OFFERING MEMORANDUM **STRICTLY CONFIDENTIAL**

Shelf Drilling Holdings, Ltd.

$600,000,000 8.250% Senior Notes due 2025
Interest payable February 15 and August 15
Issue price: 100.0%

Shelf Drilling Holdings, Ltd. (the ''Issuer''), a Cayman Islands exempted company and indirect wholly-owned subsidiary of Shelf Drilling, Ltd., a Cayman Islands exempted company (the ''Parent'' or ''SDL''), is offering $600.0 million aggregate principal amount of its 8.250% Senior Notes due 2025 (the ''notes''). The notes will mature on February 15, 2025. Interest will accrue from February 7, 2018 and the Issuer will pay interest on the notes semi-annually in cash in arrears on February 15 and August 15 of each year, commencing on August 15, 2018.

The notes will rank equal in right of payment with all of the Issuer's existing and future senior unsecured indebtedness and senior in right of payment to all of the Issuer's existing and future subordinated indebtedness. On the issuance date of the notes, each of the Issuer's direct and indirect wholly-owned restricted subsidiaries that guarantee the Issuer's revolver will guarantee the notes on a senior unsecured basis; provided, that the Egyptian Subsidiaries (as defined herein) and the Indonesian Subsidiary (as defined herein) are expected to guarantee the notes after the offering. The notes will be fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by each of the Issuer's future direct and indirect restricted subsidiaries that guarantee the Issuer's revolver or, if the revolver is no longer in effect, certain other credit facilities, or if neither the revolver nor such other credit facilities are in effect, each Significant Subsidiary (as defined herein) shall guarantee the notes, subject to certain exceptions. The Issuer has agreed to cause its subsidiary, SDAIII (as defined herein), which will be an unrestricted Subsidiary on the issue date and which holds two recently acquired rigs, to also guarantee the notes within one year of the issue date. Each of the note guarantees will rank equal in right of payment with all existing and future senior unsecured indebtedness and senior in right of payment to all existing and future subordinated indebtedness of such guarantors. The Parent is not a guarantor of the notes. The notes and the note guarantees will be effectively subordinated to all of the Issuer's and guarantors' existing and future secured indebtedness, including indebtedness under the agreements governing certain of the Issuer's and guarantors' existing indebtedness, to the extent of the value of the assets securing such indebtedness, and structurally subordinated to all of the existing and future indebtedness, including any obligations of non-guarantor subsidiaries under the SDA Facility (as defined herein) , preferred stock and other liabilities, including trade payables, of any of the Issuer's subsidiaries that do not guarantee the notes.

At any time prior to February 15, 2021, the Issuer may redeem some or all of the notes at a price equal to 100% of the principal amount of the notes redeemed, plus accrued and unpaid interest, if any, to, but not including, the redemption date, plus a ''make-whole'' premium, as described in this offering memorandum. On or after February 15, 2021, the Issuer may redeem some or all of the notes at the applicable redemption prices set forth in this offering memorandum, plus accrued and unpaid interest, if any, to, but not including, the redemption date. At any time prior to February 15, 2021, the Issuer may also redeem up to 35% of the aggregate principal amount of the notes using an amount not to exceed the net cash proceeds from certain equity offerings, including those of the Parent, the cash proceeds of which are contributed to common equity of the Issuer, at the redemption price set forth in this offering memorandum, plus accrued and unpaid interest, if any, to, but not including, the redemption date. See ''Description of notes—Optional Redemption.''

Upon the occurrence of a Change of Control (as defined herein) and a ratings downgrade, we may be required to make an offer to repurchase all of the notes then outstanding at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but not including, the repurchase date. See ''Description of notes—Change of Control Offer.''

See "Risk factors" beginning on page 15 for a discussion of certain risks that you should consider in connection with an investment in the notes.

The notes will not be listed on any securities exchange or automated dealer quotation system. Currently, there is no public market for the notes. We will not be required to file a registration statement with the Securities and Exchange Commission (the ''SEC'') for an exchange offer for the notes or to file a registration statement for the notes.

The notes have not been and will not be registered under the Securities Act of 1933 (the ''Securities Act'') or the securities laws of any other jurisdiction. Accordingly, the initial purchasers named below are selling the notes only to persons reasonably believed to be qualified institutional buyers in reliance on Rule 144A under the Securities Act and offering and selling the notes to non-U.S. persons outside the United States in compliance with Regulation S under the Securities Act (''Regulation S''). See ''Transfer restrictions'' and ''Plan of distribution'' for additional information about eligible offerees and transfer restrictions.

We expect that delivery of the notes to investors will be made on or about February 7, 2018 in book-entry form through the facilities of The Depository Trust Company (''DTC'') for the account of its participants, including Euroclear Bank, SA/NV and Clearstream Banking, *société anonyme*. See ''Book entry; delivery and form.''

Book-Running Managers

Credit Suisse RBC Capital Markets HSBC J.P. Morgan

Co-Managers

Arctic Securities Clarksons Platou Securities DNB Markets ING UBS Investment Bank

The date of this offering memorandum is January 31, 2018

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In making your investment decision, you should rely only on the information contained in this offering memorandum. We and the initial purchasers have not authorized anyone to provide you with any other information. If you receive any other information, you should not rely on it.

The Issuer and the initial purchasers are offering to sell the notes only in places where offers and sales are permitted.

You should not assume that the information contained in this offering memorandum is accurate as of any date other than the date on the front cover of this offering memorandum.

Shelf Drilling Holdings, Ltd. is a Cayman Islands exempted company. Our registered address is Centralis Cayman Limited, One Capital Place, 3rd Floor, Cayman Islands KY1-1110. Our principal executive offices are located in Dubai, United Arab Emirates at One JLT, Floor 12, Jumeirah Lakes Towers, P.O. Box 212201, and our main telephone number is +971 4 567 3400. Our primary website is located at *www.shelfdrilling.com*. Our website and the information contained on our website are not part of this offering memorandum, and you should rely only on the information contained in this offering memorandum when making a decision as to whether to invest in the notes.

In this offering memorandum, unless otherwise indicated or the context otherwise requires:

- "SDHL" and the "Issuer" refer to Shelf Drilling Holdings, Ltd., a Cayman Islands exempted company and indirect wholly-owned subsidiary of Shelf Drilling, Ltd.;
- "we," "us," "our," "SDL," the "Parent" and the "Company" refers to Shelf Drilling, Ltd., a Cayman Islands exempted company and the indirect parent of Shelf Drilling Holdings, Ltd., together with its subsidiaries; and
- "initial purchasers" refers to the book-running managers and co-managers listed on the cover of this offering memorandum.

This offering memorandum is a confidential document that we are providing only to prospective purchasers of the notes. You should read this offering memorandum before making a decision whether to purchase any notes. You must not:

- use this offering memorandum, or the information it contains, for any other purpose;
- make copies of any part of this offering memorandum or give a copy of it to any other person; or
- disclose any information in this offering memorandum to any other person.

We have prepared this offering memorandum and we are solely responsible for its contents. You are responsible for making your own examination of us and your own assessment of the merits and risks of investing in the notes. You may contact us if you need any additional information. By purchasing any notes, you will be deemed to have acknowledged that:

- you have reviewed this offering memorandum;
- you have had an opportunity to request any additional information that you need from us; and
- the initial purchasers are not responsible for, and are not making any representation to you concerning, our future performance or the accuracy or completeness of this offering memorandum.

We are not providing you with any legal, business, tax or other advice in this offering memorandum. You should consult with your own advisors as needed to assist you in making your investment decision and to advise you whether you are legally permitted to purchase notes.

You must comply with all laws that apply to you in any place in which you buy, offer or sell any notes or possess this offering memorandum. You must also obtain any consents or approvals that you need in order to purchase notes. We and the initial purchasers are not responsible for your compliance with these legal requirements.

The Issuer and initial purchasers are offering the notes in reliance on exemptions from the registration requirements of the Securities Act. These exemptions apply to offers and sales of securities that do not involve a public offering. The notes have not been recommended by any federal, state or foreign securities authorities and they have not determined that this offering memorandum is accurate or complete. Any representation to the contrary is a criminal offense.

The notes are subject to restrictions on resale and transfer as described under "Transfer restrictions." By purchasing any notes, you will be deemed to have represented and agreed to all the provisions contained in that section of this offering memorandum. You may be required to bear the financial risks of investing in the notes for an indefinite period of time.

Market and industry data

In this offering memorandum, we present certain market and industry data. Rystad Energy (“Rystad”) has provided us certain industry information and data contained in this offering memorandum. See “Experts.” Rystad has advised that the statistical information contained herein is drawn from its database and other sources. We do not have any knowledge that the information provided by Rystad is inaccurate in any material respect. Rystad has advised that: (i) certain of the information provided is based on estimates or subjective judgments, (ii) the information in the databases of other offshore drilling data collection agencies may differ from the information in Rystad’s database and (iii) while Rystad has taken reasonable care in the compilation of the statistical information and believes it to be accurate and correct, data collection is subject to limited audit and validation procedures. Other information contained in this offering memorandum regarding our industry and the markets in which we operate is based on our own internal estimates and research. This information is based on third-party sources which we believe to be reliable. Although we believe these third-party sources are reliable as of their respective dates, we have not independently verified the accuracy or completeness of this information. In addition, assumptions and estimates of our and our industry’s future performance are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described in “Risk factors.” These and other factors could cause future performance to differ materially from our assumptions and estimates. See “Disclosure regarding forward-looking statements.”

Trademarks and trade names

We own or have rights to various trademarks, service marks and trade names that we use in connection with the operation of our business. This offering memorandum also contains trademarks, service marks and trade names of third parties, which are the property of their respective owners. Our use or display of third parties’ trademarks, service marks, trade names or products in this offering memorandum is not intended to, and does not imply, a relationship with us or an endorsement or sponsorship by or of us. Solely for convenience, the trademarks, service marks and trade names referred to in this offering memorandum appear without the ®, TM or SM symbols, but such references are not intended to indicate, in any way, that we will not assert, to the fullest extent under applicable law, our rights or the right of the applicable licensor to these trademarks, service marks and trade names.

No review by the Securities and Exchange Commission

The information included in this offering memorandum does not conform in certain cases to information that would be required if this offering were made pursuant to a registration statement filed with the SEC. In addition, this offering memorandum, as well as any other documents related to this offering, will not be reviewed or approved by the SEC, and the indenture governing the notes (the “indenture”) will not be qualified under the Trust Indenture Act of 1939, as amended.

Presentation of financial information

In this offering memorandum, we present the consolidated financial information of the Parent, which has no material assets other than the stock of its subsidiaries, and other than in connection with various financing transactions and intercompany accounts, no material liabilities other than those of the Issuer. The Parent conducts all of its operations through the Issuer and its subsidiaries. Therefore, although the Parent is not an Issuer or a guarantor of the notes, its consolidated revenues and results of operations substantially reflect the consolidated revenues and results of operations of the Issuer and its subsidiaries other than as generally described in this Offering Memorandum. See “Certain financial information of SDL and SDHL” for certain financial information for the Parent and the Issuer and certain adjustments to show the differences between the financial information of SDL and SDHL.

Non-GAAP financial measures

We refer in this offering memorandum to Adjusted Revenue, EBITDA, Adjusted EBITDA and Adjusted EBITDA margin, which are non-GAAP financial measures. These are supplemental financial measures that are not prepared in accordance with generally accepted accounting principles in the United States of America (“GAAP”) and have important limitations as analytical tools. Some of these limitations are that (i) they do not reflect cost or cash outlays for capital expenditures or contractual commitments, (ii) they do not reflect changes in or cash requirements for our working capital needs, (iii) they do not reflect interest expense, or the cash requirements necessary to service interest or principal payments, on our debt, (iv) they do not reflect period-to-period changes in taxes, income tax expense or the cash necessary to pay income taxes, (v) they do not reflect certain impairments and adjustments for purchase accounting and (vi) although depreciation and amortization are non-cash charges, the assets being depreciated and amortized will often have to be replaced in the future, and these non-GAAP financial measures do not reflect cash requirements for such replacements. Any analysis of non-GAAP financial measures should be used only in conjunction with results presented in accordance with GAAP and should not be considered in isolation or as a substitute for analysis of our results as reported under GAAP. In addition, these measures are defined differently by different companies and, accordingly, such measures as used in this offering memorandum may not be comparable to similarly titled measures of other companies.

Adjusted Revenue, EBITDA, Adjusted EBITDA and Adjusted EBITDA margin are supplemental measures of our performance that are not required by or presented in accordance with GAAP. They are not measurements of our financial performance under GAAP and should not be considered substitutes for net earnings (loss) or any other performance measures derived in accordance with GAAP. We define Adjusted Revenue as the sum of gross revenue from rigs operated by us, gross revenue from rigs operated under the operating agreements and other revenue (excluding the amortization of drilling contract intangibles). We define EBITDA as earnings before interest, taxes, depreciation and amortization. Adjusted EBITDA excludes certain items included in net income (loss). See ''Summary—Summary consolidated financial data'' and ''Selected consolidated financial data.'' Adjusted EBITDA margin is defined as Adjusted EBITDA divided by Adjusted Revenue. Management believes that the inclusion of supplementary adjustments to EBITDA applied in presenting Adjusted EBITDA is appropriate to provide additional information to investors. In addition, management uses Adjusted Revenue, EBITDA, Adjusted EBITDA and Adjusted EBITDA margin to evaluate our performance.

The non-GAAP financial measures presented in this offering memorandum may not comply with the SEC rules governing the presentation of non-GAAP financial measures. See ''Summary—Summary consolidated financial data,'' ''Selected consolidated financial data'' and ''Management's discussion and analysis of financial condition and results of operations'' for a further discussion and quantification of non-GAAP financial measures used in this offering memorandum, including reconciliations of non-GAAP financial measures to the most closely comparable financial measures calculated in accordance with GAAP.

Extended Settlement

It is expected that the delivery of the notes will be made on or about the closing date specified on the cover page of this offering memorandum, which will be the fifth business day following the date of the pricing of the notes (this settlement cycle being referred to as ''T+5''). Under Rule 15c6-1 under the Securities Exchange Act of 1934 (the ''Exchange Act''), trades in the secondary market generally are required to settle in two business days, unless the parties to such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the notes on the date hereof or the next two succeeding business days will be required, by virtue of the fact that the notes initially will settle in T+5, to specify alternate settlement arrangements at the time of any such trade to prevent a failed settlement and should consult their own advisor.

Disclosure regarding forward-looking statements

This offering memorandum contains forward-looking statements that are subject to a number of risks and uncertainties, many of which are beyond our control. All statements, other than statements of historical fact included in this offering memorandum, regarding our strategy, future operations, financial position, estimated revenues and losses, projected costs, prospects, plans and objectives of management are forward-looking statements. When used in this offering memorandum, the words ''could,'' ''believe,'' ''anticipate,'' ''intend,'' ''estimate,'' ''expect,'' ''may,'' ''continue,'' ''predict,'' ''potential,'' ''project'' and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. Forward-looking statements contained in this offering memorandum may include, but are not limited to, statements about:

- 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;
- litigation, 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 impairment 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;
- 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;
- the extent to which the Parent will conduct substantially all of its operating activities through the Issuer and its subsidiaries;
- adverse changes in foreign currency exchange rates;
- changes in general economic, fiscal and business conditions in jurisdictions in which we operate and elsewhere;

- 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;
- our incorporation under the laws of the Cayman Islands and the limited rights to relief that may be available compared to U.S. laws; and
- the other factors listed under ‘‘Risk factors’’ and elsewhere in this offering memorandum.

All forward-looking statements speak only as of the date of this offering memorandum; we disclaim any obligation to update these statements unless required by law and we caution you not to place undue reliance on them. Although we believe that our plans, intentions and expectations reflected in or suggested by the forward-looking statements we make in this offering memorandum are reasonable, we can give no assurance that these plans, intentions or expectations will be achieved. We disclose important factors that could cause our actual results to differ materially from our expectations under ‘‘Risk factors’’ and ‘‘Management’s discussion and analysis of financial condition and results of operations’’ and elsewhere in this offering memorandum. These cautionary statements qualify all forward-looking statements attributable to us or persons acting on our behalf.

SUMMARY

This summary highlights certain information about our business and this offering. The information presented in this summary is contained elsewhere in this offering memorandum. This summary is not complete and does not contain all of the information that may be important to you. For a more complete understanding of our business and this offering, you should read this entire offering memorandum, including the sections titled "Risk factors," "Management's discussion and analysis of financial condition and results of operations" and the audited and unaudited consolidated financial statements included elsewhere in this offering memorandum.

Our company

We are a leading international shallow water offshore drilling contractor providing equipment and services for the drilling, completion and well maintenance of shallow water offshore oil and natural gas wells. We are solely focused on shallow water operations in depths of up to 400 feet and own 38 independent-leg cantilever (''ILC'') jack-up rigs and one swamp barge, making us the world's largest owner and operator of jack-up rigs by number of rigs according to Rystad.

Our fleet is well-suited to our core operating regions of the Middle East, India, West Africa and Southeast Asia. These markets are characterized by relatively benign operating conditions with activities concentrated in workover and development programs on producing assets with existing infrastructure. According to Rystad, as of September 30, 2017, we had more jack-up rigs deployed in each of the Middle East, India and West Africa markets than any other operator, giving us a leading position in these markets.

We have well-established customer relationships, primarily with national oil companies (''NOCs'') and large international oil companies (''IOCs''), including affiliates of Saudi Arabian Oil Company (''Saudi Aramco''), Oil and Natural Gas Company of India (''ONGC''), Abu Dhabi National Oil Company (''ADNOC''), Chevron Corporation (''Chevron''), Total SA (''TOTAL'') and Dubai Petroleum Establishment (''DPE''). We believe that our customers prefer to work with well-established drilling contractors that have a strong track record of safety and operating results, and since our inception in 2012, our safety track record has consistently exceeded industry averages with our operating uptime being at least 98.5% per year. We believe this consistent performance has contributed to our average marketed utilization rate of 78% since 2015, which is 8.0% above the shallow water drilling industry average over the same period according to Rystad. We have secured contracts and extensions with an aggregate value of more than $5.1 billion since our inception and, for jack-up rigs, $3.4 billion since 2014, which is more than any other contract drilling company added for jack-up rigs according to Rystad.

Since our inception, we have applied our ''fit-for-purpose'' strategy to enhance the performance of our business, people and processes, leveraging our sole focus on the shallow water segment and the decades of experience of our people with our customers, rigs and markets where we operate. We believe that this approach has made us the lowest-cost global jack-up rig operator as compared to any U.S. public company competitor. This strategy relies on several key pillars, including locating rigs where they are well-suited to customer needs in the areas in which we operate, designing a lean and effective organization, featuring systems and processes streamlined to the specific needs of our business and fleet, and developing national content, as described below in ''—Our competitive strengths.'' This ''fit-for-purpose'' strategy provides substantial value to our customers, improves the productivity of our rigs and employees and advances our industry leading low cost structure and safety performance. This, in turn, drives repeat customer business and new contract wins and enables us to be the international jack-up contractor of choice.

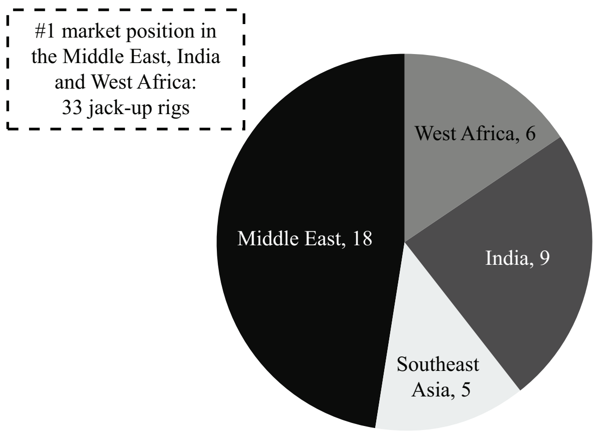
Our revenue, net loss, Adjusted EBITDA and Adjusted EBITDA margin for the nine months ended September 30, 2017 were $426.9 million, $38.7 million, $183.6 million and 43.0%, respectively. For definitions of Adjusted EBITDA and Adjusted EBITDA margin and a reconciliation of Adjusted EBITDA to our most directly comparable measurement of net income (loss) under U.S. generally accepted accounting principles (''GAAP''), see ''Management's discussion and analysis of financial condition and results of operations—How we evaluate our business—Financial measures.'' As of September 30, 2017, we had a total contract backlog of $1.4 billion and 1.5 years per contracted rig, 98.6% of which was with NOCs and IOCs.

Our fleet

Our fleet currently consists of 38 ILC jack-up rigs and one swamp barge. At our inception, we acquired 38 drilling rigs, of which 31 rigs were operating at the time of acquisition, 5 were stacked and 2 were undergoing reactivation. Since the acquisition, we have successfully reactivated three of these five stacked rigs and invested a total of $567.2 million in 28 major projects to enhance our original fleet, including ''smart upgrades'' to our fleet based on targeted improvements to address long-term market trends and meet our customer needs. In addition, we have constructed two newbuild jack-up rigs and, in 2017, we acquired three premium jack-up drilling rigs. As of September 30, 2017, we had 26 contracted rigs, 10 rigs marketable but uncontracted and 3 rigs and 1 swamp barge stacked. One of these stacked rigs was held for sale as of September 30, 2017 and sold in October 2017.

We believe our rigs are well-suited for our customers' requirements in the areas where we operate. We have strategically placed 86.8% of our jack-up fleet in the Middle East, India and West Africa, the regions in which we have the leading market positions. The graphic below sets out the number of our jack-up rigs we currently operate in each of our core operating regions:

Number of Shelf Drilling-operated jack-up rigs by region



Total jack-up rigs: 38

Our competitive strengths

We believe that the following strengths differentiate us from many of our competitors and will contribute to our ongoing success:

Largest jack-up rig contractor globally by number of rigs, with a leading market position in our core operating regions in the Middle East, India and West Africa

According to Rystad, we are the largest jack-up rig operator in the world by number of rigs with a leading market position in the Middle East, India and West Africa. We believe that our sole focus on shallow water drilling allows us to optimize our size and scale in our core operating regions. In addition, we believe this focus allows us to concentrate our rigs in growing geographic markets, promoting operational efficiency and contributing to our low cost structure.

Since the commodity price down-cycle that began in late 2014, the Middle East and India have been the most resilient shallow water drilling regions. According to Rystad, while the jack-up rig count in the rest of the world declined by 39.0% from January 2015 to September 2017, Middle Eastern and Indian rig counts have remained comparatively steady, with the Middle East experiencing only a 15.0% decrease and India only a 5.0% decrease.

The Middle East and India are characterized by what we believe to be comparatively low breakeven points for our customers and are dominated by NOCs which tend to take a longer-term approach to project development through commodity price cycles. We believe focusing our operations and scale on these key markets and customers mitigated our exposure to the curtailment of development activities by other oil and gas companies in the lower commodity price environment in recent years. The Middle East and India comprised $723.2 million, or 52.4%, and $100.7 million, or 7.3%, of our contract backlog, respectively, as of September 30, 2017, and comprised $210.6 million, or 49.3%, and $91.7 million, or 21.5%, of our revenues, respectively, for the nine months ended September 30, 2017. According to Rystad, the jack-up rig markets in Middle East and India are expected to grow at a 7.1% compound annual growth rate from 2017 to 2020.

Industry leading low cost structure, with high national content

We operate with a significantly lower cost structure compared to our peers. This lower cost structure promotes financial resilience through industry cycles and has supported operations and provided cash flow stability in excess of many of our U.S. public company peers since the commodity price decline in 2014. According to Rystad, our daily operating and maintenance expenses per jack-up rig are 36.9% lower than comparable costs of our U.S. public company competitors in the shallow water drilling services market. Since our inception, we have focused on building high national content through hiring and developing nationals from the countries in which we operate, including across our leadership teams, building local supply chain networks across our geographies, standardizing equipment across our fleet and centralizing management of our supply chain and key maintenance activities, all of which are key drivers of our industry leading low cost structure. Our strategically-positioned headquarters in Dubai is in close proximity to our core operating regions and eliminates the need for numerous regional offices. Our focus on building high national content has resulted in national employees and contractors representing 80% of our workforce as of September 30, 2017 across all of our operating regions. In certain key markets, the percentage of our national workforce exceeds this average, with Egypt employing near 100% and India and Nigeria employing 99% and 98%, respectively, of local employees and contractors as of September 30, 2017. Our high national content further strengthens customer and governmental relationships, particularly with NOCs, and produces relatively lower employee turnover as well as a lower cost base.

High-quality, well-maintained fleet

Our fleet is comprised of well-maintained jack-up rigs with proven technologies and operating capabilities. Since our inception, we have implemented a strategic fleet upgrade and renewal program. We have completed the reactivation and upgrade of five jack-up rigs and invested $567.2 million across 28 major projects related to our original fleet, including the upgrade of 9 rigs. In addition, we have constructed two newbuild rigs and, in 2017, we acquired three premium jack-up rigs. We believed that these rigs would be highly competitive in obtaining contracts, and, since these acquisitions, we have secured contracts for all three rigs, making a positive impact on future cash flow and backlog. We have continuously evaluated and enhanced our fleet with ‘‘smart upgrades’’ where appropriate to meet specifications for the markets in which we intend them to operate, in accordance with our ‘‘fit-for-purpose’’ strategy. For example, we have standardized equipment across a significant number of our rigs, which facilitates our delivery of consistent and predictable performance in the environments in which we operate. According to Rystad, our average marketed utilization rate since 2015 is 8.0% above the shallow water drilling industry average over the same period. We believe this validates the suitability of our fleet and the operating performance that our rigs and crews have delivered.

