.

An allowance for doubtful accounts is established on a case-by-case basis, considering changes in the financial position of a customer, when it is believed that the required payment of specific amounts owed is unlikely to occur. The allowance for doubtful accounts was $3.4 million and $99.6 million as of September 30, 2017 and December 31, 2016, respectively.

Item 4. Controls and Procedures

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

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

See *Note 10 – Commitments and Contingencies* to the condensed consolidated interim financial statements included in "Item 1. Financial Statements".

Item 1A. Risk Factors

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

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

Not applicable.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

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