Well-established customer relationships with large national and international oil and gas companies

We believe we have well-established relationships with our customers, which are primarily NOCs and IOCs, including Saudi Aramco, ONGC, ADNOC, Chevron, TOTAL and DPE. We believe that our customers prefer to work with drilling contractors who are well-established and have a strong track record of safety and operating uptime, and since our inception, our track record of safety and operating uptime has consistently exceeded industry averages with our operating uptime being at least 98.5% per year. We work with our customers to improve drilling efficiencies, which frequently results in rig operations being completed ahead of plan and ultimately lowering the cost per well for our customer. We are responsive and flexible in addressing our customers’ specific needs and seek collaborative solutions to achieve customer objectives. We believe that our strong operational performance and close alignment with our customers’ interests provide us a competitive advantage and contributes to our contracting success and high fleet utilization. We have secured contracts and extensions with an aggregate value of more than $5.1 billion since our inception and, for jack-up rigs, $3.4 billion since 2014, which is more than any other contract drilling company added for jack-up rigs according to Rystad.

Experienced management team with successful track record of executing operational strategy

The members of our executive management team are knowledgeable operating and financial executives with extensive experience in the global oil and gas industry. Our five executive officers have over 120 years of collective industry and financial experience and have held leadership positions at highly regarded shallow water offshore drilling and oilfield services companies, including Schlumberger Ltd., Transocean Ltd., Noble Drilling plc and Wellstream Holdings plc. All five members of our executive management team have been involved with us since our inception and have been responsible for the design and implementation of our "fit-for-purpose" strategy.

Our business strategies

Our strategy is focused on delivering returns on invested capital achieved through serving our customers' needs in attractive markets and driving cost efficiencies through our "fit-for-purpose" strategy. We expect to continue to achieve our objectives through the following strategies:

Capitalize on a potential increase in shallow water drilling activity in our core operating regions

Given our strong market positions, industry leading low cost structure and long-standing customer relationships in our core operating regions, we believe that we are well-positioned to benefit from a potential increase in shallow water drilling activity. In the first nine months of 2017, we experienced an increase in market and tender inquiries from our customers, particularly in the Middle East and other key markets, and believe that we will have opportunities to redeploy uncontracted rigs in the near term. According to Rystad, jack-up rig market demand in our core operating regions of the Middle East, India, West Africa and Southeast Asia will grow at a 6.5% compound annual growth rate from 2017 to 2020, representing an increase in jack-up rig demand from 174 to 212 rigs. The Middle East is expected to be the main regional driver of jack-up rig demand increase in our core operating regions, with demand increasing 22.4% from 107 to 131 jack-up rigs over the same time period. The growth in jack-up rig demand in our core operating regions is primarily driven by infill drilling and workover activities, which tend to provide upstream operators with lower-risk, short-cycle returns relative to exploration and development drilling, as well as an increase in plugging and abandonment activities for mature fields.

Apply "fit-for-purpose" strategy to maximize profitability

We plan to continue to apply our "fit-for-purpose" strategy to maximize profitability, including strategically deploying rigs well-suited for specific markets, leveraging our lean and effective organization, systems and processes streamlined to the specific needs of our business and fleet, and reinforcing strong long-term customer relationships through outstanding service and high national content. We expect this strategy will allow us to continue to leverage our strong operational track record and leading market position to maintain our comparatively high utilization rates and low cost structure. We believe this strategy has been critical in enabling us to consistently maintain our Adjusted EBITDA margin near 40% for the years ended December 31, 2013 to 2016, and the nine months ended September 30, 2017.

As of September 30, 2017, we had 10 marketable but uncontracted rigs and 5 rigs that are completing their contracts in 2017. Our marketable but uncontracted rigs can be reactivated quickly at relatively low cost and deployed rapidly to take advantage of opportunities in our core operating regions.

Selectively pursue acquisitions that suit our operational model and we believe are likely to increase cash flow

We are focused on the disciplined investment in and growth of our active drilling fleet to maximize our profitability. We believe the most attractive returns on invested capital are in opportunistic acquisitions of jack-up rigs that are complementary to our fleet and such rigs are currently available at historically low acquisition prices due to the current industry downturn. Additionally, we believe that, by selecting rigs that have existing contracts or that we believe in the near and long term have a competitive advantage in securing contracts, acquisitions have the potential to increase cash flow. For example, we acquired three premium jack-up rigs in 2017 at a price of at least 50.0% below the cost of construction for comparable newbuild rigs and subsequently secured contracts for all three rigs. We believe we are well-positioned to successfully deploy acquired jack-up rigs to our fleet due to our strong market positions, long-standing customer relationships and proven track record of integrating jack-up rigs to our active fleet as demonstrated by the fact that we have secured commitments for all three of our recently acquired jack-up rigs. We expect to further pursue acquisitions that meet the operational requirements of our customers and core markets to the extent they are available on attractive terms.

Continue to deliver safe, efficient and reliable operations

We intend to continue our focus on minimizing safety incidents, while also continually increasing our operational efficiency. This dual focus is intended to enable us to develop and maintain long-term customer relationships and maximize the utilization of our fleet while ensuring the safety of our and our customers' employees and contractors.

As a newly formed company in 2012, we were not burdened with legacy systems, structures or management personnel. As a result, we believe that we were able to build efficient systems and operating procedures from the ground up, with a high degree of centralization and a dedicated focus on shallow water jack-up operations. We believe that this has significantly contributed to the safety, efficiency and reliability of our operations. We had a Total Recordable Incident Rate (''TRIR'') of 0.29 for the nine months ended September 30, 2017, 48.2% below the average of the International Association of Drilling Contractors (''IADC''), and our safety track record has consistently exceeded the industry benchmark since inception. In addition, we have consistently maintained an average fleet uptime of at least 98.5% since our inception in 2012. Through ongoing training, appropriate incentive structures at all levels and management oversight, we intend to continue improving our safety and operational performance as we strive to continue to reduce workplace incidents.

Maintain financial discipline to generate favorable returns on invested capital

We regularly explore opportunities to reduce our total cost of debt, ensure adequate liquidity and improve flexibility to operate our business and pursue growth projects. We focus on financial returns when evaluating our growth initiatives and our expansion strategy. In the period from 2013 to 2015, we were able to achieve attractive returns on the reactivation and upgrades of our existing jack-up rigs. In 2014, we began building two new rigs, which were delivered in September 2016 and April 2017, respectively, and had a $562.0 million contract backlog prior to commencing the construction of these rigs. We believe that our approach has delivered greater returns on invested capital relative to our U.S. public company competitors and facilitated maintaining adequate liquidity. We intend to continue pursuing contracts that offer an attractive combination of duration and dayrates, with an emphasis on duration to drive higher backlog and greater cash flow visibility.

We believe our balance sheet strength positions us well to compete in the current market and gives us a competitive advantage, providing us with financial and operational flexibility. As of September 30, 2017, on an as adjusted basis after giving effect to this offering and the use of proceeds therefrom, we would have $149.2 million of cash on hand, our total indebtedness would have been $911.7 million and we would have had availability of $145.4 million under our revolver. See ''Description of other indebtedness and preferred shares—Our revolver'' for a description of our revolver.

Significant transactions and recent developments

Refinancing transaction: In January 2017, we refinanced the outstanding long-term debt facility of Shelf Drilling Midco, Ltd. and all but $30.4 million of the Issuer's 8.625% Notes and issued $166.7 million of new preferred shares of SDL to certain of the sponsors, reducing debt principal amounts from $825.0 million to $533.3 million, and reducing 2018 debt maturities from $825.0 million to $30.4 million. We also reduced the capacity of our revolver from $200.0 million to $160.0 million and extended the revolver by two years. We refer to these transactions collectively as the ''refinancing.''

Private placement, Norwegian OTC and reclassification: In April 2017, SDL 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. On May 5, 2017, the new common shares issued in that private placement began being quoted on the Norwegian OTC under the symbol ''SHLF.'' In connection with the private placement, the previously existing classes of A, B, C and D ordinary shares were reclassified as a single class of common shares. We refer to this as the ''reclassification.''

Acquisition and financing of rigs: In 2017, we acquired three premium jack-up drilling rigs from affiliates of Seadrill Ltd. (''Seadrill'') for $75.4 million each using the proceeds from our private placement of common shares. Two of the rigs were delivered to us in May 2017 and the third rig was delivered September 2017. We have secured contracts for all three rigs. On December 21, 2017, Shelf Drilling Asset III, Ltd. (''SDAIII''), a wholly-owned unrestricted subsidiary of the Issuer that owns two of these rigs (SDM (as defined herein) and SDT (as defined herein)), entered into a $75.0 million senior secured credit facility (defined herein as the ''SDA Facility''). The SDA Facility includes a $50.0 million uncommitted guarantee line, which can be used for issuing bank guarantees, and a $25.0 million term loan facility, which can be used to fund the upgrade and capital expenditure costs for SDM and SDT. The SDA Facility matures on March 31, 2020. The SDA Facility is guaranteed by Shelf Drilling Intermediate, Ltd., and the SDA Facility's uncommitted guarantee line is guaranteed by Shelf Drilling Services Limited, a wholly-owned subsidiary of the Issuer and a guarantor of the notes. The Issuer has pledged the stock of SDAIII to secure the obligations under the SDA Facility.

Newbuild rigs in operation: In September 2016, we took delivery of one of the two newbuild rigs from Lamprell Energy Limited (''Lamprell''), which was under construction since 2014. After completion of the final customer acceptance requirements in December 2016, the rig, which was financed under a sale and leaseback arrangement, commenced a five-year contract with Chevron. The second newbuild rig was delivered in April 2017, and in June 2017, commenced operations for Chevron under another five-year contract. This construction project was a unique collaborative effort among Chevron, our rig crews from Thailand, Lamprell and our experienced project teams, and both rigs were delivered on time and on budget.

2018 Notes Tender Offer: On January 29, 2018, the Issuer commenced offers to purchase for cash, upon the terms and subject to the conditions described in the related Offers to Purchase, any and all of SDHL's 8.625% Notes (as defined herein) and 9.500% Notes (as defined herein) (the ''Tender Offers''). The Issuer intends to use the net proceeds of this offering to refinance, repurchase and/or repay certain of our existing indebtedness, including to pay the tender consideration, plus applicable accrued and unpaid interest, for the 8.625% Notes and 9.500% Notes properly tendered and not validly withdrawn in the Tender Offer that the Issuer accepts for purchase, and to pay related transaction fees and expenses.

Holders of the 8.625% Notes and the 9.500% Notes are not obligated to tender their 8.625% Notes and the 9.500% Notes to the Issuer pursuant to the Tender Offer. Accordingly, we cannot assure you that any of SDHL's 8.625% Notes and 9.500% Notes will be purchased in the Tender Offer. To the extent that any of the 8.625% Notes and the 9.500% Notes are not purchased in the Tender Offer, the Issuer intends to use a portion of the net proceeds from this offering to redeem the remaining 8.625% Notes and 9.500% Notes. See ''Use of Proceeds.'' This offering memorandum is not an offer to purchase or the solicitation of an offer to sell the 8.625% Notes and the 9.500% Notes.

The Issuer's purchase of the 8.625% Notes and the 9.500% Notes in the Tender Offer, and the redemption and/or satisfaction and discharge, as applicable, of any such notes remaining after settlement of the Tender Offer, are conditioned upon, among other things, the successful completion of this offering.

This offering is not conditioned upon the consummation of the Tender Offer.

Company information

SDHL is an exempted company, limited by shares and incorporated under the laws of the Cayman Islands with registration number 271054. SDHL's registered address is: One Capital Place, 3rd Floor, Shedden Road, George Town, P.O. Box 1564, Grand Cayman, KY1-1110, Cayman Islands with corporate headquarters in Dubai, United Arab Emirates at One JLT, Floor 12, Jumeirah Lakes Towers, P.O. Box 212201 and telephone number +971 4 567 3400. SDHL's primary website is located at *www.shelfdrilling.com*. The information on SDHL's website does not constitute part of this memorandum, and you should only rely on the information contained in this memorandum when making a decision as to whether to invest in the notes.

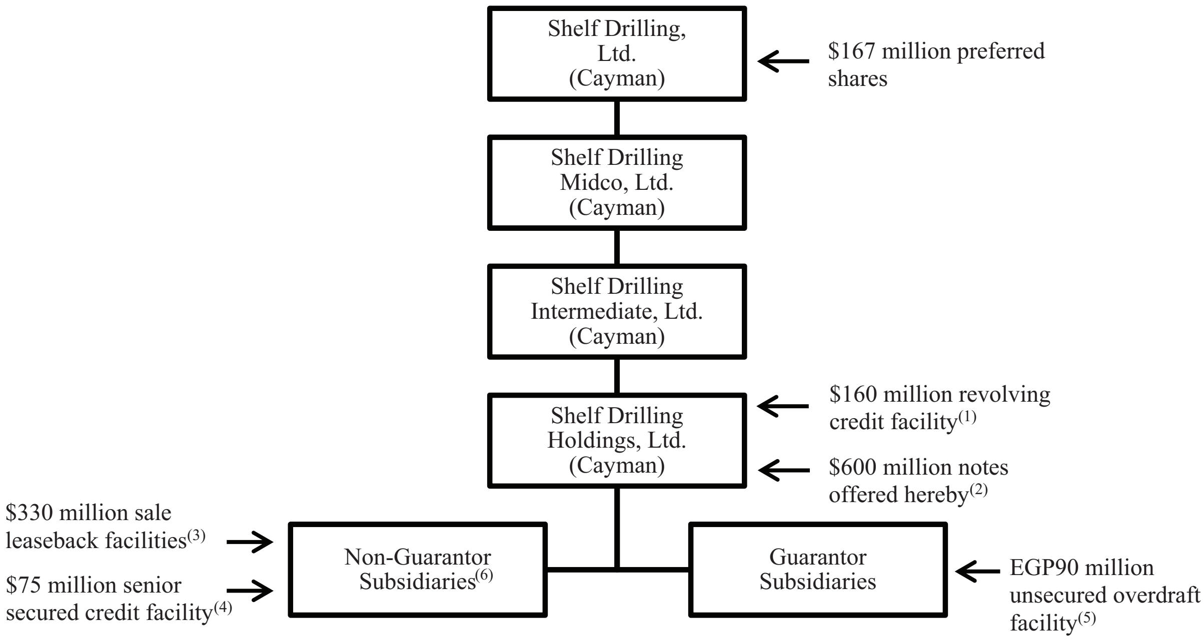
Exempted companies are Cayman Islands companies wishing to conduct business outside the Cayman Islands and, as such, are exempted from complying with certain provisions of the Companies Law (2016 Revision) of the Cayman Islands. As an exempted company, SDHL has applied for and received an undertaking from the Financial Secretary that, in accordance with Section 6 of the Tax Concessions Law (as amended) of the Cayman Islands, for a period of 20 years from the date of the undertaking, no law which is enacted in the Cayman Islands imposing any tax to be levied on profits, income, gains or appreciations shall apply to SDHL or its operations and, in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable (i) on or in respect of

SDHL's shares, debentures or other obligations or (ii) by way of the withholding in whole or in part of a payment of dividend or other distribution of income or capital by us to our shareholders or a payment of principal or interest or other sums due under a debenture or other obligation of us.

Ownership structure and organizational chart

The following chart illustrates our expected organizational structure and principal indebtedness for borrowed money immediately after, on an adjusted basis, giving effect to this offering, the Tender Offer, any redemption of the remaining 8.625% Notes and 9.500% Notes and the use of proceeds therefrom.

Amounts are in U.S. Dollars



(1) As of September 30, 2017, our revolver had no cash borrowings outstanding and $14.6 million of surety bonds and guarantees issued, resulting in availability of $145.4 million.

(2) Represents the aggregate principal amount of the notes offered hereby. SDHL intends to use the net proceeds from this offering to repay all of SDHL's 8.625% Notes and 9.500% Notes and pay related fees and expenses. See "Use of proceeds."

(3) This facility amount excludes capitalized interest and is guaranteed by Shelf Drilling, Ltd. As of September 30, 2017, the amount outstanding under this facility was $322.8 million.

(4) This facility was entered into by SDAIII and consists of a $50 million uncommitted guarantee line and a $25 million term loan facility. This facility is guaranteed by Shelf Drilling Intermediate, Ltd. and the facility's uncommitted guarantee line is guaranteed by Shelf Drilling Services Limited, a wholly-owned subsidiary of the Issuer and guarantor of the notes. As of December 31, 2017, the term loan facility had not been drawn, and no bank guarantees had been issued under the guarantee line. The Issuer has pledged the stock of SDAIII to secure the SDA Facility.

(5) Unsecured overdraft facility is denominated in Egyptian Pounds.

(6) Includes SDAIII which is unrestricted as of the date of this offering memorandum but will become a guarantor of the notes offered hereby within one year of the issue date.

THE OFFERING

The summary below describes the principal terms of the notes. Certain of the terms and conditions described below are subject to important limitations and exceptions. The "Description of notes" section of this offering memorandum contains a more detailed description of the terms and conditions of the notes.

Issuer	Shelf Drilling Holdings, Ltd.
Notes offered	$600.0 million aggregate principal amount of 8.250% Senior Notes due 2025
Maturity date	February 15, 2025
Interest	Interest on the notes will accrue at a rate of 8.250% per annum, payable semi-annually in cash in arrears on February 15 and August 15 of each year, commencing on August 15, 2018. Interest will accrue from February 7, 2018.
Guarantees	On the issue date, the notes will be fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by each of the Issuer's direct and indirect wholly-owned restricted subsidiaries that has guaranteed our revolver, except for (i) in the case of our subsidiaries organized in Egypt (the "Egyptian Subsidiaries"), to the extent that required governmental approvals have not been obtained, and (ii) in the case of our subsidiary organized in Indonesia (the "Indonesian Subsidiary"), to the extent that local notary requirements and time zone differences prevent it from guaranteeing the notes upon the closing of this offering; provided, that the Egyptian Subsidiaries shall use commercially reasonable efforts to obtain such governmental approvals and shall guarantee the notes as promptly as practicable after obtaining such approvals and the Indonesian Subsidiary shall use commercially reasonable efforts to satisfy such notary requirements and shall guarantee the notes as promptly as practicable after satisfying such requirements. The notes will be fully and unconditionally guaranteed, jointly and severally, on a senior unsecured basis by each of the Issuer's future direct and indirect restricted subsidiaries that guarantees the Issuer's revolver or, if the revolver is no longer in effect, certain other credit facilities, or if neither the revolver nor such other credit facilities are in effect, each Significant Subsidiary (as defined herein) shall guarantee the notes upon becoming a Significant Subsidiary other than (A) any restricted subsidiary that is prohibited by the laws or rules (including licensing requirements) of its jurisdiction of organization from guaranteeing the notes and (B) Shelf Drilling Offshore Services (India) Private Limited and any other subsidiaries that are organized in India, and subject to certain exceptions in the event of third party consents necessary for such Significant Subsidiary guarantees. See "Description of notes—Future Guarantors" and "Description of notes—Guarantees."

	The Issuer has agreed to cause its subsidiary, SDAIII, which holds two newly acquired rigs, to guarantee the notes within one year of the issue date. Assuming that SDAIII's guarantee was in effect on the issue date, for the nine months ended September 30, 2017 the non-guarantor subsidiaries would have accounted for \$514 million, or 30%, of our total assets, and \$37 million, or 20%, of our Adjusted EBITDA. Not including the guarantee of SDAIII, the non-guarantor subsidiaries accounted for \$665 million, or 39% of our total assets, and \$37 million, or 20% of our Adjusted EBITDA, for the nine months ended September 30, 2017. SDAIII currently has a \$50 million uncommitted guarantee line and a \$25 million term loan facility and, as of December 31, 2017, there are \$0 in outstanding bank guarantees under the uncommitted guarantee line, and no borrowings have been made under the term loan facility. SDAIII and our other non-guarantor subsidiaries (including our other unrestricted subsidiaries) had \$322.8 million of outstanding liabilities as of September 30, 2017.
Ranking	The notes and the note guarantees will be the Issuer's and the guarantors' senior unsecured obligations and will: • rank senior in right of payment to any of the Issuer's and the guarantors' existing and future subordinated indebtedness, if any; • rank pari passu in right of payment with all existing and future senior unsecured indebtedness of the Issuer and the guarantors; • be effectively subordinated to all existing and future secured indebtedness of the Issuer and the guarantors, including indebtedness under the agreements governing certain of the Issuer's and the guarantors' existing indebtedness, to the extent of the value of the assets securing such indebtedness; and • be structurally subordinated to all existing and future indebtedness, including the SDA Facility and the sale-and-leaseback transactions described in "Description of other indebtedness and preferred shares," preferred stock and other liabilities, including trade payables, of any non-guarantor subsidiaries of the Issuer.
Optional redemption	The Issuer may redeem some or all of the notes at any time prior to February 15, 2021 at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but not including, the Redemption date, plus a "make-whole premium," as described under "Description of notes—Optional Redemption." At any time on or after February 15, 2021, we may redeem some or all of the

	notes at the applicable redemption prices described under "Description of notes—Optional Redemption," plus accrued and unpaid interest, if any, to, but not including, the redemption date. Additionally, from time to time prior to February 15, 2021, the Issuer may redeem up to 35% of the aggregate principal amount of the notes at a redemption price equal to (i) 108.250% of the principal amount thereof, with an amount equal to or less than the net cash proceeds that we raise in certain equity offerings, including those of the Parent, the cash proceeds of which are contributed to common equity of the Issuer, plus (ii) accrued and unpaid interest, if any, to, but not including, the redemption date.
Change of control offer	If a Change of Control Repurchase Event (as defined in "Description of notes") occurs, the Issuer must offer to repurchase the notes then outstanding at a price equal to 101% of the principal amount thereof plus any accrued and unpaid interest to, but not including, the repurchase date. See "Description of notes—Change of Control Offer," and "Risk factors—Risks related to the notes and this offering—We may not be able to finance a change of control offer as required by the indenture that will govern the notes offered hereby."
Asset sales	If the Issuer or its subsidiaries sell certain assets, under certain circumstances we may be required to offer to purchase the notes at 100% of their aggregate principal amount, plus accrued and unpaid interest thereon to, but not including, the date of purchase. See "Description of notes—Certain Covenants—Limitation on sales of assets and subsidiary stock."
Certain covenants	The indenture that will govern the notes will contain covenants that, among other things, will limit the Issuer's ability and the ability of its restricted subsidiaries to: • incur additional debt or issue certain preferred shares; • incur liens or use assets as security in other transactions; • make certain dividends, distributions, investments and other restricted payments; • transfer or sell assets; • engage in certain transactions with affiliates; and • merge or consolidate or sell, transfer, lease or otherwise dispose of all or substantially all of the Issuer's or any guarantor's assets.

	Additionally, the indenture that will govern the notes will contain certain covenants that, among other things, require the Issuer to limit the ability of SDAIII and certain unrestricted subsidiaries involved in the sale-and-leaseback transactions described in ‘‘Description of other indebtedness and preferred shares’’ to: • incur additional debt; • incur liens or use assets as security in other transactions; and • transfer or sell certain assets. These covenants are subject to important exceptions and qualifications as described under ‘‘Description of notes—Certain covenants.’’ In addition, many of these covenants will cease to apply with respect to the notes during any time that the notes have investment grade ratings from Moody’s Investors Service, Inc. (‘‘Moody’s’’) and Standard & Poor’s Financial Services LLC (‘‘S&P’’). See ‘‘Description of notes—Certain Covenants—Effectiveness of Covenants.’’
Transfer restrictions; No registration rights	The notes and the note guarantees have not been registered under the Securities Act or any state or other securities laws, and we are under no obligation to so register the notes. The notes are subject to restrictions on transfer and may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the Securities Act, except that holders will not be permitted to transfer the notes in reliance on Rule 144 even after the applicable holding period has been satisfied. See ‘‘Transfer restrictions.’’ The Issuer does not intend to list the notes on any securities exchange. The Issuer does not intend to issue registered notes and note guarantees in exchange for the notes and the note guarantees to be placed in this offering, and the absence of registration rights may adversely impact the transferability of the notes. See ‘‘Transfer restrictions’’ and ‘‘Risk factors—Risks related to the notes and this offering—There are restrictions on your ability to transfer or resell the notes. In addition, holders of the notes will not be entitled to registration rights, and the Issuer does not currently intend to register the notes under applicable securities laws.’’
Use of proceeds	We intend to use the net proceeds from this offering to repay any and all of the Issuer’s 8.625% Notes and 9.500% Notes and pay related fees and expenses. See ‘‘Use of proceeds.’’
Trustee	Wilmington Trust, National Association
Governing law	The notes and the indenture will be governed by New York law.

Absence of Established Market for the Notes	The notes are a new issue of securities and will not be listed on any securities exchange or included in any automated quotation system, and there is currently no established market for the notes. The initial purchasers have advised us that they intend to make a market in the notes. The initial purchasers are not obligated, however, to make a market in the notes, and any such market may be discontinued by the initial purchasers in their discretion at any time without notice. See ''Plan of Distribution.''
Risk factors	Investing in the notes involves risks. You should consider carefully the information set forth in ''Risk factors'' and all other information contained in this offering memorandum before deciding to invest in the notes.

SUMMARY CONSOLIDATED FINANCIAL DATA

The following table presents, in each case for the periods or, as applicable, as of the date indicated, selected consolidated financial data of Shelf Drilling, Ltd. These historical results are not necessarily indicative of our future results of operations, financial condition and cash flows. The following information is only a summary and should be read in conjunction with, and is qualified in its entirety by reference to "Selected consolidated financial data," "Capitalization," "Management's discussion and analysis of financial condition and results of operations" and our financial statements and the notes thereto included elsewhere in this offering memorandum. Among other things, those financial statements and related notes thereto include more detailed information regarding the basis of presentation for the following information.

We derived the summary consolidated statements of operations data for each of the two years in the period ended December 31, 2016, and the summary consolidated balance sheet data as of December 31, 2016 and 2015, set forth below, from our audited consolidated financial statements as of and for the years ended December 31, 2016 and 2015, which are included elsewhere in this offering memorandum. We derived the summary condensed consolidated statements of operations data for the nine months ended September 30, 2017 and 2016 and the summary consolidated balance sheet data as of September 30, 2017 and 2016, set forth below, from our unaudited condensed consolidated interim financial statements as of and for the nine months ended September 30, 2017 and 2016, which are included elsewhere in this offering memorandum (except for our unaudited condensed consolidated interim balance sheet as of September 30, 2016).

The Parent does not conduct any operations other than with respect to its respective direct or indirect ownership of SDHL and its subsidiaries.

	Nine months ended September 30,		Years ended December 31,	
	2017	2016	2016	2015
	(in thousands)			
Statement of operations data:				
Revenue				
Operating revenue	$413,886	$517,106	$668,649	$1,012,757
Other revenue	12,982	11,135	15,668	18,541
	426,868	528,241	684,317	1,031,298
Operating costs and expenses				
Operating and maintenance	216,232	269,048	353,802	534,156
Depreciation	58,853	53,446	71,780	87,421
Amortization of deferred costs	48,740	72,034	91,763	80,984
General and administrative	31,251	28,501	46,889	139,722
Loss on impairment of assets	34,802	—	47,094	271,469
Loss on disposal of assets	362	3,710	4,826	11,299
Gain on insurance recovery	—	—	—	(25,432)
	390,240	426,739	616,154	1,099,619
Operating income (loss)	36,628	101,502	68,163	(68,321)
Other (expense) / income, net				
Interest income	821	284	356	102
Interest expense and financing charges	(65,316)	(58,681)	(80,120)	(80,537)
Other, net	(1,928)	(1,457)	1,522)	(873)
	(66,423)	(59,854)	(78,242)	(81,308)
(Loss)/income before income taxes	(29,795)	41,648	(10,079	(149,629)
Income tax expense	8,919	16,976	19,757	30,373
Net (loss)/income	$ (38,714)	$ 24,672	$ (29,836)	$ (180,002)

	Nine months ended September 30,		Years ended December 31,	
	2017	2016	2016	2015
	(in thousands)			
Consolidated balance sheet data (at period end):				
Cash and cash equivalents	$ 106,577	$ 173,935	$ 213,139	$ 115,685
Total assets	1,703,913	1,591,896	1,585,940	1,483,883
Long-term debt	526,117	806,981	809,016	803,053
Obligations under sale and leaseback (current and long-term)	322,781	208,491	244,705	74,703
Total liabilities	991,907	1,157,643	1,206,486	1,073,104
Mezzanine equity, net of issuance costs	165,978	—	—	—
Total equity	546,028	434,253	379,454	410,779
Statement of cash flows data:				
Net cash provided by operating activities	$ 51,120	$ 98,363	$ 136,532	$ 133,013
Net cash used in investing activities	(236,196)	(38,618)	(35,592)	(107,513)
Net cash provided by / (used in) financing activities	78,514	(1,495)	(3,486)	(861)
Other financial data (unaudited):				
Adjusted EBITDA(2)	$ 183,606	$ 232,633	$ 289,827	$ 371,394
Adjusted EBITDA margin(2)	43.0%	44.0%	42.4%	36.0%

(1) Historical share and per share information reflects the reclassification on April 28, 2017, in which the existing classes of A, B, C and D of ordinary shares were reclassified into a single class of 55,000,000 common shares, $0.01 par value per share.

(2) Adjusted EBITDA and Adjusted EBITDA margin are non-GAAP financial measures. For definitions of these measures and a reconciliation of Adjusted EBITDA to our net income (loss), see ‘‘Management's discussion and analysis of financial condition and results of operations—How we evaluate our business—Financial measures.’’

For the last twelve months ended September 30, 2017, our Adjusted EBITDA was $240.8 million, our revenue was $582.9 million, and the ratio of our debt to our Adjusted EBITDA was 3.5x.

Financial information of SDL and SDHL

Please see ‘‘Certain financial information of SDL and SDHL’’ for certain financial information for SDL and SDHL and certain adjustments to show the differences between the financial information of SDL and SDHL.

RISK FACTORS

An investment in the notes is subject to a number of risks. You should carefully consider the following risk factors as well as the other information and data included in this offering memorandum prior to making an investment in the notes. The risks and uncertainties described below are not the only risks we face. Additional risks and uncertainties not currently known to us or that we currently deem to be immaterial could also materially and adversely affect our business, cash flows, financial condition or results of operations. Any of the following risks could materially and adversely affect our business, cash flows, financial condition or results of operations. In such case, you may lose all or part of your investment. Along with the risks and uncertainties described below, you should carefully consider the risks and uncertainties described in the section entitled "Disclosure regarding forward-looking statements" in this offering memorandum.

Risks related to the notes and this offering

Our substantial leverage and significant debt service obligations could adversely affect our financial condition and our ability to fulfill our obligations (including under the notes) and operate our business.

We have, and after the completion of the offering will continue to have, a significant amount of indebtedness. As of September 30, 2017, on an as adjusted basis after giving effect to this offering and the use of proceeds therefrom, we would have $149.2 million of cash on hand, our total indebtedness would have been $911.7 million and we would have had availability of $145.4 million under our revolver.

This high level of indebtedness could have important negative consequences to us, including, but not limited to:

- we may have difficulty satisfying our obligations with respect to outstanding debt obligations;
- we may have difficulty obtaining financing in the future for working capital, acquisitions, capital expenditures or other purposes;
- we may need to use all, or a substantial portion, of our available excess cash flow to pay interest and principal on our debt, which will reduce the amount of money available to finance our operations and other business activities, including, but not limited to, working capital requirements, acquisitions, capital expenditures or other general corporate or business activities;
- our debt level increases our vulnerability to general economic downturns and adverse industry conditions;
- some of our debt has variable rates of interest, and to the extent such debt is not swapped at a fixed rate, we are exposed to the risk of increased interest rates;
- our debt level could limit our flexibility in planning for, or reacting to, changes in our business and in our industry in general;
- our substantial amount of debt and the amount we must pay to service our debt obligations could place us at a competitive disadvantage compared to our competitors that have less debt;
- our customers may react adversely to our significant debt level; and
- our failure to comply with the financial and other restrictive covenants in our debt instruments which, among other things, require us to maintain specified financial ratios and limit our ability to incur debt and sell assets, could result in an event of default that, if not cured or waived, could have a material adverse effect on our business or prospects.

Our ability to meet expenses, to remain in compliance with our covenants under our debt instruments and to make future principal and interest payments in respect of our indebtedness (including with respect to the notes) depends on, among other things, our operating performance, competitive developments and financial market conditions, all of which are significantly affected by financial, business, economic and other factors. We are not able to control many of these factors. Our cash flows may not be sufficient to allow us to pay principal and interest on our indebtedness, including the notes, and meet our other obligations.

We may be unable to generate sufficient cash flow to service all of our indebtedness and meet our other ongoing liquidity needs, and we may be forced to take other actions to satisfy our obligations under our indebtedness, which may be unsuccessful.

Our ability to make scheduled payments or to refinance our debt obligations and to fund any future acquisitions, capital expenditures and other ongoing liquidity needs depends on our financial and operating performance, which is subject to prevailing economic and competitive conditions and to certain financial, business, legislative, legal, regulatory and other factors beyond our control. Our business may not generate sufficient cash flow from operations and future borrowings may not be available to us under our existing debt instruments or otherwise in an amount sufficient to permit us to pay the principal, premium, if any, and interest on our indebtedness or to fund our other liquidity needs. We may need to refinance or restructure our indebtedness, sell our assets, reduce or delay scheduled expansions and capital investments, or seek to raise additional capital. We may be unable to refinance any of our debt on commercially reasonable terms, if at all, or secure alternative financing and, even if successful, such refinancing or alternative financing may not allow us to meet our scheduled debt service obligations.

If our cash flows and capital resources are insufficient to fund our debt service obligations, we may be forced to delay or curtail our operations, reduce or delay capital expenditures or acquisitions, if any, seek additional capital or seek to restructure or refinance our indebtedness. These alternative measures may be unsuccessful and may not permit us to meet our scheduled debt service obligations. In the absence of such operating results and resources, we could face substantial liquidity problems and might be required to sell material assets or operations to attempt to meet our debt service and other obligations. The agreements governing our existing indebtedness restrict and the indenture that will govern the notes offered hereby will restrict our ability to dispose of assets and use the proceeds therefrom in certain circumstances. We may be unable to consummate those asset sales to raise capital or sell assets at prices that we believe are fair, and the proceeds that we do receive may be inadequate to meet any debt service obligations when due. See ''Description of other indebtedness and preferred shares'' and ''Description of notes.''

In addition, we conduct the majority of our operations through our subsidiaries. Accordingly, repayment of our indebtedness depends on the generation of cash flows by our subsidiaries and their ability to make such cash available to us by dividend, debt repayment or otherwise. Each subsidiary is a distinct legal entity, and, under certain circumstances, legal and contractual restrictions may limit our ability to obtain cash from our subsidiaries. Except for subsidiaries that are or become guarantors of the notes, our subsidiaries will not have any obligation to pay amounts due on the notes or to make funds available for that purpose. Except for subsidiaries that are or become guarantors of the notes, the agreements governing the current and future indebtedness of our subsidiaries may not permit our subsidiaries to provide us with sufficient dividends, distributions or loans to fund scheduled interest and principal payments on these notes when due or otherwise transfer assets to us. In the event that we do not receive distributions from our subsidiaries in order to make the required principal and interest payments on our indebtedness, including the notes offered hereby, holders of our indebtedness could declare all outstanding principal and interest to be due and payable and you could lose all or a portion of your investment in the notes.

The Parent, Shelf Drilling Midco, Ltd. and Shelf Drilling Intermediate, Ltd., each a direct or indirect parent of the Issuer, are not and will not become guarantors of the notes, and no such parent will have any obligation to pay amounts due on the notes or to make funds available for that purpose, including by making any capital contributions to the Issuer.

Despite our significant level of indebtedness, we may still be able to incur substantially more debt, which could exacerbate the risks associated with our substantial leverage.

We may be able to incur substantial additional indebtedness in the future. Although our current indebtedness limits our ability to incur additional indebtedness, these restrictions are subject to a number of qualifications and exceptions and do not apply uniformly to our subsidiaries, and under certain circumstances, debt incurred in compliance with these restrictions could be substantial. To the extent that we incur additional indebtedness, the risks described above associated with our substantial leverage, including the possible inability to service our debt, would increase. As of September 30, 2017, we had availability of $145.4 million under our revolver.

Our existing indebtedness imposes significant operating and/or financial restrictions on us that may prevent us from pursuing certain business opportunities and restrict our ability to operate our business.

As of September 30, 2017, we had a total indebtedness of $850.6 million. This included $496.0 million of 9.500% Notes, $30.1 million of 8.625% Notes, $1.7 million under our unsecured overdraft facility and $322.8 million in obligations under our sale and leaseback transactions. As of September 30, 2017, our revolver had no cash borrowings outstanding and $14.6 million of surety bonds and guarantees issued, resulting in availability of $145.4 million. Our SDA Facility has no cash borrowings outstanding, resulting in availability of $25.0 million in term loans. The level of our indebtedness and the terms of the agreements governing our existing indebtedness may have important consequences for your investment and contain covenants that restrict the ability of us to take various actions, such as to:

- incur or guarantee additional indebtedness or issue certain preferred shares;
- pay dividends or make other distributions on, or redeem or repurchase, any equity interests or make other restricted payments;
- make certain acquisitions or investments;
- create or incur liens;
- transfer or sell assets;
- incur restrictions on the payments of dividends or other distributions from certain subsidiaries within us;
- enter into transactions with affiliates; and
- consummate a merger or consolidation or sell, assign, transfer, lease or otherwise dispose of all or substantially all of our assets or certain of our subsidiaries' assets.

Our ability to comply with these covenants may be affected by many factors, including future performance, prolonged periods of low dayrates, the possible termination or loss of contracts, reduced values of our drilling rigs and events beyond our control, and we may not satisfy these or other covenants in our existing indebtedness. Our failure to comply with the obligations under the agreements governing our existing indebtedness could result in an event of default under such agreements, which could result in the acceleration of our indebtedness, in whole or in part. In addition, our existing debt agreements contain cross-default provisions that would be triggered upon acceleration under other debt instruments. In the event of an acceleration or payment default by us under one of our debt agreements, the creditors under our other existing debt agreements could determine that we are in default under our other financing agreements. This could lead to an acceleration and enforcement of such agreements by our creditors.

These restrictions will also limit our ability to plan for, or react to, market conditions, meet capital needs or otherwise restrict our activities or business plans and adversely affect our ability to finance our operations, enter into acquisitions or to engage in other business activities that would be in our interest. We may also incur future debt obligations that might subject us to additional restrictive covenants that could affect our financial and operational flexibility.

Our revolver and sale-and-leaseback transactions and the SDA Facility require us to comply with total net leverage ratios. Our ability to comply with these ratios may be affected by events beyond our control.

The restrictions referred to above could limit our ability to plan for or react to market or economic conditions or meet capital needs or otherwise restrict our activities or business plans and adversely affect our ability to finance our operations, acquisitions, investments or strategic alliances or other capital needs or to engage in other business activities that would be in our interest. A breach of any of these covenants or our inability to comply with the required financial ratios could result in a default under all or certain of our debt instruments. If a default occurs, the applicable creditors of our secured debt and the lessor in the sale-and-leaseback transactions could proceed against the collateral granted to them to secure such indebtedness or against the assets subject to the sale-and-leaseback transactions, which constitute substantially all of our domestic and foreign wholly-owned subsidiaries' assets.

Our variable rate indebtedness subjects us to interest rate risk, which could cause our debt service obligations to increase significantly.

Borrowings under our revolver and the SDA Facility and rental payments under our sale-and-leaseback transactions are at variable rates of interest and expose us to interest rate risk. If interest rates were to increase, our debt service obligations on the variable rate indebtedness and rental payments under our sale-and-leaseback transactions would increase even though the amount borrowed and purchase price received would remain the same, and our net income and cash flows, including cash available for servicing our indebtedness, will correspondingly decrease and may be insufficient to make payments due under the notes. On an adjusted basis giving effect to this offering and the use of proceeds therefrom, assuming all loans are fully drawn, each ten basis point change in the LIBOR rate would result in a $0.5 million change in annual interest expense on our indebtedness under our revolver and the SDA Facility and on our rental payments under our sale-and-leaseback transactions. We have not entered into any hedging arrangements with respect to our interest rate exposure. In the future, we may enter into interest rate swaps that involve the exchange of floating for fixed rate interest payments in order to reduce interest rate volatility. However, we may not maintain interest rate swaps with respect to all of our variable rate indebtedness, and any swaps we enter into may not fully mitigate our interest rate risk.

Our overall debt level and/or market conditions or any failure to make payments of interest on our outstanding indebtedness on a timely basis could likely result in a reduction of long-term corporate credit ratings. These downgrades in our corporate credit ratings could impact our ability to issue additional debt by raising the cost of issuing new debt. Consequently, we may not be able to issue additional debt in reasonable amounts and terms, limiting our ability to repay the notes.

Reforms, including the potential phasing out of LIBOR after 2021, may adversely affect us.

We have floating rate debt, the interest rate of which is determined based on the London Interbank Offered Rate (''LIBOR''). LIBOR and other ''benchmark'' rates are subject to ongoing national and international regulatory scrutiny and reform. For example, on July 27, 2017, the U.K. Financial Conduct Authority announced that it will no longer persuade or compel banks to submit rates for the calculation of the LIBOR rates after 2021 (the ''FCA Announcement'').

We are unable to predict the effect of the FCA Announcement or other reforms, whether currently enacted or enacted in the future. They may result in the phasing out of LIBOR as a reference rate. The outcome of reforms may result in increased interest expense to us, may affect our ability to incur debt on terms acceptable to us and may result in increased costs related to amending our existing debt instruments, which could adversely affect our business, results of operations and financial condition.

The notes will be effectively subordinated to the Issuer's and the subsidiary guarantors' existing and future secured indebtedness, including indebtedness under the agreements governing certain of our existing indebtedness, to the extent of the value of the property securing that indebtedness.

The notes will not be secured by any of our or our subsidiaries' assets. As a result, the notes and the guarantees will be effectively subordinated to the Issuer's and the subsidiary guarantors' existing and future secured indebtedness, including indebtedness under the agreements governing certain of the Issuer's and the subsidiary guarantors' existing indebtedness, with respect to the assets that secure that indebtedness, which constitute substantially all of our assets. As of September 30, 2017, the Issuer and its Restricted Subsidiaries had $526.1 million of secured long-term indebtedness, and, on an as adjusted basis after giving effect to the SDA Facility, this offering and the use of proceeds therefrom, we would have $149.2 million of cash on hand, our total indebtedness would have been $911.7 million and we would have had availability of $145.4 million under our revolver, and availability of $25.0 million in term loans under the SDA Facility. In addition, subject to the terms of the agreements governing our existing indebtedness and the indenture that will govern the notes offered hereby, we may incur additional secured debt in the future. The effect of this subordination is that upon a default in payment on, or the acceleration of, any of the Issuer's or the subsidiary guarantors' secured indebtedness, or in the event of bankruptcy, insolvency, liquidation, dissolution or reorganization of the Issuer or the subsidiary guarantors, the proceeds from the sale of assets securing such secured indebtedness will be available to pay obligations on the notes only after all indebtedness under the agreements governing the Issuer's and the subsidiary guarantors' existing secured indebtedness and any additional secured debt we incur in the future has been paid in full. As a result, the holders of the notes may not be able to recover all or any of the principal or interest due under the notes and may receive less, ratably, than the holders of secured debt in the event of the Issuer's or the subsidiary guarantors' bankruptcy, insolvency, liquidation, dissolution or reorganization.

Furthermore, if the holders of our secured debt foreclose upon and sell the pledged equity interests in any guarantor, then that guarantor will be released from its note guarantee automatically and immediately upon such sale if such sale is permitted under the indenture. In any such event, because the notes will not be secured by any of our assets or the equity interests in the guarantors, it is possible that there would be no assets remaining from which your claims could be satisfied or, if any assets remained, they would be insufficient to satisfy your claims in full. See ''Description of other indebtedness and preferred shares.''

The notes will be structurally subordinated to all obligations of our existing and future subsidiaries that are not and do not become guarantors of the notes.

The notes will be guaranteed at closing by each of the Issuer's existing direct and indirect restricted subsidiaries that guarantee the Issuer's revolver (except, in the case of the Egyptian Subsidiaries, to the extent that required governmental approvals have not been obtained by the closing of the offering and, in the case of the Indonesian Subsidiary, to the extent that local notary requirements and time zone differences prevent it from guaranteeing the notes by such closing); provided, that the Egyptian Subsidiaries are required to use commercially reasonable efforts to obtain such governmental approvals and shall guarantee the notes as promptly as practicable after obtaining such approvals and the Indonesian Subsidiary shall guarantee the notes as promptly as practicable after satisfying local notary requirements. The notes will be guaranteed by each of the Issuer's future direct and indirect restricted subsidiaries that guarantee the Issuer's revolver or, if the revolver is no longer in effect, certain other credit facilities, or if neither the revolver nor such other credit facilities are in effect, each Significant Subsidiary (as defined herein) shall guarantee the notes upon becoming a Significant Subsidiary other than (A) any restricted subsidiary that is prohibited by the laws or rules (including licensing requirements) of its jurisdiction of organization from guaranteeing the notes and (B) Shelf Drilling Offshore Services (India) Private Limited and any other subsidiaries that are organized in India; provided, that if a Significant Subsidiary's guarantee requires the consent of a third party, the requirement of such Significant Subsidiary shall be deemed satisfied so long as the Issuer or such Significant Subsidiary has used or is using commercially reasonable efforts to obtain such consent, regardless of whether such consent has been obtained. Except for such subsidiary guarantors of the notes, the Issuer's subsidiaries will have no obligation, contingent or otherwise, to pay amounts due under the notes or to make any funds available to pay those amounts, whether by dividend, distribution, loan or other payment. The notes and guarantees will be structurally subordinated to all indebtedness, including the SDA Facility and the sale-and-leaseback transactions described in ''Description of other indebtedness and preferred shares,'' and other obligations of any non-guarantor subsidiary such that in the event of insolvency, liquidation, reorganization, dissolution or other winding up of any subsidiary that is not a guarantor, all of that subsidiary's creditors (including trade creditors) would be entitled to payment in full out of that subsidiary's assets before we would be entitled to any payment. The indenture that will govern the notes will not restrict the Issuer's unrestricted subsidiaries' incurrence of additional indebtedness or other liabilities and, subject to some limitations, will permit other non-guarantor subsidiaries to incur additional indebtedness without limiting the amount of other liabilities, such as trade payables, that may be incurred by these subsidiaries.

The Issuer has agreed to cause its subsidiary, SDAIII, which holds two recently acquired rigs, to guarantee the notes within one year of the issue date. However, there is no certainty that SDAIII ever actually becomes a guarantor under the notes, and any failure by SDAIII to do so may materially reduce the credit support for the notes. Assuming that SDAIII's guarantee was in effect on the issue date, for the nine months ended September 30, 2017 the non-guarantor subsidiaries would have accounted for $514 million, or 30%, of our total assets, and $37 million, or 20%, of our Adjusted EBITDA. Not including the guarantee of SDAIII, the non-guarantor subsidiaries accounted for $665 million, or 39% of our total assets, and $37 million, or 20% of our Adjusted EBITDA, for the nine months ended September 30, 2017. SDAIII currently has a $50 million uncommitted guarantee line and a $25 million term loan facility and, as of December 31, 2017, there are $0 in outstanding bank guarantees under the uncommitted guarantee line, and no borrowings have been made under the term loan facility. SDAIII and our other non-guarantor subsidiaries (including our other unrestricted subsidiaries) had $322.8 million of outstanding liabilities as of September 30, 2017.

In addition, the Issuer's subsidiaries that provide, or will provide, note guarantees will be automatically released from those note guarantees upon the occurrence of certain events, including the following:

- the designation of that subsidiary guarantor as an unrestricted subsidiary; or
- if guarantors are released from their guarantees under the revolver (or if the revolver is not in effect, certain other credit facilities), except that Significant Subsidiaries (as defined herein) shall not be released as guarantors if no such credit facilities are in effect;
- if a guarantor is dissolved or liquidated; or
- the sale or other disposition, including the sale of substantially all the assets, of that subsidiary guarantor,

in each case, to the extent permitted by the indenture. If any note guarantee is released, no holder of the notes will have a claim as a creditor against that subsidiary, and the indebtedness and other liabilities, including trade payables and preferred stock, if any, whether secured or unsecured, of that subsidiary will be effectively senior to the claim of any holders of the notes. See ''Description of notes—Guarantees.''

The holders of notes will have no claim for payment of the notes against SDL, Shelf Drilling Midco, Ltd. and Shelf Drilling Intermediate, Ltd. or any of their respective direct assets (other than the Issuer in the case of Shelf Drilling Intermediate, Ltd.).

Notwithstanding any presentation in this Offering Memorandum, the holders of notes will have no claim for payment of the notes against SDL, Shelf Drilling Midco, Ltd. and Shelf Drilling Intermediate, Ltd., or any of their respective direct assets (other than the Issuer in the case of Shelf Drilling Intermediate, Ltd.). All of the Issuer's financial information should be read in conjunction with ''Certain financial information of SDL and SDHL'' that describes certain adjustments to show the differences in certain financial information as between the Parent and the Issuer.

We may not be able to finance a change of control offer as required by the indenture that will govern the notes offered hereby.

Under the indenture that will govern the notes offered hereby, upon the occurrence of a Change of Control Repurchase Event (as defined in such indenture), we may be required to offer to repurchase all of the notes then outstanding at 101% of the principal amount, plus any accrued and unpaid interest to, but not including, the repurchase date. We may not be able to repurchase the notes upon a Change of Control Repurchase Event because we may not have sufficient financial resources to purchase all of the notes that would be tendered upon a Change of Control Repurchase Event. Our failure to repurchase the notes upon a Change of Control Repurchase Event would cause a default under the indenture that will govern the notes offered hereby and a cross-default under the agreements governing our existing indebtedness. The agreements governing our revolver also provide that a change of control (as defined therein) will be a default that permits lenders to accelerate the maturity of borrowings thereunder. Any of our future debt agreements may contain similar provisions. We may not have the financial resources available to repurchase the notes and repay such borrowings, or we may not be permitted by our debt instruments to fulfill such obligations, upon the occurrence of a change of control in the future. We may require additional financing from third parties to fund any such purchases or to repay such borrowings, and we may be unable to obtain financing on satisfactory terms or at all. Further, our ability to repurchase the notes may be limited by law. In order to avoid the obligations to repurchase the notes and events of default and potential breaches of the agreements governing our existing indebtedness, we may have to avoid certain change of control transactions that would otherwise be beneficial to us.

The change of control provisions in the indenture may not necessarily afford you protection in the event of certain important corporate events.

Subject to certain limitations in the indenture, certain important corporate events, such as leveraged recapitalizations, may not, under the indenture that will govern the notes, constitute a change of control that would require us to repurchase the notes, even though those corporate events could increase the level of our indebtedness or otherwise adversely affect our capital structure, credit ratings or the value of the notes. See ''Description of notes—Change of Control Offer.''

Holders of the notes may not be able to determine when a change of control giving rise to their right to have the notes repurchased has occurred following a sale of ''substantially all'' of our assets.

One of the circumstances under which a change of control may occur is upon the sale or disposition of ''all or substantially all'' of our assets. There is no precise established definition of the phrase ''substantially all'' under applicable law and the interpretation of that phrase will likely depend on particular facts and circumstances. Accordingly, the ability of a holder of notes to require us to repurchase its notes as a result of a sale of less than all our assets to another person may be uncertain.

The notes or the note guarantees may be avoided under fraudulent conveyance or fraudulent transfer laws and, as a result, you may be required to return payments received by you in respect of the notes or the note guarantees.

The incurrence of the notes by the Issuer or the note guarantees by our guarantors (including any future note guarantees) may be subject to review and avoidance under U.S. federal bankruptcy law or applicable state fraudulent conveyance or fraudulent transfer laws if an action or lawsuit is commenced (including in any bankruptcy or similar insolvency proceeding) by or on behalf of the Issuer or the guarantors or the Issuer's or their unpaid creditors (or any appointed bankruptcy trustee). Under these laws, if in such a case or lawsuit a court were to find that, at the time the Issuer issued the notes or such guarantor incurred a guarantee of the notes, the Issuer or such guarantor incurred or received less than reasonably equivalent value or fair consideration for incurring the notes or the note guarantee and:

- was insolvent or was rendered insolvent in connection with the notes or the note guarantee;
- was engaged, or about to engage, in a business or transaction for which its remaining assets constituted unreasonably small capital to carry on its business as conducted or contemplated; or
- intended to incur, or believed that it would incur, debts and obligations beyond its ability to pay as such debts and obligations matured;

(as all of the foregoing terms are defined in or interpreted under the U.S. Bankruptcy Code or other relevant fraudulent conveyance or fraudulent transfer statutes) then such court could avoid the notes or the note guarantee of such guarantor or subordinate the amounts owing under the notes or such note guarantee to the Issuer's or such guarantor's presently existing or future debt, or take other actions detrimental to you. The notes or the note guarantees could also be avoided if the court determines that the Issuer or our guarantors issued the notes or the guarantee of the notes with the intent of hindering, delaying or defrauding current or future creditors.

As a general matter, value is given for a transfer or an obligation if, in exchange for the transfer or obligation, property is transferred or a valid antecedent debt is satisfied. A court would likely find that the Issuer or a guarantor did not receive reasonably equivalent value or fair consideration for the notes or its note guarantee if the Issuer or the guarantor did not substantially benefit directly or indirectly from the issuance of the notes. Specifically, if the guarantees were legally challenged, it may be asserted (and a court may consequently determine) that the guarantors incurred their note guarantees for the Issuer's benefit and did not themselves receive a direct or indirect benefit from the issuance of the notes, such that they incurred the obligations under the note guarantees for less than reasonably equivalent value or fair consideration.

The measure of insolvency for purposes of the foregoing considerations will vary depending on the law of the jurisdiction that is being applied in any proceeding, such that we cannot be certain as to what standard a court would apply in determining whether the Issuer or the guarantors were solvent at the relevant time or that a court would agree with our conclusions in this regard that the Issuer and the guarantors are not insolvent or will not be rendered insolvent as a result of the issuance of the notes and the note guarantees, or, regardless of the standard that a court uses, that it would not determine that the Issuer or a guarantor were indeed insolvent on that date; that any payments to the holders of the notes (including under the note guarantees) did not constitute preferences, fraudulent transfers or conveyances on other grounds; or that the issuance of the notes and the note guarantees would not be subordinated to the Issuer's or any guarantor's other debt. Generally, a company would be considered insolvent if, at the time it incurred the debt or issued the guarantee:

- the sum of its debts (including contingent liabilities) were greater than its assets, at fair valuation;

- the present fair saleable value of its assets were less than the amount required to pay the probable liability on its total existing debts and liabilities (including contingent liabilities) as they became absolute and matured; or
- it could not pay its debts as they became due.

In addition, any payment by the Issuer pursuant to the notes or by a guarantor under a note guarantee made at a time the Issuer or such guarantor were found to be insolvent could be voided and required to be returned to the Issuer or such guarantor or to a fund for the benefit of the Issuer's or such guarantor's creditors as a preferential transfer if such payment is made to an insider within a one-year period prior to a bankruptcy filing or within 90 days for any non-insider party and such payment would give (as applicable) such insider or non-insider party more than such party would have received in a distribution under the U.S. Bankruptcy Code in a hypothetical Chapter 7 case.

Also, any future note guarantee may be avoidable by the guarantor (as debtor-in-possession) or by its trustee in bankruptcy (or potentially by its other creditors) as a preferential transfer or otherwise if certain events or circumstances exist or occur, including, among others, if the guarantor is insolvent at the time the guarantee is incurred, that guarantee permits the holders of the notes to receive a greater recovery in a bankruptcy case of the guarantor under Chapter 7 of the U.S. Bankruptcy Code than if such guarantee had not been given, and a bankruptcy proceeding in respect of the guarantor is commenced within 90 days following the issuance of the guarantee (as applicable), or, in certain circumstances, a longer period. To the extent that the guarantee is avoided as a preference or otherwise, you would lose the benefit of the guarantee.

If a note guarantee is avoided as a fraudulent conveyance, fraudulent transfer, preferential transfer, or is found to be unenforceable for any reason, you will not have a claim against that obligor and will only be a creditor of the Issuer or any other guarantor to the extent the Issuer's or such guarantor's obligation is not set aside or found to be unenforceable. Sufficient funds to repay the notes may not be available from these other sources, including the remaining obligors, if any; accordingly, in the event of a finding that a fraudulent transfer, fraudulent conveyance, or preferential transferred occurred, you may not receive any repayment on the notes. You may also be required to return payments you have received with respect to such note guarantees.

Each note guarantee will contain a provision intended to limit the guarantor's liability to the maximum amount that it could incur without causing the incurrence of obligations under its note guarantee to be avoided as a fraudulent transfer or fraudulent conveyance. This provision may not be effective as a legal matter to protect the note guarantees from being avoided under applicable fraudulent transfer or fraudulent conveyance laws or may reduce the guarantor's obligation to an amount that effectively makes the note guarantee worthless.

Finally, as a court of equity, a bankruptcy court may subordinate the claims in respect of the notes or note guarantees to other claims against the Issuer or the guarantors, respectively, under the principle of equitable subordination if the court determines that (a) the holder of notes engaged in some type of inequitable conduct, (b) the inequitable conduct resulted in injury to our other creditors or conferred an unfair advantage upon the holders of notes and (c) equitable subordination is not inconsistent with the provisions of the U.S. Bankruptcy Code.

Enforcing your rights as a holder of the notes, or under the related guarantees across multiple jurisdictions may be difficult.

The notes will be issued by the Issuer, which is a company organized under the laws of the Cayman Islands, and will be guaranteed by certain guarantors, all of which are organized in foreign jurisdictions. In the event of bankruptcy, insolvency or a similar event, proceedings could be initiated in the jurisdiction of organization of the Issuer or of any of the guarantors. If we become a debtor under the United States bankruptcy laws, bankruptcy courts in the United States may seek to assert jurisdiction over all of our assets, wherever located, including property situated in other countries. There can be no assurance, however, that we would become a debtor under the United States bankruptcy laws or that a United States bankruptcy court would be entitled to, or accept, jurisdiction over such bankruptcy case or that courts in other countries that have jurisdiction over us and our operations would recognize a United States bankruptcy court's jurisdiction if any other bankruptcy court determined it had jurisdiction. Your rights under the notes and the related guarantees could therefore be subject to the laws of multiple jurisdictions, and you may not be able to enforce effectively your rights in multiple bankruptcy, insolvency and other similar proceedings. Moreover, such multi-jurisdictional proceedings are typically complex and costly for creditors and often result in substantial uncertainty and delay in the enforcement of creditors' rights. In addition, the bankruptcy, insolvency, foreign exchange, administration and other laws of the various jurisdictions may be materially different from or in conflict with one another and those of the United States, including in respect of creditors' rights, priority of creditors, the ability to obtain post-petition interest and the duration of the insolvency proceeding. The consequences of the multiple jurisdictions involved in the transactions could trigger disputes over which jurisdiction's law should apply which could adversely affect your ability to enforce your rights and to collect payment in full under the notes and the guarantees.

Because the Issuer is not incorporated under the laws of the United States, you may face difficulties in protecting your interests, and your ability to protect your rights through the United States federal courts may be limited.

The Issuer is incorporated with limited liability under the laws of the Cayman Islands, the guarantors are organized in various other non-United States jurisdictions and substantially all of our assets are located outside the United States. In addition, some of our directors and indirect owners and directors and managers are not nationals or residents of the United States, and all or a substantial portion of their assets are located outside the United States. As a result, it may be difficult for holders of the notes to effect service of process within the United States or enforce judgments obtained in the United States courts against our directors or managers.

The corporate affairs of the Issuer will be governed by its memorandum and articles of association, the Companies Law of the Cayman Islands and the common law of the Cayman Islands. The rights of holders of the notes to take action against the directors of the Issuer and the fiduciary responsibilities of the Issuer's managers under Cayman Islands law are, to a large extent, governed by the common law of the Cayman Islands. The common law of the Cayman Islands is derived in part from judicial precedent in the Cayman Islands as well as from English common law, the decisions of whose courts (where relevant) are of persuasive authority, but are not binding on a court in the Cayman Islands. The fiduciary responsibilities of the Issuer's managers under Cayman Islands law are not as clearly established as they would be under statutes or judicial precedents in some jurisdictions in the United States. In particular, the Cayman Islands has a less developed body of securities laws (thus providing significantly less protection to investors) as compared to the United States, and some states, such as Delaware, which have more fully developed and judicially interpreted bodies of corporate law.

The Cayman Islands courts are also unlikely:

- to recognize or enforce against the Issuer judgments of the courts of the United States based on certain civil liability provisions of United States securities laws; and
- to impose liabilities against the Issuer, in original actions brought in the Cayman Islands, based on certain civil liability provisions of United States securities laws that are penal in nature.

In each case, similar limitations may exist in the various jurisdictions of organization of the guarantors.

There is no statutory recognition in the Cayman Islands of judgments obtained in the United States, although the courts of the Cayman Islands will in certain circumstances recognize and enforce a non-penal judgment of a foreign court of competent jurisdiction without re-examination of the merits at common law, provided such judgment:

- is final and conclusive;
- is one in respect of which the federal court of the United States had jurisdiction over the defendant according to Cayman Islands conflict of law rules;
- is either for a liquidated sum not in respect of penalties or taxes or a fine or similar fiscal or revenue obligations or, in certain circumstances, for in persona non-monetary relief; and
- was neither obtained in a manner nor is of a kind enforcement of which is contrary to natural justice or the public policy of the Cayman Islands.

In each case, similar limitations may exist in the various jurisdictions of organization of the guarantors. The courts of the Cayman Islands may stay proceedings if concurrent proceedings are being brought elsewhere.

There are restrictions on your ability to transfer or resell the notes. In addition, holders of the notes will not be entitled to registration rights, and we do not currently intend to register the notes under applicable securities laws.

The notes are being offered and sold in transactions exempt from, or not subject to, registration under the Securities Act and applicable state securities laws. Therefore, you may transfer or resell the notes in the United States only in a transaction registered under or exempt from the registration requirements of the Securities Act and applicable state securities laws. By purchasing the notes, you will be deemed to have made certain acknowledgements, representations and agreements as set forth under ''Transfer restrictions.''

We will not be subject to the Sarbanes-Oxley Act of 2002.

Since we will not register the notes under the Securities Act after the offering, we will not be subject to the Sarbanes-Oxley Act of 2002, which requires public companies to have and maintain effective disclosure controls and procedures to ensure timely disclosure of material information, and have management review the effectiveness of those controls on a quarterly basis. That Act also requires public companies to have and maintain effective internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements, and have management review the effectiveness of those controls on an annual basis (and have the independent auditor attest to the effectiveness of such internal controls). We are not required to comply with these requirements and therefore we do not have comparable procedures in place as compared with public companies.

We are currently not required and will not be required to file periodic reports or other information with the SEC upon the closing of this offering. The indenture governing the notes generally only requires us to file periodic reports or other information with the SEC if the Company is otherwise subject to the periodic reporting requirements of the Exchange Act. Holders of the notes will be entitled to receive reports only as described in ''Description of the Notes—Certain covenants.'' These reports are, however, more limited than if we were subject to the reporting requirements of the Exchange Act.

We may fail to maintain an effective system of internal controls.

Although we have devoted management and financial resources to enhance our internal control over financial reporting, all internal control systems, no matter how well designed, have inherent limitations. Even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Because of changing conditions such as geographical expansion and the integration of rig acquisitions, the effectiveness of our internal controls may vary over time and we must continue to maintain and upgrade our internal controls. Significant costs are involved with maintaining our technology and internal control infrastructure. If we are unable to efficiently and effectively maintain and upgrade our system safeguards, we may incur unexpected costs and certain of our internal controls may become ineffective or vulnerable. We are not currently required to evaluate our internal controls over financial reporting as required by Section 404 of the Sarbanes-Oxley Act of 2002 and we do not intend to voluntarily comply with these requirements. Any failure in the effectiveness of our internal control over financial reporting could have a material effect on our financial reporting, which could negatively impair our ability to execute our business strategy and our ability to deliver accurate and timely financial information.

We do not intend to register the notes or the note guarantees. The holders of the notes will not be entitled to require us to register the notes for resale or otherwise. Holders of notes may be required to bear the risk of their investment in the notes for an indefinite period of time.

The notes are being offered and sold in transactions exempt from, or not subject to, registration under the Securities Act and applicable state securities laws. Therefore, you may transfer or resell the notes in the United States only in a transaction registered under or exempt from the registration requirements (other than pursuant to Rule 144) of the Securities Act and applicable state securities laws. By purchasing the notes, you will be deemed to have made certain acknowledgements, representations and agreements as set forth under ''Transfer restrictions.''

We do not currently intend to register the notes or the note guarantees. You will not be entitled to require us to register the notes for resale or otherwise. You may be required to bear the risk of their investment in the notes for an indefinite period of time.

An active trading market for the notes may not develop.

Prior to this offering, there has been no public market for the notes, and any such market may not develop. We do not intend to list the notes on any national securities exchange or any automated dealer quotation system. We have been advised by the initial purchasers that following the completion of this offering, the initial purchasers currently intend to make a market in the notes. However, the initial purchasers are not obligated to do so and, even if they do, they may discontinue market-making activities at any time. If no active trading market develops, you may not be able to resell your notes at their fair market value or at all. If a market were to develop, the notes could trade at prices that are lower than the initial offering price depending on many factors, including prevailing interest rates, general economic conditions and our financial condition, performance and prospects.

A downgrade, suspension or withdrawal of the ratings of the notes may affect the market price and marketability of the notes.

We currently expect that, upon issuance, the notes will be rated by Moody's and S&P. Such ratings will be limited in scope, and will not address all material risks relating to an investment in the notes, but rather will reflect only the view of each rating agency at the time it issues the rating. An explanation of the significance of such rating may be obtained from such rating agency. There is no assurance that such credit ratings will be issued or remain in effect for any given period of time or that such ratings will not be lowered, suspended or withdrawn entirely by the rating agencies, if, in each rating agency's judgment, circumstances so warrant. It is also possible that such ratings may be lowered in connection with the application of the proceeds of this offering or in connection with future events, such as future acquisitions. Holders of the notes will have no recourse against us or any other parties in the event of a change in or suspension or withdrawal of such ratings. Any lowering, suspension or withdrawal of such ratings may have an adverse effect on the market price or marketability of the notes. In addition, the condition of the financial markets and other factors may affect the market price or marketability of the notes.

The credit ratings assigned to the notes may not reflect all risks of an investment in the notes.

The credit ratings assigned to the notes reflect the rating agencies' assessments of our ability to make payments on the notes when due. Consequently, real or anticipated changes in these credit ratings will generally affect the market value of the notes. These credit ratings, however, may not reflect the potential impact of risks related to structure, market or other factors related to the value of the notes.

Many of the covenants in the indenture that will govern the notes will not apply during any period in which the notes are rated investment grade by both Moody's and S&P.

Many of the covenants in the indenture that will govern the notes will not apply during any period in which the notes are rated investment grade by Moody's and S&P and no default with respect to the notes has occurred and is continuing. Such covenants restrict, among other things, our ability to pay distributions, incur debt and enter into certain other transactions. Although there can be no assurance that the notes will ever be rated investment grade, any suspension of such covenants under the indenture would allow us to engage in certain transactions that would not be permitted when such covenants were in force. Any covenants that cease to apply as a result of the notes achieving an investment grade rating will be reinstated if the credit rating assigned to the notes later falls below an investment grade rating, but any actions taken while the covenants are suspended will not result in an event of default under the notes in the event the covenants are subsequently reinstated. See "Description of notes—Certain Covenants—Effectiveness of Covenants."

Guarantees by certain guarantors of the notes will not be in place by the closing of this offering and might be voidable in bankruptcy.

Certain guarantees by certain of our subsidiaries that are required to guarantee the notes will not be in place by the closing of this offering, including, in the case of our Egyptian Subsidiaries, to the extent that required governmental approvals have not been obtained by such closing and, in the case of our Indonesian Subsidiary, to the extent that local notary requirements and time zone differences prevent it from guaranteeing the notes by such closing. One of our Egyptian Subsidiaries owns three rigs and our Indonesian Subsidiary owns two rigs and a swamp barge, all of which are currently cold stacked. We cannot assure you that we will be able to obtain governmental approvals to the extent required for our Egyptian Subsidiaries to grant such guarantees (or that our

Indonesian Subsidiary will grant such guarantee). To the extent a guarantee is granted following the closing of this offering, that guarantee would remain at risk of having been granted within 90 days of a bankruptcy filing (in which case it might be voided as a preferential transfer by a trustee in bankruptcy) even after the guarantees granted on the closing of this offering were no longer subject to such risk.

The Issuer has no operations of its own and may not have sufficient cash to make payments on the notes.

The Issuer has no operations of its own and derives substantially all of its revenue and cash flows from its subsidiaries. Its principal assets are the equity interests it holds in its operating subsidiaries. As a result, the Issuer is dependent upon dividends and other payments from its subsidiaries to generate the funds necessary to meet its outstanding debt service and other obligations. The subsidiaries may not generate sufficient cash from operations to enable the Issuer to make principal and interest payments on its indebtedness, including the notes. In addition, any payments on dividends, distributions, loans or advances to the Issuer by its subsidiaries could be subject to restrictions on dividends or repatriation of earnings under applicable local law, taxation and monetary transfer restrictions in the jurisdictions in which the subsidiaries operate and, in the case of our unrestricted subsidiaries, contractual restrictions on dividends, distributions, loans or advances. In any event, payments to the Issuer by its subsidiaries will be contingent upon the subsidiaries' earnings.

Our shareholders may have interests which conflict with those of holders of notes.

Circumstances may occur in which the interests of our sponsors, Castle Harlan, Inc., Lime Rock Partners and CHAMP Private Equity, could be in conflict with your interests. For example, the interests of our sponsors could conflict with your interests if we faced financial difficulties and were unable to comply with our obligations to you under the notes. In addition, our sponsors may have an interest in pursuing acquisitions, divestitures and other transactions that, in their judgment, could enhance their equity investment, even though such transaction might involve risks to you. Conversely, our sponsors may have an interest in not pursuing acquisitions, divestitures and other transactions that could enhance our cash flow and be beneficial to you.

Risks related to our business

The current downturn in activity in the shallow water offshore oil drilling industry has had and is likely to continue to have an adverse impact on our business and results of operations.

The shallow water offshore oil drilling industry is currently in the midst of a severe and prolonged commodity price down-cycle. The price of Brent crude oil has fallen from a high of $115.06 per barrel on June 19, 2014 to a low of $27.88 on January 20, 2016 and was $70.52 per barrel on January 26, 2018. We expect this commodity price down-cycle, if it persists or there are further price declines, to continue to reduce many of our customers' demand for our services. Declines in capital spending levels, coupled with additional newbuild rig supply, have and are likely to continue to put significant pressure on dayrates and utilization. The decline and the perceived risk of a further decline in oil prices could cause oil companies to further reduce their overall level of activity or spending, in which case demand for our services may further decline and revenues may continue to be adversely affected through lower drilling rig utilization and/or lower dayrates.

Historically, when drilling activity and spending decline, an oversupply of drilling rigs depresses utilization and dayrates. The recent oversupply of drilling rigs is exacerbated by the entry of a large number of newbuild rigs into the market and by customers terminating drilling contracts early or not renewing a rig when a contract expires. The supply of available uncontracted rigs has intensified and is likely to further intensify price competition as scheduled delivery dates occur and additional contracts terminate without renewal and lead to a reduction in dayrates as the active fleet grows, which would adversely affect our revenues and profitability.

In general, drilling rig owners are bidding for available work with a focus on utilization over returns, which has driven dayrates down and will likely continue to drive dayrates down to or below cash breakeven operating levels. In an effort to maintain our utilization rate, we may also accept contracts at lower dayrates or on less favorable terms due to market conditions. Lower utilization and dayrates have adversely affected and will continue to adversely affect our revenues and profitability.

In the current environment, our customers may seek to cancel or renegotiate our contracts for various reasons, including adverse conditions, resulting in lower dayrates. Since 2014, nine of our customers have sought to renegotiate terms or elected to terminate the drilling contracts for 18 of our operating rigs. In an over-supplied market, we may have limited bargaining power to renegotiate on more favorable terms or to maintain existing terms. The effects of the commodity price down-cycle may have other impacts on our business as well. As the market value of our drilling rigs decreases, and if we sell any drilling rig at a time when prices for drilling rigs have fallen, such a sale may result in a loss, which would negatively affect our results of operations.

Future levels of demand for our services and future conditions in the oil industry are inherently uncertain. Any decrease in exploration, development or production expenditures by oil companies could reduce our revenues and materially harm our business and results of operations. The current demand for drilling rigs may further decline in future periods. The continued or future decline in demand for drilling rigs would adversely affect our financial condition, results of operations and cash flows.

Our business depends on the level of activity in the shallow water offshore drilling industry which, as seen in recent years, is significantly affected by the volatile nature of the oil exploration, development and production industry and would be adversely affected if there is a further decline in oil prices.

The level of activity of the shallow water offshore drilling industry is cyclical, volatile and impacted by oil prices. Sustained periods of low oil prices typically result in reduced exploration, development and production activities because oil companies' capital expenditure budgets are dependent on cash flows from such activities and are therefore sensitive to changes in energy prices. The significant decline in global oil prices that began in the fourth quarter of 2014 has caused a reduction in the exploration, development and production activities of most of our customers and their spending on our services. These cuts in spending have curtailed drilling programs, reducing the demand for our services, the rates we can charge and the utilization of our drilling rigs. Because almost all of our revenue is driven by the development and workover activities of our customers, we expect that a further decline in the activity levels of the shallow water offshore oil industry would have a material adverse effect on our business, financial condition and results of operations.

Oil prices are unpredictable and are affected by numerous factors beyond our control, including but not limited to the following:

- worldwide supply and demand for oil and natural gas, which are impacted, among other factors, by changes in the rate of growth in the global economy;
- technical advances affecting energy sources and consumption, and the development and exploitation of alternative fuels;
- worldwide financial instability or recessions;
- the cost of exploring for, developing, producing and delivering oil;
- expectations regarding future energy prices;
- advances in exploration, development and production technologies;
- the discovery rate of new oil and gas reserves;
- increased supply of oil and gas resulting from growing onshore hydraulic fracturing activity and shale development;
- available pipeline and other oil and gas transportation capacity;
- the ability of the Organization of the Petroleum Exporting Countries ("OPEC") to set and maintain production levels and pricing, including whether it meets or extends the reduced output targets it has previously announced or may announce in future;
- the level of production in non-OPEC countries;
- local and international political, economic and weather conditions, including natural disasters;
- domestic and foreign tax laws, regulations and policies;
- merger and divestiture activity among oil and gas producers;
- the availability of, and access to, suitable locations from which our customers can explore and produce hydrocarbons;

- activities by non-governmental organizations to restrict the exploration, development and production of oil and gas so as to reduce the potential for harm to the environment from such activities, including emissions of carbon dioxide, a greenhouse gas;
- the policies and regulations of various governments regarding exploration and development of their oil reserves or speculation regarding future laws or regulations; and
- the worldwide political and military environment, including uncertainty or instability resulting from an escalation or additional outbreak of armed hostilities or other crises in the Middle East or other geographic areas or further acts of terrorism in the regions in which we operate, or elsewhere.

The industry is competitive and has historically been cyclical and subject to price competition. If we are unable to compete successfully with our competitors, our revenues and profitability may be reduced.

The shallow water offshore drilling industry is extremely competitive with numerous industry participants, none of which has a dominant market share globally, and contracts have traditionally been awarded on a competitive bid basis. We believe that pricing is often the primary factor in determining a contract award. Customers may also consider rig availability and location; operational and safety performance records; and condition and suitability of equipment. In addition, one of our competitors has recently entered into a joint venture with one of our largest customers, which could make it more difficult for us to obtain additional contracts from that customer. Competition for jack-up rigs is frequently on a global basis, as jack-up rigs are mobile and may be moved from areas of low utilization and dayrates to areas of greater activity and corresponding higher dayrates, which could result in an excess supply of rigs in the markets in which we operate. Costs connected with relocating jack-up rigs for these purposes are sometimes substantial and are generally borne by the contractor. In addition, we may enter into lower dayrate drilling contracts in response to market conditions which reduces the revenue we earn from such contracts. If we are not able to compete successfully with our competitors, our revenues and profitability may suffer.

The shallow water offshore contract drilling industry has historically been cyclical with periods of high demand, limited supply and high dayrates alternating with periods of low demand, excess supply and low dayrates—as seen in recent years. Periods of low demand and excess supply intensify competition in the industry and may result in some drilling rigs being stacked or earning substantially lower dayrates for long periods of time. Such periods may persist for extended periods of time. We have idled and stacked rigs in response to market conditions and may idle and stack additional rigs in the future, and such rigs may not return to service in the near term or at all. In addition, the shallow water offshore drilling industry is influenced by additional factors, including but not limited to the following:

- the level of costs for associated shallow water offshore oil and natural gas and construction services;
- oil and natural gas transportation costs;
- the discovery of new oil and natural gas reserves;
- the economics of non-conventional hydrocarbons;
- the political and military environment of oil and natural gas reserve jurisdictions; and
- regulatory restrictions on shallow water offshore drilling.

Any of these factors, together with prolonged periods of low utilization and dayrates, as well as extended periods when rigs are idle or stacked, could reduce demand for our services and materially adversely affect our business, financial condition and results of operations.

Our future contracted revenue, or contract backlog, for our fleet of drilling rigs may not be ultimately realized.

As of September 30, 2017, we had a total contract backlog of $1.4 billion. The amount of contract backlog does not necessarily indicate future earnings, and our contract backlog may be adjusted up or down depending on award of new contracts or extensions or the exercise by the customer of extension options, early cancellation of existing contracts (for which we may not be entitled to compensation in many cases), renegotiation of contract dayrates, failure by customers to complete existing contracts or to pay amounts owed or the unavailability of equipment to fulfil a contract due to repairs, maintenance or inspections. In addition, certain of our existing contracts provide for, and we may enter into contracts in the future that provide for, yearly renegotiation of contract dayrates. Such yearly renegotiations may result in downward adjustments to our contract backlog each year.

For example, we currently operate six jack-up rigs in Saudi Arabia, and each rig was originally contracted for five years with Saudi Aramco. After renegotiations, we reduced our dayrates for 2017 for five of these rigs below the originally contracted dayrates, reducing our aggregate backlog by $67.5 million. These events have had, and may have in the future, an impact on the realization of our contract backlog, resulting in a material adverse effect on our business, financial condition and results of operations.

Other factors can affect our contract backlog. The contract drilling dayrate used in the calculation of contract backlog may be higher than the actual dayrate we ultimately receive and, under certain circumstances, may be replaced temporarily by alternative dayrates, such as a waiting-on-weather rate, repair rate, standby rate, force majeure rate or mobilization rate. The contract drilling dayrate used in the calculation of contract backlog may also be higher than the actual dayrate we ultimately receive because of a number of factors resulting in lost dayrate revenue, including rig downtime or suspension of operations. In certain contracts, the dayrate may be reduced to zero if, for example, repairs extend beyond a stated period of time. Our contracts also typically include a provision that allows the customer to extend the term period of the contract to finish drilling a well-in-progress. In a limited number of contracts, the customer may cancel the contract without cause or payment of an early termination fee by serving a certain period of notice. The period of time beyond the term of the contract to finish drilling a well-in-progress and the associated dayrate revenue is not included in the calculation of the contract backlog.

We will continue to experience reduced profitability if our customers reduce activity levels, terminate or continue to seek to renegotiate contracts or if we experience downtime, operational difficulties or safety-related issues.

During periods of depressed market conditions, including the current market, we are subject to an increased risk of our customers seeking to renegotiate or terminate their contracts, including through claims of non-performance. We could be required to make termination payments if contracts are terminated due to downtime, operational problems, safety related issues, failure to deliver or sustained periods of downtime due to force majeure events. Our customers' ability to perform their obligations under their drilling contracts with us may also be negatively impacted by continuing global economic uncertainty. If our customers terminate some of our contracts, and we are unable to secure new contracts on a timely basis and on substantially similar terms, or if payments due under our contracts are suspended for an extended period of time or if a number of our contracts are renegotiated, our financial condition, results of operations or cash flows, could be materially adversely affected. In the past, some of our customers have renegotiated the terms of their existing drilling contracts during periods of depressed market conditions, which has resulted in reduced profitability.

We rely on a relatively small number of customers for a substantial portion of future contracted revenue.

Our customer base includes NOCs and IOCs, together with a small number of independent oil and gas companies. The contract drilling business is subject to the usual risks associated with having a limited number of customers. As of September 30, 2017, 17 of our 26 drilling contracts were with our top five customers. Our top five customers accounted for 85.8% of contract backlog as of September 30, 2017, and for 83.0% of revenue for the period ended September 30, 2017. Our business, financial condition and results of operations could be materially and adversely affected if any of these customers were to reduce its contractual commitments to us, or suspend or withdraw its approval for us to provide services for them.

Our growth is also closely connected to the growth of our customers and our results may be impacted if certain key customers were to significantly reduce their growth strategy. Furthermore, if any of our major customers fails to compensate us for our services, terminates contracts, fails to renew existing contracts or refuses to enter into new contracts with us, or if a customer fails to perform due to liquidity, solvency or other reasons, and similar contracts with new customers are not forthcoming, our business, financial condition and results of operations would be materially and adversely affected.

Our rigs (including our swamp barge) are on average 32 years old and some customers may prefer newer and/or higher specification rigs.

A number of our competitors have jack-up rigs that are newer and/or have higher specifications and capabilities than some of those in our fleet. Certain customers may prefer newer or other classes of rigs with different capabilities or higher specifications to those in our fleet. There is an increasing amount of exploration, development and production expenditures being concentrated in deepwater drilling programs and deeper formations, including deep natural gas prospects, requiring higher specification jack-up rigs, semi-submersible drillings rigs or drillships. This trend is expected to continue and could result in a decline in demand for jack-up rigs in general and for older jack-up rigs like many of ours, which could have a material adverse effect on our business, financial condition and results of operations.

Our future business performance depends on our ability to secure new contracts for our fleet of rigs and/or on the renewal of our existing contracts by our customers.

Our ability to win bids and tenders for new contracts, as well as contract renewals where we are the incumbent rig provider, is affected by a number of factors beyond our control, such as market conditions, rig specifications, safety record requirements, competition and governmental approvals required by customers. Further, any increased customer interest and inquiries may not continue in future periods and may not result in an increase in drilling activity, the same level of prospect capture by us or drilling contracts for our rigs. If we are not selected or if the contracts we enter into are delayed, work flow may be interrupted and our business, financial condition and results of operations may be materially adversely affected.

If an existing customer decides not to renew its contract, we must then secure a new contract for that rig. Of 26 customer contracts in place as of September 30, 2017, 5 were scheduled to expire during 2017, 7 are scheduled to expire during 2018 and 14 are scheduled to expire after 2018. While we actively market our rigs' availability prior to the expiry of a contract, we may not be able to renew or extend existing contracts or secure new arrangements before the original contract lapses. Re-contracting a rig may involve participation in either a direct renegotiation with the customer or in a new tender process, the length and complexity of which could lead to a rig being stacked and/or having to enter into a new contract at lower dayrates, shorter terms or in geographical areas requiring transport of the rig and could materially adversely affect our business, financial condition and results of operations.

We may enter into short-term (one year or less) drilling contracts, which may reduce our profitability.

Many drilling contracts are short-term, and oil and natural gas companies tend to reduce activity levels quickly in response to declining oil and natural gas prices and may be unwilling to commit to long-term contracts. As a result, during commodity price down-cycles, we may enter into short-term drilling contracts. Such drilling contracts may not provide the stability of revenue that we would otherwise receive with long-term drilling contracts and may result in significant additional costs, which would reduce our profitability and may adversely affect our financial condition, results of operations and cash flows.

If customers terminate or seek to renegotiate drilling contracts, or if market conditions dictate that we enter into contracts that provide for payment based on a footage or turnkey basis, rather than on a dayrate basis, we may experience reduced profitability.

During depressed market conditions, a customer may no longer need a rig that is currently under contract or may be able to obtain a comparable rig at a lower dayrate. As a result, customers may seek to renegotiate the terms of their existing drilling contracts or repudiate, suspend or otherwise avoid their obligations under those contracts. In addition, our customers may have the right to terminate, or may seek to renegotiate, existing contracts if we experience downtime, operational problems above the contractual limit or safety-related issues, if the drilling rig is a total loss, if the drilling rig is not delivered to the customer within the period specified in the contract or in other specified circumstances, which include events beyond our control.

Currently, our drilling contracts are dayrate contracts, where we charge a fixed rate per day regardless of the number of days needed to drill the well. While we plan to continue to perform services on a dayrate basis, market conditions may dictate that we enter into contracts that provide for payment based on a footage basis, where we are paid a fixed amount for each foot drilled regardless of the time required or the problems encountered in drilling the well, or enter into turnkey contracts, whereby we agree to drill a well to a specific depth for a fixed price and bear some of the well equipment costs. These types of contracts would expose us to greater risk than a dayrate contract as we would be subject to downhole geologic conditions in the well that cannot always be accurately determined and subject us to greater risks associated with equipment and downhole tool failures. Unfavorable downhole geologic conditions and equipment and downhole tool failures may result in significant cost increases or may result in a decision to abandon a well project, which would result in us not being able to invoice revenues for providing services. Any such termination or renegotiation of contracts and unfavorable cost increases or loss of revenue could have a material adverse effect on our financial condition, results of operations and cash flows.

Our long-term (greater than one year) contracts are subject to the risk of cost increases and termination, which could adversely impact our profitability.

In periods of rising demand for shallow water offshore rigs, a drilling contractor generally would prefer to enter into well-to-well or other short-term contracts less than one year in duration that would allow the contractor to profit from increasing dayrates, while customers with reasonably definite drilling programs would typically prefer long-term contracts in order to maintain dayrates at a consistent level. Conversely, in periods of decreasing demand for shallow water offshore rigs, a drilling contractor generally would prefer to enter long-term contracts to preserve dayrates and utilization, while customers generally would prefer well-to-well or other short-term contracts that would allow the customer to benefit from the decreasing dayrates. In the current commodity price down-cycle, we may not be able to renew long-term contracts that preserve dayrates and utilization, or our customers may seek to renegotiate dayrates under our existing long-term contracts.

In general, our costs increase as the business environment for drilling services improves and demand for oilfield equipment and skilled labor increases. The timing and amount of payments earned from contracted dayrates may differ from our actual increase in costs. Additionally, if our rigs incur idle time between contracts, we typically do not remove personnel from those rigs because we utilize the crew to prepare the rig for its next contract. During times of reduced activity, reductions in costs may not be immediate as portions of the crew may be required to prepare our rigs for stacking, after which time the crew members are assigned to active rigs or dismissed. Moreover, as our rigs are mobilized from one geographic location to another, the labor and other operating and maintenance costs can vary significantly. In general, labor costs increase primarily due to higher salary levels and inflation. Equipment maintenance expenses fluctuate depending upon the type of activity the rig is performing and the age and condition of the equipment. Contract preparation expenses vary based on the scope and length of contract preparation required and the duration of the firm contractual period over which such expenditures are amortized. Any such increases in costs associated with our long-term contracts could have a material adverse effect on our financial condition, results of operations and cash flows.

We have entered, and may in the future enter, into long-term contracts that allow customers to terminate those contracts without cause, with little or no prior notice and without penalty or early termination payments. We have experienced termination without cause under some of our long-term contracts in the past. In addition, under our existing long-term contracts and those that we may enter into in the future, we could be required to pay penalties, which could be material, if such contracts are terminated due to downtime, operational problems or failure to deliver. In addition, certain of our existing contracts provide for, and we may enter into contracts in the future that provide for, cancellation at the option of the customer upon payment of a penalty, which may not fully compensate us for the loss of the contract. Early termination of a contract may result in a drilling rig being idle for an extended period of time. The likelihood that a customer may seek to terminate a contract is increased during periods of market weakness. Any such termination of our long-term contracts could have a material adverse effect on our business, results of operations or cash flows.

Our drilling contracts with NOCs may expose us to greater risks than we normally assume in drilling contracts with non-governmental customers.

As of September 30, 2017, 16 of our rigs were contracted with NOCs or NOC joint ventures. The terms of these contracts are often non-negotiable and may expose us to greater commercial, political and operational risks than we assume in other contracts, such as exposure to materially greater environmental liability and other claims for damages (including consequential damages) and personal injury related to our operations, or the risk that the contract may be terminated by our customer without cause on short-term notice, contractually or by governmental action, for which we may not be entitled to compensation. We may increase the number of rigs contracted to NOCs with commensurate additional contractual risks. The increased risk exposure from NOC contracts may have an adverse impact on our future operations.

Changes to the supply of oil may reduce the demand for shallow water offshore drilling services and reduce our profitability.

The supply of oil is unpredictable and fluctuates based on events outside our control, including geo-political developments, demand for oil, actions by members of OPEC and other oil and gas producers, war and unrest in oil producing countries and regions, regional production patterns and environmental concerns and regulations. A prolonged commodity price down-cycle may cause oil companies to cut down production or OPEC to initiate a freeze or reduction in production, which could negatively impact market demand for jack-up rigs in the Middle East, one of our core operating regions.

Our purchases of existing jack-up rigs carry risks associated with the quality of those rigs.

We have acquired, and may in the future acquire, existing jack-up rigs as a way of renewing and expanding the capability of our fleet. Unlike newbuild rigs, existing rigs typically do not carry warranties with respect to their condition. While we generally inspect any existing rig prior to purchase, such an inspection would normally not provide us with as much knowledge of its condition as we would possess if the rig had been built for us and operated by us during its life. Repairs and maintenance costs for existing rigs are difficult to predict and may be more substantial than for rigs that we have operated since they were built. These costs could decrease our profits and reduce our liquidity. In addition, we may not be able to obtain indemnification and warranties from the sellers of any rigs that we acquire.

If we are unable to successfully acquire and integrate additional rigs on economically acceptable terms, or at all, future growth will be limited, and any such acquisitions we may make could have an adverse effect on results of operations.

Part of our strategy to grow our business is dependent on our ability to successfully acquire and integrate additional rigs to generate further revenues. The consummation, timing and success of any future acquisitions will depend upon, among other things, the availability of attractive targets in the marketplace, our ability to negotiate acceptable purchase agreements, our ability to obtain financing on acceptable terms and our ability to integrate any assets and operations into our fleet. We may not be able to consummate any future acquisition, which may limit our future growth, and we may not achieve the benefits we seek in any future acquisition.

Further, any acquisitions of rigs could expose us to a number of risks, including:

- the risk of incorrect assumptions regarding the future results of acquired rigs or expected cost reductions or other synergies expected to be realized as a result of acquiring rigs;
- the risk of failing to integrate any acquired assets and operations successfully and timely;
- the risk of undetected defects;
- the risk of diversion of management's attention from existing operations or other priorities; and
- the risk of unforeseen consequences or other external events beyond our control.

Compared to companies with greater resources, we may be at a competitive disadvantage.

Certain of our competitors in the shallow water offshore contract drilling industry have more diverse fleets and greater financial and other resources and assets than we do. Similarly, some of these competitors may be significantly better capitalized than we are, which may make them preferable to us to the extent they are more able to keep pace with technological developments in the drilling services market and make more substantial improvements in the functions and performance of equipment used in shallow water offshore drilling services than we are. In addition, competitors that are significantly better capitalized than we are may be preferable to us to the extent the customer is concerned about counterparty credit risk or our ability to cover potentially significant liabilities. In addition, competitors with more diversified fleets or who have successfully acquired or upgraded their existing rigs or equipment in a more timely and cost effective manner than us, may be better positioned to withstand unfavorable market conditions. As a result, our competitors may have competitive advantages that may adversely affect our efforts to contract our drilling rigs on favorable terms, if at all, and correspondingly negatively impact our financial condition, results of operations and cash flows. Additionally, we may be at a competitive disadvantage to those competitors that are better capitalized because they are in a better position to withstand the effects of a commodity price down-cycle.

We depend heavily upon the security and reliability of our technology systems and those of our service providers, and such systems are subject to cybersecurity risks and threats.

We depend heavily on technologies, systems and networks that we manage, and others that are managed by our third-party service and equipment providers, to conduct our business and operations. Cybersecurity risks and threats to such systems continue to grow in sophisticated ways that avoid detection and may be difficult to anticipate, prevent or mitigate. If any of our service or equipment providers' security systems for protecting against cybersecurity breaches or failures proves to be insufficient, we could be adversely affected by having our business and financial systems compromised, our companies', employees', vendors' or customers' confidential or proprietary information altered, lost or stolen, or our business operations or safety procedures disrupted, degraded or damaged. A breach or failure could also result in injury (financial or otherwise) to people, loss of control of, or damage to, our assets, harm to the environment, reputational damage, breaches of laws or regulations, litigation and other legal liabilities. In addition, we may incur significant costs to prevent, respond to or mitigate cybersecurity risks or events and to defend against any investigations, litigation or other proceedings that may follow such events. Such a failure or breach of our systems could adversely and materially impact our business, financial condition, results of operations and cash flows.

Supplier capacity constraints or shortages in parts or equipment, supplier production disruptions, supplier quality and sourcing issues or price increases could increase our operating costs, decrease revenues and adversely impact our operations.

Our reliance on third-party suppliers, manufacturers and service providers to secure equipment used in our drilling operations exposes us to volatility in the quality, price and availability of such items. Certain specialized parts and equipment we use in our operations may be available only from a single or small number of suppliers. A disruption in the deliveries from such third-party suppliers, capacity constraints, production disruptions, price increases, defects or quality-control issues, recalls or other decreased availability or servicing of parts and equipment could adversely affect our ability to meet our commitments towards our customers, adversely impact operations and revenues by resulting in uncompensated downtime, reduce dayrates or the cancellation or termination of contracts, or increase our operating costs.

An over-supply of jack-up rigs or mobilization of rigs into the regions where we operate may lead to a reduction in dayrates and therefore may materially impact our profitability.

Prior to the recent commodity price down-cycle, industry participants had increased the supply of marketed jack-up rigs by ordering construction of new jack-up rigs or increasing reactivation and upgrade projects. There are jack-up rigs currently under construction or involved in reactivation and upgrade projects that have not been contracted for future work, and these may add to an over-supply of drilling rigs, leading to a further decline in utilization and dayrates when new, reactivated or upgraded drilling rigs enter the market. If industry conditions improve, jack-up rigs and other mobile offshore drilling rigs may be moved into the regions where we operate, and there may be increased rig construction, reactivation and upgrade projects to meet an increase in demand for jack-up rigs. An over-supply of jack-up rigs may also result in certain customers preferring newer, higher specification rigs over older rigs which could also lead to a further reduction of our utilization and dayrates. As a result, our business, financial condition and results of operations would be materially adversely affected.

Upgrade, refurbishment and repair projects are subject to risks, including delays and cost overruns, which could have an adverse impact on available cash resources or results of operations.

We incur upgrade, refurbishment and repair expenditures for our fleet from time to time, including when upgrades are required by industry standards and/or by law. Such expenditures are also necessary in response to requests by customers, inspections, regulatory or certifying authorities or when a rig is damaged. We also regularly make certain upgrades or modifications to our drilling rigs to meet customer or contract specific requirements. Upgrade, refurbishment and repair projects are subject to project management execution risks of delay or cost overruns, including costs or delays resulting from the following:

- unexpectedly long delivery times for, or shortages of, key equipment, parts and materials;
- shortages of skilled labor and other shipyard personnel necessary to perform the work;
- scope creep, unforeseen increases in the cost of equipment, labor and raw materials, particularly steel;

- unforeseen design and engineering problems;
- latent damages to or deterioration of hull, equipment and machinery in excess of engineering estimates and assumptions;
- unanticipated actual or purported change orders;
- health, safety and environmental (''HSE'') incidents;
- failure or delay of third-party service providers;
- disputes with shipyards and suppliers;
- delays and unexpected costs of incorporating parts and materials needed for the completion of projects;
- changes to the customers' specifications;
- failure or delay in obtaining acceptance of the rig from a customer;
- financial or other difficulties at shipyards;
- adverse weather conditions; and
- inability or delay in obtaining flag-state, classification society, certificate of inspection, or regulatory approvals.

Significant cost overruns or delays would adversely affect our business, financial condition and results of operations. Additionally, capital expenditures and deferred costs for rig upgrades and refurbishment projects, including any planned refurbishment and upgrade of our rigs, could exceed our planned capital expenditures. Failure to complete an upgrade, refurbishment or repair project on time may, in some circumstances, result in the delay, renegotiation or cancellation of a drilling contract and could put at risk planned arrangements to commence operations on schedule. We could also be exposed to contractual penalties for failure to complete an upgrade, refurbishment or repair project and commence operations in a timely manner. When undergoing upgrade, refurbishment or repair, our rigs generally do not earn a dayrate during the period they are out of service. Failure by us to minimize lost dayrates resulting from the immobilization of our rigs may adversely impact our business, financial condition and results of operations.

There may be further asset impairments as a result of future declines in dayrates and utilization for shallow water drilling rigs.

We evaluate our property and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss on property and equipment exists when the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. During the year ended December 31, 2016 and the nine months ended September 30, 2017, we recorded a non-cash impairment loss of $47.1 million and $34.8 million, respectively. Despite our belief that there are indications of an improving market for jack-up rig services, we observed continued pressure on market dayrates in the markets in which we operate and experienced an increase in the number of idle rigs. If there is a reduction in the number of new contract opportunities, dayrates, or utilization rates, or an increase in global supply of jack-up rigs, we may be required to recognize additional impairment losses in future periods.

The shallow water offshore drilling industry historically has been highly cyclical, and it is not unusual for rigs to be unutilized or underutilized for significant periods of time and subsequently resume full or near full utilization when business cycles change. Likewise, during periods of supply and demand imbalance, rigs are frequently contracted at or near cash breakeven operating rates for extended periods of time until dayrates increase when the supply/demand balance is restored. The significant decline in global oil and gas prices that began in the fourth quarter of 2014 has impacted the overall industry activity level and rig supply and demand. The reduction in spending by our customers together with the over-supply of drilling rigs in markets in which we operate may continue to adversely impact our ability to acquire contracts at current dayrates in those areas. During periods of weak demand and reduced dayrates, we have historically entered into contracts at lower dayrates in order to keep our rigs working. Prolonged periods of low utilization and dayrates may result in the recognition of impairment charges on certain of our drilling rigs if estimates of future cash flows, based upon information available to management at the time, indicate that the carrying value of these rigs may not be recoverable.

We are exposed to the credit risks of key customers and certain other third parties, including if we acquire new rigs, which could adversely affect our financial condition, results of operations and cash flows.

We are subject to risks of loss resulting from non-payment or non-performance by third parties. Although we monitor and manage credit risks, some of our customers and other parties may be highly leveraged and subject to their own operating and regulatory risks. During more challenging market environments, we are subject to an increased risk of customers seeking to repudiate contracts. Our customers' ability to perform their contractual obligations may also be adversely affected by restricted credit markets and economic downturns. If one or several key customers or other parties were to default on their obligations to us, our business, financial condition and results of operations could be adversely affected. As of September 30, 2017, our allowance for doubtful accounts was $3.4 million.

If we were to speculatively reactivate any of the rigs which are currently stacked or any other rigs which may be stacked in the future, purchase used rigs from third parties or speculatively enter into construction contracts for newbuild rigs, we could be exposed to a number of risks that could adversely affect our financial position, results of operations and cash flows. For example, reactivation and newbuild rig construction projects are subject to various risks, including but not limited to: (i) unexpectedly long delivery times for, or shortages of, key equipment, parts and materials, (ii) unforeseen design and engineering problems leading to delays, (iii) labor disputes and work stoppages at the shipyard, (iv) HSE accidents/incidents or other safety hazards or (v) project management and execution risks. In addition, if we were to reactivate a stacked rig, purchase a used rig or order construction of a newbuild rig absent a firm customer contract, we may not be able to secure arrangements for these rigs on economically acceptable terms, or at all. Failure to complete a reactivation project on time and on budget, and a failure to contract reactivated, newly purchased, used or newbuild rigs on economically acceptable terms or in a timely manner could adversely affect our financial position, results of operations and cash flows.

There may be limits to our ability to mobilize drilling rigs between geographic areas, and the duration, risks and associated costs of such mobilizations may be material to our business.

The shallow water offshore contract drilling market is generally a global market as drilling rigs may be moved from one area to another. However, the ability to mobilize drilling rigs can be impacted by several factors including, but not limited to, governmental regulation and customs practices, the significant costs and risks of damage related to moving a drilling rig, availability of tugs and dry tow vessels to move the rigs, weather, political instability, civil unrest, military actions and the technical capability of the drilling rigs to relocate and operate in various environments. Additionally, while a jack-up rig is being mobilized from one geographic market to another, we may not be paid for the time that the jack-up rig is out of service or be reimbursed for costs attributable to such relocation. Further, despite the ability to move rigs, not all of our rigs are designed to work in all regions, in all water depths or over all types of seafloor conditions. We may mobilize rigs in, or relocate rigs to, another geographic market without a customer contract, which could result in costs not reimbursable by future customers and may have a material adverse effect on our business, financial condition and results of operations.

Our business involves numerous operating hazards and our insurance and contractual indemnity rights may not be adequate to cover any losses resulting from accidents and other events.

Our operations are subject to the usual hazards inherent in the drilling, completion and maintenance of shallow water offshore oil and natural gas wells. Hazards include, but are not limited to, blowouts, punch through (i.e., where one leg of a jack-up rig breaks through the hard crust of the ocean floor, placing stress on the other legs), loss of control of the well, abnormal drilling conditions, mechanical or technological failures, seabed cratering, fires, pollution and failure of employees to comply with internal HSE guidelines. We also operate in regions impacted by monsoon seasons, so are subject to hazards associated with severe weather conditions. The occurrence of these events may result in the suspension of drilling or production operations, fines or penalties, claims or investigations by the operator, regulatory bodies and others affected by such events, severe damage or destruction of property and equipment involved, injury or death to rig personnel, environmental damage, lower utilization rates, loss of dayrate revenue and increased insurance costs.

We may also be subject to personal injury and other claims of drilling rig personnel as a result of our drilling operations. Operations also may be suspended because of machinery breakdowns, abnormal operating conditions, failure of subcontractors to perform and personnel shortages.

In addition, our operations are subject to perils peculiar to marine operations including capsizing, grounding, collision, sinking and loss or damage from severe weather. Severe weather could have a material adverse effect on our operations, damaging rigs from high winds, turbulent seas, or unstable sea bottom conditions. Such occurrences could potentially cause us to curtail operations for significant periods of time while repairs are effected.

Damage to the environment could result from operations, particularly through blowouts, oil spillage or extensive uncontrolled fires. We may also be subject to fines and penalties (for which indemnification may not be available from our customers) resulting from property, environmental, natural resource and other damage claims by governments, environmental organizations, oil and natural gas companies and other businesses operating shallow water offshore and in coastal areas, including claims by individuals living in or around coastal areas.

As is customary in the shallow water offshore drilling industry, the risks of our operations are covered partially by insurance and partially by contractual indemnities from our customers. However, our insurance policies have limits and exclusions and may not provide full coverage for, and, most of our customer contracts do not fully indemnify us from, all losses or liabilities resulting from our operations. If a significant accident or other event resulting in damage to the drilling rigs, including severe weather, terrorist acts, war, civil disturbances, pollution or environmental damage, occurs and is not fully covered by insurance or a recoverable indemnity from a customer, it could adversely affect our business, financial condition and results of operations. Furthermore, we may experience increased costs for available insurance coverage, which may impose higher deductibles and limit maximum aggregated recoveries, including for hurricane, monsoon, or cyclone-related damage or loss. Insurance costs may increase in the event of ongoing patterns of adverse changes in weather or climate. Moreover, we may not be able to maintain adequate insurance or obtain insurance coverage for certain risks in the future at rates we consider reasonable, our customers may not be financially able to indemnify us against all these risks, or we may be unable to enforce our contractual indemnities due to legal or judicial factors. Although we believe our insurance covers many risks common to our industry, we do not have insurance coverage or indemnification for all risks, and we may not be adequately covered for certain losses. These insurance and indemnity related risks could adversely affect our business, financial condition and results of operations.

We may not be able to keep pace with technological developments and to make adequate capital expenditures in response to higher specification rigs being deployed within the industry.

The market for our services is characterized by technological developments which result in improvements in the functionality and performance of rigs and equipment. Customers may demand the services of newer, higher specification drilling rigs, and may in the future impose restrictions on the maximum age of contracted drilling rigs. To the extent that we are unable to negotiate agreements for customer reimbursement for the cost of increasing the specification of our drilling rigs, we could be incurring higher capital expenditures than planned. Customer demand for newer, higher specification rigs might also result in a bifurcation of the drilling fleet for jack-up rigs, with newer rigs operating at higher overall utilization rates and dayrates. As the average age of our rigs is 32.1 years, we may be required to increase capital expenditure to maintain and improve existing rigs and equipment and/or purchase and construct newer, higher specification drilling rigs to meet the increasingly sophisticated needs of customers. Our future success and profitability will depend, in part, upon our ability to keep pace with technological developments. If, in response to technological developments or changes in standards in the industry, we are not successful in acquiring new equipment or upgrading existing equipment in a timely and cost-effective manner, we could lose business and profits. In addition, current competitors or new market entrants may develop new technologies, services or standards that could render some of our services or equipment obsolete, which could have a material adverse effect on our business, financial condition and results of operations.

Technology disputes could negatively impact our operations or increase our costs.

Drilling rigs use proprietary technology and equipment which can involve potential infringement of a third party's rights, including patent rights. In the event that we or one of our suppliers or sub-suppliers becomes involved in a dispute over infringement rights relating to equipment owned or used by us, we may lose access to repair services or replace parts, or we could be required to cease use of some equipment or forced to modify our jack-ups. We could also be required to pay license fees or royalties for the use of equipment. Technology disputes involving us or our suppliers or sub-suppliers could adversely affect our financial condition, results of operations and cash flows.

Newbuild rig projects are subject to various risks which could cause delays or cost overruns and have an adverse impact on our results of operations.

We could decide to increase the size of our fleet through the construction of newbuild rigs. We had one newbuild rig under construction as of December 31, 2016, and the rig was delivered in April 2017. Newbuild rig construction projects are subject to risks of delay and cost overruns inherent in any large construction project from numerous factors, including:

- unexpectedly long delivery times for, or shortages of, key equipment, parts and materials;
- unforeseen design and engineering problems leading to delays;
- labor disputes and work stoppages at the shipyard;
- HSE accidents/incidents or other safety hazards;
- disputes with the constructing shipyard or other suppliers;
- last minute changes to the customer's specifications;
- failure or delay in obtaining acceptance of the rig by customers;
- financial or other difficulties at shipyards;
- adverse weather conditions or any other force majeure events;
- inability or delay in obtaining flag-state, classification society or regulatory approvals or permits; and
- mobilization from shipyard to contract operating site.

Failure to complete a newbuild rig project on time may result in the delay, renegotiation or cancellation of an existing drilling contract and could put at risk the planned arrangements to commence operations on schedule. Further, significant delays could have a negative impact on our reputation and customer relationships. We also could be exposed to contractual penalties for failure to complete the project and commence operations in a timely manner, all of which would adversely affect our business, financial condition and results of operations.

The market value of our drilling rigs and of any rigs we acquire in the future may decrease, which could result in impairments or changes or cause us to incur losses if we decide to sell them following a decline in the market values of the rigs.

The fair market value of any drilling rigs that we own may increase or decrease depending on a number of factors, including:

- general economic and market conditions affecting the shallow water offshore contract drilling industry, including competition from other shallow water offshore contract drilling companies;
- types, sizes and ages of drilling rigs, including specifications and condition;
- liquidity of the market for drilling rigs;
- supply and demand for drilling rigs;
- costs of newly built rigs;
- prevailing level of drilling services contract dayrates;
- governmental or other regulations; and
- technological advances.

If we sell any drilling rig at a time when prices for drilling rigs have fallen, such a sale may result in a loss. Such a loss could materially and adversely affect our business, financial condition and results of operations.

Our labor costs and the operating restrictions that apply to us could increase as a result of collective bargaining negotiations and changes in labor laws and regulations.

Some of the employees in Egypt and Nigeria are represented by unions and may, from time to time, work under collective bargaining agreements. In addition, some of our contracted labor may work under collective bargaining agreements. Efforts may be made from time to time to unionize additional portions of our workforce. As part of the legal obligations in some of these agreements, we are required to contribute certain amounts to retirement funds and are restricted in our ability to dismiss employees. In addition, where the employees are represented by unions, we may be required to negotiate wages. Negotiations with unions relating to collective bargaining agreements and other labor related matters could result in higher personnel costs, other increased costs or increased operating restrictions, or even labor stoppages, strikes or slowdowns that could adversely affect our business, financial condition and results of operations. We may be required to make significant capital expenditures to comply with laws and the applicable regulations and standards of labor laws and regulations. Moreover, the cost of compliance could be higher than anticipated.

We are dependent on key employees, including our senior management team, and our business could be negatively impacted if we are unable to attract and retain personnel necessary for our success.

We are highly dependent on executive management and other key personnel. Senior management and other key personnel possess marketing, engineering, project management, financial and administrative skills that are important to the operation of the business and in the development and execution of our key strategies. The loss or an extended interruption in the services of our senior personnel, or the inability to attract or develop a new generation of senior management, could have an adverse effect on our business, financial condition and results of operations. We do not maintain key man life insurance.

We are dependent on the availability and retention of skilled personnel and may be adversely affected by increases in labor costs.

We require highly skilled personnel to operate and provide technical services and support in our operations. Many of our customers require specific minimum levels of experience and technical qualification for certain positions on rigs which they contract. We are also subject to nationalization programs in various countries, whereby we must hire a certain percentage of local personnel within a specified time period. In periods of high utilization and demand for drilling services, it is more difficult and costly to recruit and retain qualified employees, especially in countries that require a certain percentage of national employees. This limited availability of qualified personnel coupled with local regulations focusing on crew composition could impact our ability to fully staff and operate our rigs and could also increase our future operating expenses, with a resulting reduction in net income.

Our interests in certain of our subsidiaries are subject to arrangements with local partners and the loss of their support could have a material adverse effect on our business.

Several countries in which we operate require local entities to comply with certain laws and regulations concerning minimum national content requirements. As a result, we may be required to enter into legally binding arrangements with local entities in those jurisdictions in order to conduct operations. For example, Saudi Aramco's recent In-Kingdom Total Value Add program requires suppliers to have, among other things, 70% national content by the year 2021. In Indonesia, Malaysia, India, Nigeria and the United Arab Emirates (''UAE''), we maintain a series of contractual and legal agreements with local partners and/or agents, whom management believes are an integral part of the successful operation of our business in these markets. If we were to lose the support of these local participants and were unable to find suitable replacements, local regulators may curtail or terminate our operations. In addition, the success of these local relationships depends on the reputation, creditworthiness, stability and continuity of the local businesses with which we are required to operate. If any of these local partners were to become subject to bankruptcy/insolvency proceeding or adverse regulatory or judicial proceedings, or lose the ability to carry out the operations for any other reason, then our business, financial condition and results of operations could be adversely affected.

The Issuer is a holding company and is dependent upon cash flows from its subsidiaries to meet its obligations. If the Issuer's operating subsidiaries experience sufficiently adverse changes in their financial condition or results of operations, or the Issuer otherwise become unable to pay its debt as it becomes due and obtain further credit, the Issuer may become subject to insolvency proceedings.

The Issuer's only material asset is its interest in its subsidiaries. The Issuer conducts its operations through, and most of its assets are owned by, the Issuer's subsidiaries, and its operating income and cash flow are generated by its subsidiaries. As a result, cash the Issuer obtains from its subsidiaries is the principal source of funds necessary to meet its obligations. Contractual provisions or laws, as well as the Issuer's or its subsidiaries' financial condition, operating requirements and debt requirements, may limit the Issuer's ability to obtain cash from subsidiaries that it requires to pay its expenses or to meet its current or future debt service obligations. Applicable tax laws may also subject such payments to the Issuer by subsidiaries to further taxation.

The inability to transfer cash from its subsidiaries may mean that, even though the Issuer may have sufficient resources on a consolidated basis to meet its obligations, the Issuer may not be permitted to make the necessary transfers from its subsidiaries to meet its debt and other obligations.

If the Issuer's operating subsidiaries experience sufficiently adverse changes in its financial position or results of operations, or the Issuer otherwise becomes unable to pay its debts as they become due and obtain further credit, this could result in the commencement of insolvency proceedings. Any such proceedings would have a material adverse effect on the Issuer's financial condition, results of operations or cash flows.

Our rights under the agreements to acquire jack-up rigs from Seadrill could be adversely affected in the event one or more of the Seadrill entities becomes the subject of a bankruptcy case.

If one or more of the Seadrill entities becomes the subject of a case or proceeding under Title 11 of the United States Code, as amended, or any other relevant insolvency law or similar law, a court may find that our agreements under which we acquired three rigs from Seadrill are executory contracts. Subject to relevant insolvency laws, Seadrill entities may have the right to reject such executory contracts and refuse to perform their future obligations under them. In such an event, our ability to enforce our rights under the related agreements could be adversely affected.

Additionally, in a case or proceeding under relevant insolvency laws, a court may, under certain circumstances, find that the completed acquisition of the three rigs already delivered constitutes a constructive fraudulent conveyance that should be set aside. While the tests for determining whether a transfer of assets constitutes a constructive fraudulent conveyance vary among jurisdictions, such a determination generally requires that the seller received less than a reasonably equivalent value in exchange for such transfer or obligation and the seller was insolvent at the time of the transaction, or was rendered insolvent or left with unreasonably small capital to meet its anticipated business needs as a result of the transaction. The applicable time periods for such a finding also vary among jurisdictions, but generally range from two to six years. If a court were to make such a determination in a case or proceeding under relevant insolvency laws, our rights under our agreements with Seadrill, including our rights to the rigs acquired from Seadrill, could be adversely affected.

Our international operations in the shallow water offshore drilling sector involve additional risks, which could adversely affect our business.

We operate in various regions throughout the world and as a result may be exposed to political and other uncertainties, including risks of:

- terrorist acts, armed hostilities, geopolitical events, military action, war and civil disturbances, including in the Middle East;
- acts of piracy, which have historically affected ocean-going rigs, trading in regions of the world such as West Africa and the Strait of Malacca, which have increased significantly in frequency since 2008;
- significant governmental influence over many aspects of local economies;
- repudiation, nullification, modification or renegotiation of contracts;
- limitations on insurance coverage, such as war risk coverage, in certain areas;
- political unrest or revolutions;

- foreign and United States monetary policy and foreign currency fluctuations and devaluations;
- the inability to repatriate income or capital;
- complications associated with repairing and replacing equipment in remote locations;
- import-export quotas, wage and price controls and imposition of trade barriers;
- regulatory or financial requirements to comply with foreign bureaucratic actions;
- changing taxation policies, including confiscatory taxation;
- other forms of government regulation and economic conditions that are beyond our control;
- corruption;
- natural disasters;
- public health threats; and
- claims by employees, third parties or customers.

In addition, international contract drilling operations are subject to various laws and regulations of the countries in which we operate, including laws and regulations relating to:

- the equipping and operation of drilling rigs;
- repatriation of foreign earnings;
- oil and natural gas exploration and development;
- taxation of offshore earnings and the earnings of expatriate personnel; and
- use and compensation of local employees and suppliers by foreign contractors.

Some foreign governments favor or effectively require (i) the awarding of drilling contracts to local contractors or to drilling rig owners that are majority-owned by their own citizens, (ii) the use of a local agent or (iii) foreign contractors to employ citizens of, or purchase supplies from, a particular jurisdiction.

Furthermore, business operations require authorizations from various national and local government agencies. Obtaining these authorizations can be a complex, time-consuming process, and we cannot guarantee that we will be able to obtain or renew the authorizations required to operate our business in a timely manner or at all. This could result in the suspension or termination of operations or the imposition of material fines, penalties or other liabilities.

The factors mentioned above may adversely affect our ability to compete in those regions. We are unable to predict future governmental regulations which could adversely affect the international drilling industry. The actions of foreign governments may adversely affect our ability to compete effectively. As such, we may be unable to effectively comply with applicable laws and regulations, including those relating to sanctions and import/export restrictions, which may result in a material adverse effect on our business.

Fluctuations in exchange rates and non-convertibility of currencies could result in losses to us.

We may experience currency exchange losses when revenues are received or expenses are paid in non-convertible currencies, when we do not hedge an exposure to a foreign currency or when the result of a hedge is a loss. We may also incur losses as a result of an inability to collect revenues due to a shortage of convertible currency available to the country of operation, controls over currency exchange or controls over the repatriation of income or capital.

We are subject to complex laws and regulations, including environmental laws and regulations that can adversely affect the cost, manner or feasibility of doing business.

Our operations are subject to numerous stringent HSE laws and regulations in the form of international conventions and treaties, national, state and local laws and regulations in force in the jurisdictions in which our drilling rigs operate or are registered, which can, directly or indirectly, significantly affect the ownership and operation of the rigs. These requirements include, but are not limited to, the International Convention for the

Prevention of Pollution from Ships, as amended (“MARPOL”), the International Convention on Civil Liability for Oil Pollution Damage, as amended (“CLC”), the International Convention on Civil Liability for Bunker Oil Pollution Damage, as amended (“BUNKER”), and various international, national and local laws and regulations that impose compliance obligations and liability related to the use, storage, treatment, disposal and release of petroleum products, asbestos, polychlorinated biphenyls and other hazardous substances that may be present at, or released or emitted from, our operations. Furthermore, the United Nations’ International Maritime Organization (the “IMO”), at the international level, or national or regional legislatures in the jurisdictions in which we operate, including the European Union, may pass or promulgate new environmental laws or regulations. Compliance with such laws, regulations and standards, where applicable, may require installation of costly equipment or operational changes and may affect the resale value or useful lifetime of the drilling rigs. We are required to obtain HSE permits from governmental authorities for our operations, and we may have difficulty in obtaining or maintaining such permits.

We may also incur additional costs in order to comply with other existing and future laws or regulatory obligations, including, but not limited to, costs relating to air emissions, including greenhouse gases, management of ballast waters, rig maintenance and inspection, management of solid and hazardous materials and washes, and development and implementation of emergency procedures for, and liability and compensation schemes related to, accidents, pollution and other catastrophic events.

Laws and regulations protecting the environment have generally become more stringent over time. In the event we were to incur additional costs in order to comply with existing or future laws or regulatory obligations, these costs could have a material adverse effect on our business, financial condition, results of operations and cash flows. In addition, existing or future laws could increase costs for our customers, our vendors or our service providers, and thereby have a material adverse effect on our business, results of operations, cash flows and financial condition.

A failure to comply with applicable laws and regulations may result in administrative and civil penalties, criminal sanctions or the suspension or termination of operations. Environmental laws often impose strict liability, which could subject us to liability without regard to whether we were negligent or at fault. For example, in certain jurisdictions, owners, operators and bareboat-charterers may be jointly and severally strictly liable for the discharge of oil in territorial waters, including the 200 nautical mile exclusive economic zone. We are required to satisfy insurance and financial responsibility requirements for potential oil (including marine fuel) spills and other pollution incidents and the insurance may not be sufficient to cover all such risks. In addition, laws and regulations may impose liability on generators of hazardous substances, and as a result we could face liability for cleanup costs at third-party disposal locations. Environmental claims against us could result in a material adverse effect on our business, financial condition, results of operations and cash flows.

Although some of our drilling rigs are separately owned by subsidiaries, under certain circumstances a parent company and all of the rig-owning affiliates in a company under common control could be held liable for damages or debts owed by one of the affiliates, including liabilities for oil spills under environmental laws. Therefore, it is possible that we could be subject to liability upon a judgment against us or any one of our subsidiaries.

Our drilling operations could cause the accidental release of oil or hazardous substances. Any releases may be large in quantity, above the permitted limits or occur in protected or sensitive areas where public interest groups or governmental authorities have special interests. Any releases of oil or hazardous substances could result in substantial fines and other costs and liabilities, such as costs to upgrade drilling rigs, clean up the releases and comply with more stringent requirements in our discharge permits, claims for natural resource, personal injury or other damages, and material adverse publicity, any of which could have a material adverse effect on our financial condition, results of operations and cash flows. Although our contracts generally provide for indemnification from our customers for some of these costs, the inability or other failure of our customers to fulfill any indemnification obligations they have, or the unenforceability of our contractual protections could have a material adverse effect on our financial condition, results of operation and cash flows. Moreover, these releases may result in customers or governmental authorities suspending or terminating our operations in the affected area, which could have a material adverse effect on our business, financial condition and results of operations.

If a major incident were to occur in our industry, such as a catastrophic oil spill or other accident subject to international media attention, this could lead to an industry-wide regulatory response which may result in increased operating costs. For example, after the Macondo incident in 2010, various initiatives were proposed in multiple jurisdictions to change the legal liability structure for, and environmental and safety regulations applicable to, businesses in our industry. Any changes to existing laws in the jurisdictions in which we operate prompted by such a future event could increase our operating costs and future risk of liability. In addition, we may be required to post additional surety bonds to secure performance, tax, customs and other obligations relating to our rigs in jurisdictions where bonding requirements are already in effect and in other jurisdictions where we may operate in the future. These requirements would increase the cost of operating in these countries, which could materially adversely affect our business, financial condition, results of operations and cash flows.

Regulation of greenhouse gases and climate change could have a negative impact on our business.

Some scientists have concluded that increasing concentrations of greenhouse gases in the Earth's atmosphere may produce climate changes that have significant physical effects, such as increased frequency and severity of storms, floods and other climatic events. If any such effects were to occur, they could have a materially adverse effect on our operations, especially given that our rigs may need to curtail operations or suffer damage during significant weather events.

Current and future regulations relating to greenhouse gases and climate change also may result in increased compliance costs or additional operating restrictions on our business.

In addition, because our business depends on the level of activity in the offshore oil and gas industry, existing or future regulations or other agreements related to greenhouse gases and climate change, including incentives to conserve energy or use alternative energy sources that decrease the demand for oil and gas, could materially adversely affect our business, financial condition, results of operations and cash flows.

If we or our customers are unable to acquire or renew permits and approvals required for drilling operations, we may be forced to suspend or cease our operations, which may adversely affect our profitability.

Crude oil and natural gas exploration and production operations require numerous permits and approvals for us and our customers from governmental agencies in the areas in which we operate. In addition, many governmental agencies have increased regulatory oversight and permit requirements in recent years. If we or our customers are not able to obtain necessary permits and approvals in a timely manner, our operations will be adversely affected. Obtaining and maintaining compliance with all necessary permits and approvals may require substantial expenditure. In addition, future changes to, or an adverse change in the interpretation of, existing permits and approvals may delay or curtail our operations, require us to make substantial expenditures to meet compliance requirements, and could have a significant impact on our financial condition and results of operations which may create a risk of expensive delays or loss of value if a project is unable to function as planned.

Failure to comply with applicable anti-corruption laws, sanctions or embargoes, could result in fines, civil and/or criminal penalties, and drilling contract terminations and have an adverse effect on our business.

We operate drilling rigs in a number of countries, including in some developing economies, which can involve inherent risks associated with fraud, bribery and corruption and where strict compliance with anti-corruption laws may conflict with local customs and practices. As a result, we may be subject to risks under the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act 2010 and similar laws in other jurisdictions that generally prohibit companies and their intermediaries from making, offering or authorizing improper payments to government officials for the purpose of obtaining or retaining business. We are required to do business in accordance with applicable anti-corruption laws as well as sanctions and embargo laws and regulations (including U.S. Department of the Treasury-Office of Foreign Assets Control requirements) and we have adopted policies and procedures, including a code of business conduct and ethics, which are designed to promote legal and regulatory compliance with such laws and regulations. However, either due to our acts or omissions or due to the acts or omissions of others, including our employees, agents joint venture partners, local sponsors or others, we may be determined to be in violation of such applicable laws and regulations or such policies and procedures. Any such violation could result in substantial fines, sanctions, deferred settlement agreements, civil and/or criminal penalties and curtailment of operations in certain jurisdictions and the seizure of our rigs and other assets, and might as a result materially adversely affect our business, financial condition and results of operations. Our customers in relevant jurisdictions could seek to impose penalties or take other actions adverse to our interests. In addition, actual or alleged violations could damage our reputation and ability to do business and could cause investors to view us negatively. Furthermore, detecting, investigating and resolving actual or alleged violations are expensive and can consume significant time and attention of senior management regardless of the merit of any allegation. We may also be subject to competitive disadvantages to the extent that our competitors are able to secure business, licenses or other preferential treatment by making payments to government officials and others in positions of influence or using other methods that U.S. and foreign laws and regulations and our own policies prohibit us from using.

Any failure to comply with the complex laws and regulations governing international trade, including import, export, economic sanctions and embargoes, could adversely affect our operations.

The shipment of equipment and materials required for shallow water offshore drilling operations across international borders subjects us to extensive import and export laws and regulations governing our assets, equipment and materials, including those enacted by the United States and/or other countries in which we operate. Moreover, many countries control the export/import and re-export of certain goods, services and technology and may impose related export/import recordkeeping and reporting obligations. Governments also may impose economic sanctions and/or embargoes against certain countries, persons and other entities that may restrict or prohibit transactions involving such countries, persons and entities.

These various jurisdictional laws and regulations regarding export/import controls and economic sanctions are complex, constantly changing, may be unclear in some cases and may be subject to changing interpretations. They may be enacted, amended, enforced or interpreted in a manner that could materially impact our operations. Materials shipments and rig import/export may be delayed and denied for a variety of reasons, some of which are outside our control, and including our failure to comply with existing legal and regulatory regimes. Delays or denials could cause unscheduled operational downtime or termination of customer contracts. Any failure to comply with applicable legal and regulatory international trade obligations could also result in criminal and civil penalties and sanctions, such as fines, imprisonment, debarment from government contracts, seizure of shipments and loss of import/export privileges.

We may be subject to litigation and disputes that could have a material adverse effect on our business, financial condition, prospects, results of operations and cash flows.

We are, from time to time, involved in litigation and disputes. These matters may include, among other things, contract disputes, personal injury claims, environmental claims or proceedings, asbestos and other toxic tort claims, employment and tax matters and other litigation that arises in the ordinary course of our business. Although we intend to defend these matters vigorously, we cannot predict with certainty the outcome or effect of any dispute, claim or other litigation matter. We may not have insurance for litigation or claims that may arise, or if we do have insurance coverage it may not be sufficient, insurers may not remain solvent, other claims may exhaust some or all of the insurance available to us or insurers may interpret our insurance policies such that they do not cover losses for which we make claims or may otherwise dispute claims made. Litigation may have a material adverse effect on us because of potential adverse outcomes, defense costs, the diversion of our management's resources and other risk factors inherent in litigation or relating to the claims that may arise.

Any relevant change in tax laws, regulations, or treaties, or relevant interpretations thereof, for any country in which we operate or earn income or are considered to be a tax resident, may result in a higher effective tax rate on our worldwide earnings, which could have a material impact on our earnings and cash flows from operations.

We operate in many countries worldwide through various subsidiaries. As such, we are subject to changes in applicable tax laws, regulations or tax treaties, and the interpretation thereof in the various countries in which we operate or earn income or are deemed to be a tax resident. Any such change may result in a materially higher effective tax rate on our earnings and could have a material impact on our financial results.

The loss of any major tax dispute, or a successful challenge to our intercompany pricing policies or operating structures, or a taxable presence of our key subsidiaries in certain countries could result in a higher effective tax rate on our worldwide earnings, which could have a material impact on our earnings and cash flows from operations.

Shelf Drilling, Ltd. and the Issuer are both exempted companies, limited by shares and incorporated under the laws of the Cayman Islands that operate through many subsidiaries in various countries throughout the world. Income taxes are based upon the relevant tax laws, regulations, and treaties that apply to the various countries in which we operate or earn income or are deemed to be a tax resident.

Our income tax returns are subject to examination and review. If any tax authority successfully challenges our intercompany pricing policies or operating structures, or if any tax authority interprets a treaty in a manner that is adverse to our structure, or if any tax authority successfully challenges the taxable presence of any of the key subsidiaries in a relevant jurisdiction, or if we lose a key tax dispute in a jurisdiction, our effective tax rate on worldwide earnings may increase substantially, which could have a material impact on our earnings and cash flows from operations.

To service and refinance our indebtedness or fund our capital and liquidity needs, we will require a significant amount of cash, and we may not generate sufficient cash, or have access to sufficient funding, for such purposes, and such failure would have a material adverse effect on us.

To service and refinance our indebtedness and fund our capital and liquidity needs, we will require a significant amount of cash. Our ability to raise capital is, to a certain extent, subject to economic, financial, competitive, legislative, regulatory and other factors that are beyond our control. In addition, our business may not generate sufficient cash flows from operations, and future borrowings or alternative financing may not be available to us on favorable terms, or at all, in an amount sufficient to enable us to service and refinance, at or before maturity, our indebtedness and fund our capital and liquidity needs, which would have a material adverse effect on us. As of September 30, 2017, our cash and cash equivalents was $106.6 million and, after giving effect to the offering, our cash and cash equivalents will be $149.2 million on an as adjusted basis. As of December 31, 2017, we had $12.3 million of surety bonds issued and no borrowings under our revolver.

USE OF PROCEEDS

We expect that the gross proceeds from this offering will be $600.0 million before deducting discounts to the initial purchasers and estimated total expenses from this offering. We intend to use the net proceeds of this offering to refinance, repurchase and/or repay certain of our existing indebtedness, including to pay the tender consideration, plus applicable accrued and unpaid interest, for the 8.625% Notes and 9.500% Notes properly tendered and not validly withdrawn in the Tender Offer that we accept for purchase, to pay related fees and expenses, and for general corporate purposes if any net proceeds are remaining. Holders of the 8.625% Notes and the 9.500% Notes are not obligated to tender their 8.625% Notes and 9.500% Notes to us pursuant to the Tender Offer. To the extent that any of the 8.625% Notes and the 9.500% Notes are not purchased in the Tender Offer, we intend to use a portion of the net proceeds from this offering to redeem the remaining 8.625% Notes and 9.500% Notes.

The following table summarizes the estimated sources and uses of funds in connection with the transactions described herein, including this offering. The actual sources and uses of funds may vary from the estimated sources and uses of funds in the table and accompanying footnotes set forth below. These estimated figures are based on our outstanding balances as of September 30, 2017.

Sources of funds		Uses of funds	
(in millions)			
Notes offered hereby(1)	$600.0	Cash	$ 42.7(2)
		Repay 8.625% Notes(3)	30.4
		Repay 9.500% Notes(3)	502.8
		Estimated fees and expenses(4)	24.1
Total sources of funds	$600.0	**Total uses of funds**	$600.0

(1) Represents the gross proceeds of the notes offered hereby assuming the notes are issued at par. See "Description of notes" for a summary of the terms of the notes.

(2) Does not give effect to the payment of accrued and unpaid interest on the 8.625% Notes and 9.500% Notes payable in connection with the Tender Offers, which we expect to fund with a portion of the net proceeds of this offering or cash on hand.

(3) Assumes all of the 8.625% Notes and the 9.500% Notes are properly tendered and not validly withdrawn in the Tender Offer and accepted for purchase by us. This offering is not, however, conditioned on the consummation of the Tender Offers at any minimum level of acceptance. To the extent any 8.625% Notes or 9.500% Notes remain outstanding after the Tender Offers, we intend to redeem such 8.625% Notes or 9.500% Notes using the optional redemption provisions of the indentures governing such notes.

(4) Includes initial purchasers' discount in connection with the notes offered hereby, breakage fees related to repayment of the 8.625% Notes and the 9.500% Notes, and bank syndication, legal, rating agency and independent auditors fees and expenses.

CAPITALIZATION

The following table sets forth (1) cash and cash equivalents, long-term debt, mezzanine equity, total equity and total capitalization as of September 30, 2017 on a historical basis and (2) as adjusted cash and cash equivalents, long-term debt, mezzanine equity, total equity and total capitalization as of September 30, 2017 after giving effect to this offering and the use of proceeds therefrom, described in ''Use of proceeds.''

The information in this table should be read in conjunction with ''Use of proceeds,'' ''Selected consolidated financial data,'' ''Management's discussion and analysis of financial condition and results of operations,'' ''Description of other indebtedness and preferred shares'' and the financial statements included elsewhere in this offering memorandum.

	As of September 30, 2017	
	Actual	**As Adjusted[(1)]**
(in thousands, except share amounts)		
Cash and cash equivalents:	$ 106,577	$ 149,189[(2)]
Long-term debt[(3)]:		
8.625% Notes due 2018	30,415	—
9.500% Notes due 2020	502,835	—
8.250% Notes due 2025	—	600,000
Unamortized debt issuance costs	(7,133)	(11,114)
Revolver[(4)]	—	—
Total long-term debt	$ 526,117	$ 588,886
Total obligations under sale and leaseback	322,781	322,781
Mezzanine equity:		
Preferred shares	$ 165,978	$ 165,978
Total equity:	546,028	525,871
Total capitalization:	$1,560,904	$1,603,516

(1) Assumes all of the 8.625% Notes and the 9.500% Notes are properly tendered and not validly withdrawn in the Tender Offer and accepted for purchase by us. This offering is not, however, conditioned on the consummation of the Tender Offers at any minimum level of acceptance. To the extent any 8.625% Notes or 9.500% Notes remain outstanding after the Tender Offers, we intend to redeem such 8.625% Notes or 9.500% Notes using the optional redemption provisions of the indentures governing such notes.

(2) Does not give effect to the payment of accrued and unpaid interest on the 8.625% Notes and 9.500% Notes payable in connection with the Tender Offers, which we expect to fund with a portion of the net proceeds of this offering or cash on hand.

(3) Debt excludes short-term Egypt overdraft facility which had approximately $1.7 million outstanding as of September 30, 2017.

(4) As of September 30, 2017, there was availability of $145.4 million under the revolver.

SELECTED CONSOLIDATED FINANCIAL DATA

The following table presents, in each case for the periods or, as applicable, as of the date indicated, selected consolidated financial data of Shelf Drilling, Ltd. These historical results are not necessarily indicative of our future results of operations, financial condition and cash flows. The data presented below should be read in conjunction with, and are qualified in their entirety by reference to, ''Capitalization,'' ''Management's discussion and analysis of financial condition and results of operations'' and our financial statements and the notes thereto included elsewhere in this offering memorandum. Among other things, those financial statements and related notes thereto include more detailed information regarding the basis of presentation for the following information.

Our selected consolidated historical financial data as of and for the years ended December 31, 2016 and 2015 are derived from our audited consolidated financial statements as of and for the years ended December 31, 2016 and 2015, which are included elsewhere in this offering memorandum. Our selected condensed consolidated historical financial data as of and for the nine months ended September 30, 2017 and 2016 are derived from our unaudited condensed consolidated interim financial statements as of and for the nine months ended September 30, 2017 and 2016, which are included elsewhere in this offering memorandum (except for our unaudited condensed consolidated interim balance sheet as of September 30, 2016).

The Parent does not conduct any operations other than with respect to its respective indirect ownership of SDHL and its subsidiaries.

	Nine months ended September 30,		Years ended December 31,	
	2017	2016	2016	2015
	(in thousands)			
Statement of operations data:				
Revenue				
Operating revenue	$413,886	$517,106	$668,649	$1,012,757
Other revenue	12,982	11,135	15,668	18,541
	426,868	528,241	684,317	1,031,298
Operating costs and expenses				
Operating and maintenance	216,232	269,048	353,802	534,156
Depreciation	58,853	53,446	71,780	87,421
Amortization of deferred costs	48,740	72,034	91,763	80,984
General and administrative	31,251	28,501	46,889	139,722
Loss on impairment of assets	34,802	—	47,094	271,469
Loss on disposal of assets	362	3,710	4,826	11,299
Gain on insurance recovery	—	—	—	(25,432)
	390,240	426,739	616,154	1,099,619
Operating income (loss)	36,628	101,502	68,163	(68,321)
Other (expense) / income, net				
Interest income	821	284	356	102
Interest expense and financing charges	(65,316)	(58,681)	(80,120)	(80,537)
Other, net	(1,928)	(1,457)	1,522)	(873)
	(66,423)	(59,854)	(78,242)	(81,308)
(Loss)/income before income taxes	(29,795)	41,648	(10,079	(149,629)
Income tax expense	8,919	16,976	19,757	30,373
Net (loss)/income	$ (38,714)	$ 24,672	$ (29,836)	$ (180,002)

	Nine months ended September 30,		Years ended December 31,	
	2017	2016	2016	2015
	(in thousands)			
Consolidated balance sheet data (at period end):				
Cash and cash equivalents	$ 106,577	$ 173,935	$ 213,139	$ 115,685
Total assets	1,703,913	1,591,896	1,585,940	1,483,883
Long-term debt	526,117	806,981	809,016	803,053
Obligations under sale and leaseback (current and long-term)	322,781	208,491	244,705	74,703
Total liabilities	991,907	1,157,643	1,206,486	1,073,104
Mezzanine equity, net of issuance costs	165,978	—	—	—
Total equity	546,028	434,253	379,454	410,779
Statement of cash flows data:				
Net cash provided by operating activities	$ 51,120	$ 98,363	$ 136,532	$ 133,013
Net cash used in investing activities	(236,196)	(38,618)	(35,592)	(107,513)
Net cash provided by / (used in) financing activities	78,514	(1,495)	(3,486)	(861)
Other financial data (unaudited):				
Adjusted EBITDA(2)	$ 183,606	$ 232,633	$ 289,827	$ 371,394
Adjusted EBITDA margin(2)	43.0%	44.0%	42.4%	36.0%

(1) Historical share and per share information reflects the reclassification on April 28, 2017, in which existing classes A, B, C and D of ordinary shares were reclassified into a single class of 55,000,000 common shares, $0.01 par value per share.

(2) Adjusted EBITDA and Adjusted EBITDA margin are non-GAAP financial measures. For definitions of these measures and a reconciliation of Adjusted EBITDA to our net income (loss), see "Management's discussion and analysis of financial condition and results of operations—How we evaluate our business—Financial measures."

CERTAIN FINANCIAL INFORMATION OF SDL AND SDHL

Certain financial information of SDL and SDHL

The following tables present certain financial information for SDL and SDHL for the nine months ended September 30, 2017, the year ended December 31, 2016, the year ended December 31, 2015, and certain adjustments to show the differences in this financial information between SDL and SDHL for these periods. These adjustments primarily reflect the existence of preferred shares at SDL and general and administrative costs relating to certain professional expenses that are recorded at SDL and not at SDHL.

September 30, 2017

Condensed Consolidated Interim Statements of Operations for the nine months ended September 30, 2017

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.
		(In thousands)	
Revenues			
Operating revenues	$413,886	$ —	$413,886
Other revenue	12,982	—	12,982
	426,868	**—**	**426,868**
Operating costs and expenses		—	
Operating and maintenance	216,232	—	216,232
Depreciation	58,853	—	58,853
Amortization of deferred costs	48,740	—	48,740
General and administrative[1]	31,251	(1,049)	30,202
Loss on impairment of assets	34,802	—	34,802
Loss on disposal of assets	362	—	362
	390,240	**(1,049)**	**389,191**
Operating income	**36,628**	**1,049**	**37,677**
Other (expense) / income, net			
Interest income	821	—	821
Interest expense and financing charges[2]	(65,316)	1,824	(63,492)
Other, net	(1,928)	—	(1,928)
	(66,423)	**1,824**	**(64,599)**
Loss before income taxes	**(29,795)**	**2,873**	**(26,922)**
Income tax expense	8,919	—	8,919
Net loss	**$ (38,714)**	**$ 2,873**	**$ (35,841)**
Preferred dividend[3]	(12,588)	12,588	—
Net loss attributable to ordinary shares	**$ (51,302)**	**$15,461**	**$ (35,841)**

(1) This adjustment relates primarily to third party professional service expenses recorded at the SDL level for certain accounting and legal activities, including, among other things, the preparation of SDL financial statements.

(2) In January 2017, we refinanced our long-term debt (the ''refinancing''). In connection with the refinancing, SDL's wholly owned subsidiary, Shelf Drilling Midco, Ltd (''Midco''), fully retired its outstanding $350 million term loan (the ''Midco term loan'') for an aggregate consideration of $339.17 million which included the issuance of $166.67 million of SDL preferred shares (the ''preferred shares'') to certain equity sponsors. This adjustment relates to the interest expense and financing charges incurred in connection with the refinancing.

(3) This adjustment relates to the dividend on the preferred shares recorded at SDL for the nine months ended September 30, 2017. Of the $12.6 million adjustment, $9.6 million was paid in cash and $3.0 million was accrued.

Condensed Consolidated Interim Balance Sheets as of September 30, 2017

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.
		(In thousands)	
Assets			
Cash and cash equivalents	$ 106,577	$ (33)	$ 106,544
Accounts and other receivables, net(1)	144,300	2,462	146,762
Asset held for sale	1,386	—	1,386
Other current assets(2)	91,072	(3,060)	88,012
Total current assets	343,335	(631)	342,704
Property and equipment	1,612,380	—	1,612,380
Less accumulated depreciation	350,329	—	350,329
Property and equipment, net	1,262,051	—	1,262,051
Deferred tax assets	1,771	—	1,771
Other assets	96,756	—	96,756
Total assets	**$1,703,913**	**$ (631)**	**$1,703,282**
Liabilities and equity			
Accounts payable(3)	$ 57,980	$ (1,141)	$ 56,839
Interest payable	20,997	—	20,997
Obligations under sale and leaseback	35,115	—	35,115
Short-term debt	1,715	—	1,715
Other current liabilities(4)	38,978	(2,953)	36,025
Total current liabilities	154,785	(4,094)	150,691
Long-term debt	526,117	—	526,117
Obligations under sale and leaseback	287,666	—	287,666
Deferred tax liabilities	4,080	—	4,080
Other long-term liabilities	19,259	—	19,259
Total long-term liabilities	837,122	—	837,122
Mezzanine equity, net of issuance costs(5)	165,978	(165,978)	—
Commitments and contingencies			
Common shares(6)	831	(831)	—
Shares held in trust	(23)	23	—
Additional paid-in capital(7)	667,358	84,208	751,566
Accumulated other comprehensive income	41	—	41
Accumulated losses(8)	(122,179)	86,041	(36,138)
Total equity	546,028	169,441	715,469
Total liabilities and equity	**$1,703,913**	**$ (631)**	**$1,703,282**

(1) This adjustment primarily relates to legal and accounting fees paid by SDHL on behalf of SDL.

(2) This adjustment primarily relates to deferred third party professional services recorded at the SDL level for certain corporate activities.

(3) This adjustment primarily relates to the accrual of third party professional services recorded at the SDL level for certain accounting and legal activities, including, among other things, the preparation of SDL financial statements.

(4) In connection with the refinancing, SDL issued $166.67 million of SDL preferred shares to certain equity sponsors. This adjustment relates to the preferred dividend at SDL that has been accrued but not yet been paid.

(5) Refer to footnote 2 of the Condensed Consolidated Interim Statements of Operations for the nine months ended September 30, 2017 regarding the issuance of the preferred shares.

(6) In April 2017, SDL completed an offering of 28,125,000 new common shares at a price of $8.00 per share (the ''Private Placement''). In connection with the Private Placement, the current classes of A, B, C and D ordinary shares were converted into a single class of new common shares, pursuant to which 55,000,000 new common shares were issued to the existing holders of SDL. This adjustment reflects the total number of outstanding shares of 83,125,000, with par value of $0.01 per share.

(7) This adjustment primarily reflects a capital contribution from Shelf Drilling Intermediate, Ltd. (''SDIL'') to SDHL in 2012 and preferred shares dividends at SDL, partially offset by ordinary shares dividend at SDHL.

(8) This adjustment primarily relates to the Midco term loan interest expense and financing charges, preferred shares dividends at SDL, ordinary shares dividend at SDHL and certain general and administrative costs incurred at SDL.

Condensed Consolidated Interim Statements of Cash flows for the nine months ended September 30, 2017

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.
		(In thousands)	
Cash flows from operating activities			
Net loss	$ (38,714)	$ 2,873	$ (35,841)
Adjustments to reconcile net loss to net cash provided by operating activities			
Depreciation	58,853	—	58,853
Loss on impairment of assets	34,802	—	34,802
(Reversal of) / provision for doubtful accounts, net	(4,802)	—	(4,802)
Amortization of deferred revenue	(11,926)	—	(11,926)
Gain on foreign currency forward exchange contracts	(121)	—	(121)
Share-based compensation expense, net of forfeitures / Capital contribution by Parent share-based compensation	634	—	634
Non-cash portion of loss on debt extinguishment(1)	4,371	3,124	7,495
Payment of original issue discount(1)	(10,500)	10,500	—
Amortization of debt issue costs and discounts	2,797	(133)	2,664
Loss on disposal of assets	362	—	362
Deferred tax benefit	(3,079)	—	(3,079)
Proceeds from settlement of foreign currency forward exchange contracts	121	—	121
Changes in deferred costs, net	20,898	—	20,898
Changes in operating assets and liabilities			
Intercompany receivables(2)	—	43,759	43,759
Other operating assets and liabilities, net(3)	(2,576)	10,497	7,921
Net cash provided by operating activities	51,120	70,620	121,740
Cash flows from investing activities		—	
Additions to property and equipment	(248,500)	—	(248,500)
Proceeds from disposal of property and equipment	1,405	—	1,405
Proceeds from sale and leaseback	16,880	—	16,880
Change in restricted cash	(5,981)	—	(5,981)
Net cash used in investing activities	(236,196)	—	(236,196)
Cash flows from financing activities			
Short-term debt	1,715	—	1,715
Proceeds from issuance of common shares / Proceeds from capital contribution by Parent(4)	225,000	(10,000)	215,000
Payments for common and preferred shares issuance costs(4)	(8,487)	8,487	—
Payments for obligations under sale and leaseback	(15,978)	—	(15,978)
Payments to retire long-term debt(1)	(103,750)	75,250	(28,500)
Payments of debt issuance costs	(10,351)	—	(10,351)
Preferred shares dividend paid	(9,635)	9,635	—
Ordinary shares dividend paid(5)	—	(53,992)	(53,992)
Net cash provided by financing activities	78,514	29,380	107,894
Net decrease in cash and cash equivalents	(106,562)	100,000	(6,562)
Cash and cash equivalents at beginning of period	213,139	(100,033)	113,106
Cash and cash equivalents at end of period	**$ 106,577**	**$ (33)**	**$ 106,544**

(1) These adjustments primarily relate to costs incurred in connection with the refinancing. In connection with the refinancing, Midco fully retired the Midco term loan for an aggregate consideration of $339.17 million which included the issuance of $166.67 million of preferred shares to certain equity sponsors and the issuance of $86.75 million of 9.500% Senior Secured Notes.

(2) This adjustment primarily relates to the settlement of the intercompany receivable balance between SDL and SDHL during the first quarter of 2017 relating to the start-up costs and certain professional service expenses paid by SDHL on behalf of SDL.

(3) This adjustment primarily relates to the payment during the first quarter of 2017 of the interest accrued on the Midco term loan and certain professional service expenses, including accounting fees incurred in connection with the preparation of SDL financial statements.

(4) These adjustments primarily relate to the issuance of common shares in the Private Placement.

(5) This adjustment reflects the ordinary shares dividend paid by SDHL in the first quarter of 2017, including dividends from SDHL to: (i) Midco to settle the intercompany payable to SDHL, (ii) to SDIL to facilitate the Midco interest payment, and (iii) to SDL to fund SDL's preferred shares dividend payments.

December 31, 2016

Consolidated Statements of Operations for the year ended December 31, 2016

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.
		(In thousands)	
Revenues			
Operating revenues	$668,649	$ —	$668,649
Other revenue	15,668	—	15,668
	684,317	**—**	**684,317**
Operating costs and expenses		—	
Operating and maintenance	353,802	293	354,095
Depreciation	71,780	—	71,780
Amortization of deferred costs	91,763	—	91,763
General and administrative(1)	46,889	(2,044)	44,845
Loss on impairment of assets	47,094	—	47,094
Loss on disposal of assets	4,826	—	4,826
	616,154	**(1,751)**	**614,403**
Operating income	**68,163**	**1,751**	**69,914**
Other (expense) / income, net			
Interest income	356	—	356
Interest expense and financing charges(2)	(80,120)	38,950	(41,170)
Other, net	1,522	—	1,522
	(78,242)	**38,950**	**(39,292)**
(Loss) / income before income taxes	**(10,079)**	**40,701**	**30,622**
Income tax expense	19,757	—	19,757
Net (loss) / income	**$ (29,836)**	**$40,701**	**$ 10,865**
Preferred dividend	—	—	—
Net (loss) / income attributable to ordinary shares	**$ (29,836)**	**$40,701**	**$ 10,865**

(1) This adjustment relates primarily to third party professional service expenses recorded at the SDL level for certain accounting and legal activities, including, among other things, the preparation of SDL financial statements.

(2) This adjustment relates to the interest expense and amortization of discount and debt issuance costs for the Midco term loan.

Consolidated Balance Sheets as of December 31, 2016

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.
		(In thousands)	
Assets			
Cash and cash equivalents[(1)]	$ 213,139	$(100,033)	$ 113,106
Accounts and other receivables, net[(2)]	125,312	46,218	171,530
Other current assets[(3)]	95,235	(812)	94,423
Total current assets	433,686	(54,627)	379,059
Property and equipment	1,326,361	—	1,326,361
Less accumulated depreciation	295,685	—	295,685
Property and equipment, net	1,030,676	—	1,030,676
Deferred tax assets	3,137	—	3,137
Other assets	118,441	—	118,441
Total assets	**$1,585,940**	**$ (54,627)**	**$1,531,313**
Liabilities and equity			
Accounts payable	$ 70,605	$ (446)	$ 70,159
Interest payable[(4)]	15,773	(8,945)	6,828
Obligations under sale and leaseback	15,977	—	15,977
Other current liabilities	32,665	—	32,665
Total current liabilities	135,020	(9,391)	125,629
Long-term debt[(5)]	809,016	(342,159)	466,857
Obligations under sale and leaseback	228,728	—	228,728
Deferred tax liabilities	8,525	—	8,525
Other long-term liabilities	25,197	—	25,197
Total long-term liabilities	1,071,466	(342,159)	729,307
Mezzanine equity, net of issuance costs	—	—	—
Commitments and contingencies			
Ordinary shares	5	(5)	—
Shares held in trust	—	—	—
Additional paid-in capital[(6)]	462,914	184,873	647,787
Accumulated other comprehensive income	—	—	—
(Accumulated losses) / Retained earnings[(7)]	(83,465)	112,055	28,590
Total equity	379,454	296,923	676,377
Total liabilities and equity	**$1,585,940**	**$ (54,627)**	**$1,531,313**

(1) This adjustment relates to cash dividends paid by SDHL ultimately to SDL, funded through various subsidiaries.

(2) This adjustment primarily relates to an SDHL receivable from SDL for costs SDHL paid for start-up costs and a previously planned initial public offering prior to the Private Placement.

(3) This adjustment primarily relates to the prepaid financing fees on the issuance of preferred shares associated with the refinancing.

(4) This adjustment primarily reflects the three months of accrued interest on the Midco term loan as of December 31, 2016.

(5) This adjustment relates to the Midco term loan, net of unamortized discount and debt issuance costs.

(6) This adjustment primarily reflects the capital contribution from SDIL to SDHL in 2012 partially offset by the capital contribution by ordinary shareholders to SDL.

(7) This adjustment primarily relates to the Midco term loan interest expense and financing charges, preferred shares dividends at SDL, ordinary shares dividend at SDHL and certain general and administrative costs paid at SDL.

Consolidated Statements of Cash flows for the year ended December 31, 2016

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.[(1)]
		(In thousands)	
Cash flows from operating activities			
Net (loss) / income	$ (29,836)	$ 40,701	$ 10,865
Adjustments to reconcile net (loss) / income to net cash provided by operating activities			
Depreciation	71,780	—	71,780
Loss on impairment of assets	47,094	—	47,094
Reversal of provision for doubtful accounts, net	(401)	—	(401)
Amortization of deferred revenue	(23,511)	—	(23,511)
Gain on foreign currency forward exchange contracts	(427)	—	(427)
Share-based compensation expense, net of forfeitures / Capital contribution by Parent share-based compensation	179	—	179
Amortization of debt issue costs and discounts[(2)]	7,663	(3,325)	4,338
Loss on disposal of assets	4,826	—	4,826
Deferred tax expense	297	—	297
Proceeds from settlement of foreign currency forward exchange contracts	427	—	427
Changes in deferred costs, net	37,218	—	37,218
Changes in operating assets and liabilities			
Intercompany receivables[(3)]	—	(4,074)	(4,074)
Other operating assets and liabilities, net	21,223	670	21,893
Net cash provided by operating activities	136,532	33,972	170,504
Cash flows from investing activities			
Additions to property and equipment	(53,541)	—	(53,541)
Proceeds from disposal of property and equipment	1,490	—	1,490
Proceeds from sale and leaseback	16,880	—	16,880
Change in restricted cash	(421)	—	(421)
Net cash used in investing activities	(35,592)	—	(35,592)
Cash flows from financing activities			
Payments for redemption of ordinary shares[(4)]	(1,668)	1,668	—
Payments for obligations under sale and leaseback	(1,818)	—	(1,818)
Ordinary shares dividend paid[(5)]	—	(135,644)	(135,644)
Net cash used in financing activities	(3,486)	(133,976)	(137,462)
Net increase / (decrease) in cash and cash equivalents	97,454	(100,004)	(2,550)
Cash and cash equivalents at beginning of year	115,685	(29)	115,656
Cash and cash equivalents at end of year	$213,139	$(100,033)	$ 113,106

(1) There are certain reclassifications presented in the consolidated statements of cash flows for additions to deferred costs of $55.8 million which have been previously reported as ''cash flows from investing activities'' and are now presented as ''cash flows from operating activities'' for the year ended December 31, 2016.

(2) This adjustment primarily relates to the amortization of Midco term loan debt issue costs and discounts.

(3) This adjustment primarily relates to the payment for the repurchase and cancellation of ordinary shares and certain professional service expenses paid by SDHL on behalf of SDL.

(4) This adjustment pertains to the repurchase and cancellation of ordinary shares recorded at SDL level.

(5) This adjustment reflects the ordinary shares dividend paid by SDHL to SDIL to facilitate payment of interest on the Midco term loan.

Consolidated Statements of Operations for the year ended December 31, 2015

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.
		(In thousands)	
Revenues			
Operating revenues	$1,012,757	$ —	$1,012,757
Other revenue	18,541	—	18,541
	1,031,298	**—**	**1,031,298**
Operating costs and expenses		—	
Operating and maintenance	534,156	—	534,156
Depreciation	87,421	—	87,421
Amortization of deferred costs	80,984	—	80,984
General and administrative(1)	139,722	(726)	138,996
Loss on impairment of assets	271,469	—	271,469
Loss on disposal of assets	11,299	—	11,299
Gain on insurance recovery	(25,432)	—	(25,432)
	1,099,619	**(726)**	**1,098,893**
Operating loss	**(68,321)**	**726**	**(67,595)**
Other (expense) / income, net			
Interest income	102	—	102
Interest expense and financing charges(2)	(80,537)	39,153	(41,384)
Other, net	(873)	—	(873)
	(81,308)	39,153	**(42,155)**
Loss before income taxes	**(149,629)**	**39,879**	**(109,750)**
Income tax expense	30,373	—	30,373
Net loss	**$ (180,002)**	**$39,879**	**$ (140,123)**
Preferred dividend	—	—	—
Net loss attributable to ordinary shares	**$ (180,002)**	**$39,879**	**$ (140,123)**

(1) This adjustment relates primarily to third party professional service expenses recorded at the SDL level for certain accounting and legal activities, including, among other things, the preparation of SDL financial statements.

(2) This adjustment relates to the interest expense and amortization of discount and debt issuance costs for the Midco term loan.

Consolidated Balance Sheets as of December 31, 2015

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.
		(In thousands)	
Assets			
Cash and cash equivalents	$ 115,685	$ (29)	$ 115,656
Accounts and other receivables, net[(1)]	166,109	42,144	208,253
Other current assets	118,500	(46)	118,454
Total current assets	400,294	42,069	442,363
Property and equipment	1,175,054	—	1,175,054
Less accumulated depreciation	230,421	—	230,421
Property and equipment, net	944,633	—	944,633
Deferred tax assets	3,697	—	3,697
Other assets	135,259	—	135,259
Total assets	$1,483,883	$ 42,069	$1,525,952
Liabilities and equity			
Accounts payable	$ 89,968	$ (335)	$ 89,633
Accrued income taxes	546	—	546
Interest payable[(2)]	15,773	(8,945)	6,828
Other current liabilities	46,672	—	46,672
Total current liabilities	152,959	(9,280)	143,679
Long-term debt[(3)]	803,053	(338,849)	464,204
Obligations under sale and leaseback	74,703	—	74,703
Deferred tax liabilities	8,788	—	8,788
Other long-term liabilities	33,601	—	33,601
Total long-term liabilities	920,145	(338,849)	581,296
Commitments and contingencies			
Ordinary shares	5	(5)	—
Shares held in trust	—	—	—
Additional paid-in capital[(4)]	464,403	183,205	647,608
(Accumulated losses) / retained earnings[(5)]	(53,629)	206,998	153,369
Total equity	410,779	390,198	800,977
Total liabilities and equity	$1,483,883	$ 42,069	$1,525,952

(1) This adjustment primarily relates to SDHL receivable from SDL for costs SDHL paid mainly for start-up costs and a previously planned initial public offering prior to the Private Placement.

(2) This adjustment primarily reflects the three months of accrued interest on the Midco term loan as of December 31, 2015.

(3) This adjustment relates to the Midco term loan, net of unamortized discount and debt issuance costs.

(4) This adjustment primarily reflects a capital contribution from SDIL to SDHL in 2012 partially offset by the capital contribution by ordinary shareholders to SDL.

(5) This adjustment primarily relates to the Midco term loan interest expense and financing charges, preferred shares dividends at SDL, ordinary shares dividend at SDHL and certain general and administrative costs incurred at SDL.

Consolidated Statements of Cash flows for the year ended December 31, 2015

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.[1]
		(In thousands)	
Cash flows from operating activities			
Net loss	$(180,002)	$ 39,879	$(140,123)
Adjustments to reconcile net loss to net cash provided by operating activities			
Depreciation	87,421	—	87,421
Loss on impairment of assets	271,469	—	271,469
Gain on insurance recovery	(25,432)	—	(25,432)
Provision for doubtful accounts, net	87,431	—	87,431
Amortization of drilling contract intangibles	(983)	—	(983)
Amortization of deferred revenue	(41,026)	—	(41,026)
Share-based compensation expense, net of forfeitures / Capital contribution by Parent share-based compensation	638	—	638
Amortization of debt issue costs and discounts [2]	9,232	(3,666)	5,566
Loss on disposal of assets	11,299	—	11,299
Deferred tax expense	1,292	—	1,292
Changes in deferred costs, net	(70,353)	—	(70,353)
Changes in operating assets and liabilities			
Intercompany receivables	—	(440)	(440)
Other operating assets and liabilities, net	(17,973)	337	(17,636)
Net cash provided by operating activities	133,013	36,110	169,123
Cash flows from investing activities			
Additions to property and equipment	(157,193)	—	(157,193)
Proceeds from disposal of property and equipment	547	—	547
Proceeds from insurance recovery	45,000	—	45,000
Proceeds from sale and leaseback	18,515	—	18,515
Payments of transaction costs for sale and leaseback	(7,555)	—	(7,555)
Change in restricted cash	(6,827)	—	(6,827)
Net cash used in investing activities	(107,513)	—	(107,513)
Cash flows from financing activities			
Payments for redemption of ordinary shares	(310)	310	—
Repurchase of shares by parent - share-based compensation	—	(40)	(40)
Ordinary shares dividend paid[3]	—	(35,591)	(35,591)
Payments of debt issuance costs	(551)	—	(551)
Net cash used in financing activities	(861)	(35,321)	(36,182)
Net increase in cash and cash equivalents	24,639	789	25,428
Cash and cash equivalents at beginning of year	91,046	(818)	90,228
Cash and cash equivalents at end of year	$ 115,685	$ (29)	$ 115,656

(1) There are certain reclassifications presented in the consolidated statements of cash flows for additions to deferred costs of $161.6 million which have been previously reported as "cash flows from investing activities" and are now presented as "cash flows from operating activities" for the year ended December 31, 2015.

(2) This adjustment primarily relates to the amortization of Midco term loan debt issue costs and discounts.

(3) This adjustment reflects the ordinary shares dividend paid by SDHL to SDIL to facilitate payment of interest on the Midco term loan.

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and the notes thereto and "Certain financial information of SDL and SDHL," in each case included elsewhere in this offering memorandum. The discussion and analysis below includes certain forward-looking statements that are subject to risks, uncertainties and other factors described in "Risk factors" beginning on page 15 and elsewhere in this offering memorandum that could cause actual results to differ materially from those expressed in, or implied by, those forward-looking statements. See "Disclosure regarding forward-looking statements."

Overview

We are a leading international shallow water offshore drilling contractor providing equipment and services for the drilling, completion and well maintenance of offshore oil and natural gas wells. We are solely focused on shallow water operations in depths of up to 400 feet and own 38 ILC jack-up rigs and one swamp barge, making us the world's largest owner and operator of jack-up rigs by number of rigs according to Rystad.

Our fleet is well-suited to our core operating regions of the Middle East, India, West Africa and Southeast Asia. These markets are characterized by relatively benign operating conditions with activities concentrated in workover and development programs on producing assets with existing infrastructure. According to Rystad, as of September 30, 2017, we had more jack-up rigs deployed in each of the Middle East, India and West Africa markets than any other operator.

We were incorporated on August 14, 2012 and commenced operations later that year following the acquisition of 37 ILC jack-up drilling rigs and one swamp barge from an offshore drilling company and its affiliates for $1.1 billion. For the years ended December 31, 2013 and 2014, certain of the rigs we acquired in the initial acquisition continued to be operated by the selling offshore drilling company under certain operating agreements and a transition services agreement (the "operating agreements"). As of January 1, 2015, all rigs acquired in the initial acquisition were operated by us. See "Business—Our history and development" and "Summary—Significant transactions and recent developments."

Since our inception, we have applied our "fit-for-purpose" strategy to enhance the performance of our business, people and processes, leveraging our sole focus on the shallow water segment and the decades of experience of our people with our customers, rigs and markets where we operate. We believe that this strategy has enabled us to execute our vision of being the "international jack-up contractor of choice" and will continue to allow for sustainable, long-term profitability across our fleet.

We analyze and report our results of operations in one single reportable segment, Contract Drilling Services. This segment reflects how we manage our business and our drilling fleet's dependence on the worldwide oil industry. The drilling rigs comprising our offshore fleet operate in a single market for contract drilling services and are deployed globally due to the changing needs of our customers, which largely consist of exploration, development and production oil and gas companies.

For more information on our services and our segment, see "Business."

How we generate revenue and the costs of conducting our business

We generate revenue primarily from drilling services contracts with customers which comprise NOCs, IOCs and independent oil and gas companies. We typically provide services based on a contracted dayrate. We also recognize revenue from other sources, including upfront lump-sum fees for the mobilization of equipment, contract preparation and capital upgrades prior to the commencement of drilling services. Revenue may increase or decrease depending on various factors, such as the applicable dayrates, the timing of new contracts or contract extensions and out of service periods. In general, seasonal factors do not have a significant effect on our business. See "—Critical accounting policies and estimates—Revenue recognition."

In conducting our business, we incur expenses, capital expenditures and deferred costs. Our principal expenses are operating and maintenance expenses. These expenses consist of rig-related expenses and shore-based expenses. Rig-related expenses include:

- Rig personnel expenses: compensation, transportation, training, as well as catering costs while the crews are on the rig. Such expenses vary from country to country reflecting the combination of expatriates and nationals, local market rates, unionized trade arrangements, local law requirements regarding social security, payroll charges and end of service benefit payments.
- Rig maintenance expenses: expenses related to maintaining our rigs in operation, including the associated freight and customs duties, which are not capitalized nor deferred. Such expenses do not directly extend the rig life or increase the functionality of the rig.
- Other rig-related expenses: all remaining operating expenses such as insurance, professional services, equipment rental and other miscellaneous costs.

Shore-based expenses include costs incurred by local shore-based offices in direct support of our operations.

In addition, our corporate general and administrative expenses primarily include all office personnel costs and other miscellaneous expenses incurred by our headquarters in Dubai, as well as share-based compensation expenses, fixed annual fees payable to the sponsors under a management agreement as a privately held company for providing business, organizational, strategic, financial and other advisory services, and doubtful debt provisions or releases.

Our capital expenditures and deferred costs include fixed asset purchases, investments associated with the construction of the newbuild rigs, acquisition of rigs from third parties and certain expenditures associated with regulatory inspections, major equipment overhauls, contract preparation, rig upgrades, mobilization and stacked rig reactivations. Capital expenditures are included in property and equipment and are depreciated over the estimated useful life of the assets. Deferred costs are included in other current assets or other assets and are amortized over the relevant periods.

See ''—Results of operations—Operating and maintenance expenses'' and ''—Liquidity and capital resources—Net cash used in investing activities—Capital expenditures and deferred costs.'' For when expenses are recognized, see ''—Critical accounting policies and estimates—Operating and deferred costs.''

How we evaluate our business

We manage our operations through a single global segment, Contract Drilling Services, as described above. We evaluate our business based on a number of operational and financial measures we believe are useful in assessing our historical and future performance throughout the commodity price cycles that have characterized our industry since our inception. These operational and financial measures include the following:

Operational measures

Contract backlog: Contract backlog is 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 a key indicator of our potential future revenue generation. See ''Business—Customers and contract backlog'' for more information on this measure.

Uptime: Uptime is the period during which we perform well operations without stoppage due to mechanical, procedural or other operational events that result in non-productive well operations time. Uptime is expressed as a percentage measured daily, monthly or yearly. Uptime performance is a key customer contracting criterion, an indication of our operational efficiency, and is directly related to our current and future revenue and profit generation.

Total recordable incident rate: Total recordable incident rate (''TRIR''), is a measure of the rate of recordable workplace injuries. See ''Business—Our business strategies—Continue to deliver safe, efficient and reliable operations'' for more information on TRIR and the purposes for which we use TRIR.

Marketable rigs: We define marketable rigs 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.

Average dayrate: Average dayrate is 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 revenue.

Marketed utilization: Marketed utilization measures the dayrate revenue efficiency of our marketable rigs. This is 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. See ''—Critical accounting policies and estimates—Revenue recognition.''

Our contract backlog at September 30, 2017 and December 31, 2016, 2015, 2014 and 2013 was as follows:

	At September 30,	At December 31,			
	2017	2016	2015	2014	2013
Total contract backlog[1] (in millions)	$1,379	$1,743	$2,346	$3,162	$2,091
Weighted average backlog dayrate[2] (in thousands)	$ 96.2	$ 96.7	$ 99.4	$123.8	$111.1
Average contract days per contracted rig	551	721	762	690	537
Number of contracted rigs[3]	26	25	31	37	35

(1) Amounts include contract backlog related to newbuild rig(s) under construction for December 31, 2016, 2015 and 2014.

(2) Calculated by dividing total backlog by total number of backlog days for all rigs.

(3) Includes newbuild rig(s) under construction and rigs under non-drilling contracts.

The following table sets out the future years that our contract backlog relates to, as of September 30, 2017, and assumes no exercise of extension options or renegotiations under our current contracts:

	Remainder of	Years ended December 31,			
	2017	2018	2019	Thereafter	Total
	(in millions)				
Contract backlog	$142	$568	$363	$306	$1,379

Our uptime, TRIR, number of marketable rigs, average dayrate and marketed utilization for the nine months ended September 30, 2017 and 2016 and the years ended December 31, 2016, 2015, 2014 and 2013 were as follows:

	Nine months ended September 30,		Years ended December 31,			
	2017	2016	2016	2015	2014	2013
Uptime	98.8%	98.5%	98.7%	98.6%	98.5%	98.9%
TRIR	0.29	0.24	0.25	0.22	0.48	0.69
IADC average TRIR[1]	0.56	0.45	0.46	0.60	0.75	0.81
Average marketable rigs	32.6	31.1	31.2	34.5	34.6	32.7
Average dayrate (in thousands)	$69.4	$76.5	$75.2	$104.3	$111.0	$102.7
Marketed utilization	64%	75%	74%	72%	89%	91%

(1) TRIR, as defined by the IADC, is derived by multiplying the number of recordable injuries in a calendar year by 200,000 and dividing this value by the total hours worked in that year by the total number of employees. An incident is considered ''recordable'' if it results in medical treatment over certain defined thresholds (such as receipt of prescription medication or stitches to close a wound) as well as incidents requiring the injured person to spend time away from work.

Financial measures

In addition to the operational measures discussed above, we also use certain GAAP and non-GAAP financial measures to evaluate the performance of our business. We believe the non-GAAP financial measures we use are useful in assessing our historical and future performance throughout the commodity price cycles that have characterized our industry since our inception.

Revenue and Adjusted Revenue: Revenue includes the gross revenue generated from rigs operated by us, the net revenue for the rigs operated by an offshore drilling company and its affiliates under the operating agreements and other revenue. We also present Adjusted Revenue because we believe that Adjusted Revenue is a useful historical non-GAAP financial measure accounting for the fact that not all of our rigs were operated by us for the years ended December 31, 2013 and 2014. Adjusted Revenue is defined as the sum of gross revenue from rigs operated by us, gross revenue from rigs operated under the operating agreements and other revenue (excluding the amortization of drilling contract intangibles). During those periods, certain of our rigs were operated by an offshore drilling company under the operating agreements. Adjusted Revenue provides investors with a financial measure with which to compare certain of our historical periods to each other and to other issuers who do not have operating agreements and accordingly report their revenue on a gross basis and allows investors to better compare our results in periods in which we did and did not utilize operating agreements. We will not be presenting Adjusted Revenue as a financial measure for future periods not shown below because none of our rigs is or will be operated under the operating agreements or is currently anticipated to be operated by third parties under other operating agreements.

Adjusted EBITDA and Adjusted EBITDA margin: Adjusted EBITDA excludes certain items included in net income (loss), the most directly comparable GAAP financial measure. We believe that Adjusted EBITDA and Adjusted EBITDA margin are useful non-GAAP financial measures because they are widely used in our industry to measure a company's operating performance without regard to items such as interest expense, income tax expense, depreciation and amortization and other specific expenses, which can vary substantially from company to company, and are also useful to an investor in evaluating the performance of the business over time. In addition, our management uses Adjusted EBITDA and Adjusted EBITDA margin in presentations to our board of directors to provide a consistent basis to measure operating performance of our business, as a measure for planning and forecasting overall expectations, for evaluation of actual results against such expectations and in communications with our shareholders, lenders, noteholders, rating agencies and others concerning our financial performance. Adjusted EBITDA reflects adjustments for certain items and expenses set forth below that we believe affect the comparability of financial results from period to period. Adjusted EBITDA margin is defined as Adjusted EBITDA divided by Adjusted Revenue. Adjusted EBITDA and Adjusted EBITDA margin may not be comparable to similarly titled measures employed by other companies. These financial measures should not be considered in isolation or as a substitute for net income, operating income, other income or cash flow statements data prepared in accordance with GAAP. Adjusted EBITDA and Adjusted EBITDA margin have significant limitations, including not reflecting our cash requirements for capital or deferred costs, acquired rig reactivation costs, contractual commitments, taxes, working capital or debt service.

Our financial measures for the nine months ended September 30, 2017 and 2016 and the years ended December 31, 2016, 2015, 2014 and 2013 were as follows:

	Nine months ended September 30,		Years ended December 31,			
	2017	2016	2016	2015	2014	2013
			(in thousands)			
Revenue	**$426,868**	**$528,241**	**$684,317**	**$1,031,298**	**$1,266,026**	**$ 787,478**
Amortization of drilling contract intangibles[(1)]	—	—	—	(983)	(31,522)	(51,391)
Net revenue from rigs under operating agreements[(2)]	—	—	—	—	(40,259)	(290,798)
Gross revenue from rigs under operating agreements	—	—	—	—	115,485	723,265
Adjusted Revenue	**$426,868**	**$528,241**	**$684,317**	**$1,030,315**	**$1,309,730**	**$1,168,554**

	Nine months ended September 30,		Years ended December 31,			
	2017	2016	2016	2015	2014	2013
			(in thousands)			
Net (loss) / income	**$ (38,714)**	**$ 24,672**	**$ (29,836)**	**$(180,002)**	**$226,062**	**$232,487**
Interest expense and financing charges, net of interest income	64,495	58,397	79,764	80,435	88,907	59,350
Income tax expense	8,919	16,976	19,757	30,373	51,339	54,440
Depreciation	58,853	53,446	71,780	87,421	81,711	68,281
Amortization of deferred costs	48,740	72,034	91,763	80,984	48,962	17,269
Amortization of drilling contract intangibles(1)	—	—	—	(983)	(31,522)	(51,391)
Loss on impairment of assets	34,802	—	47,094	271,469	—	—
Loss on disposal of assets	362	3,710	4,826	11,299	2,921	445
EBITDA	**$177,457**	**$229,235**	**$285,148**	**$ 380,996**	**$468,380**	**$380,881**
Gain on insurance recovery, net of rig relocation costs	—	—	—	(18,984)(3)	—	—
Acquired rig reactivation costs(4)	2,140	—	—	4,185	37,233	40,110
Start-up costs(5)	—	—	—	59	25,157	41,238
Sponsors' fee	3,375	3,375	4,500	4,500	4,500	4,500
Share-based compensation expense, net of forfeitures	634	23	179	638	1,981	29
Adjusted EBITDA	**$183,606**	**$232,633**	**$289,827**	**$ 371,394**	**$537,251**	**$466,758**
Adjusted EBITDA margin	**43.0%**	**44.0%**	**42.4%**	**36.0%**	**41.0%**	**39.9%**

(1) Amortization of the fair market value of existing contracts at the time of the initial acquisition.

(2) Revenue generated by rigs operated under the operating agreements was recorded by us as net revenue. Such net revenue represents customer revenue less expenses related to the operation of the rigs (which comprises personnel, asset management and maintenance, and operating, miscellaneous and administration expenses), shore based fixed fees, corporate services fixed fees and taxes paid by an offshore drilling company and its affiliates operating those rigs under the operating agreements.

(3) Corresponds to the realized one-time net gain of $25.4 million resulting from insurance proceeds for a rig that was declared by insurance underwriters in 2015 as total constructive loss following a fire incident, net of the $6.5 million one-time costs incurred in connection with relocation of a replacement rig.

(4) 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.

(5) Represent costs accounted for as operating expenses for the development and implementation of our own information technology infrastructure, an enterprise resource planning system and other applications, set-up costs of new legal entities and offices/infrastructure in the countries where we operate, development and set-up costs of our corporate headquarters and other costs associated with the start-up of the business.

General trends and outlook

The business environment for offshore drilling contractors remains challenging with continued pressure on market dayrates, but there are indications in some of our markets of improving demand for jack-up rig services. Brent crude oil, which declined from a high of $115.06 per barrel on June 19, 2014 to a low of $27.88 per barrel on January 20, 2016 and was $70.52 per barrel on January 26, 2018, is a key driver of exploration, development and production activity by our customers. According to Rystad, the jack-up rig count in the rest of the world correspondingly declined by 39.0% from January 2015 to September 2017. During the commodity price down-cycle, however, the Middle East and India, two of our core operating regions, have remained relatively steady, with the Middle East experiencing only a 15.0% decrease and India only a 5.0% decrease. These two regions represent a growing share of the contracted jack-up rig market, increasing from a combined 38.6% in 2014 to 55.6% in December 2016. With a leading market position in these two regions, we believe this is one of a number of reasons that our average marketed utilization rate has been 8.0% above the shallow water drilling industry average since 2015 according to Rystad.

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, Rystad expects 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, means that jack-ups are frequently contracted for these projects, and Rystad expects brownfield projects to have a stronger rig demand growth 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 0.5% per month from December 2016 to September 2017. According to Rystad, there has been a 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 in the first nine months of 2017, particularly in the Middle East and other key markets. Oil and gas companies have expressed a high interest during the first half of 2017 in increasing their drilling activity in our core operating regions. Through 2020, Rystad also expects the demand for jack-up rig services market to grow with a compound annual growth rate of 6.5% in our core operating regions, and 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.

Results of operations

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

The following table summarizes our operating results for the nine months ended September 30, 2017 and 2016 and our selected balance sheet data as of September 30, 2017 and 2016:

	Nine months ended September 30,	
	2017	**2016**
	(in thousands)	
Revenue		
Operating revenue	$413,886	$517,106
Other revenue	12,982	11,135
	$426,868	$528,241
Operating costs and expenses		
Operating and maintenance	$216,232	$269,048
Depreciation	58,853	53,446
Amortization of deferred costs	48,740	72,034
General and administrative	31,251	28,501
Loss on impairment of assets	34,802	—
Loss on disposal of assets	362	3,710
	390,240	426,739
Operating income	$ 36,628	$101,502
Other (expense) / income, net		
Interest income	$ 821	$ 284
Interest expense and financing charges	(65,316)	(58,681)
Other, net	(1,928)	(1,457)
	$ (66,423)	$ (59,854)
(Loss) / income before income taxes	$ (29,795)	$ 41,648
Income tax expense	8,919	16,976
Net (loss) / income	$ (38,714)	$ 24,672
Adjusted EBITDA[1]	$183,606	$232,633

	As of September 30,	
	2017	2016
Consolidated balance sheet data		
Cash and cash equivalents	$ 106,577	$ 173,935
Total assets	1,703,913	1,591,896
Long-term debt	526,117	806,981
Obligations under sale and leaseback (current and long-term)	322,781	208,491
Total liabilities	991,907	1,157,643
Mezzanine equity	165,978	—
Total equity	546,028	434,253

(1) For reconciliation to the most comparable GAAP measures see "—How we evaluate our business—Financial measures."

Revenue

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

The decrease in revenue for the nine months ended September 30, 2017 by $101.3 million compared to the same period in 2016 was primarily 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 50.7% of total revenue, compared to $269.0 million, or 50.9% 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 $28.1 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 $26.5 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, $22.0 million of cost savings across rigs primarily due to lower personnel related expenditures, maintenance and insurance expenses, $2.0 million lower costs for rigs that are operating under non-drilling contracts, and $1.2 million lower costs on a rig that ceased operations on March 22, 2015 following a fire incident. This was partly offset by $13.9 million of costs on the two newbuild rigs which started their contracts in December 2016 and June 2017, respectively, and $3.0 million operating costs for the premium jack-up drilling rigs that were acquired in May and September 2017.

There were $3.9 million of cost savings across local shore-based offices (a 14.1% 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 newbuild rigs 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, 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 $31.3 million compared to $28.5 million for the same period in 2016. The $2.8 million increase in general and administrative expenses resulted from $3.0 million of lower net releases of provision for doubtful accounts in 2017, partly offset by $0.2 million of net other cost savings.

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 our rigs, out of which one rig was impaired to salvage value during the second quarter in 2017. The impairment loss was recorded as a result of crude oil prices further declining in the second quarter in 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 and $1.1 million loss on retirement in 2016 related to the sale of two rigs that were stacked since the initial acquisition.

Other income and expense

Other (expense) / income, net was an expense of $66.4 million for the nine months ended September 30, 2017 and $59.9 million for the same period in 2016. Interest expense and financing charges for the nine months ended September 30, 2017 were $6.6 million higher compared to the same period in 2016 due to the $14.2 million loss on debt extinguishment associated with the refinancing of our debt, $8.0 million lower capitalized interest and $6.0 million higher interest expense on the sale and leaseback financing facility. This was partly offset by the $21.6 million lower interest on our debt, primarily resulting from the full settlement in January 2017 of the $350.0 million term loan (the ‘‘term loan’’), entered into by Shelf Drilling Midco, Ltd., our wholly owned subsidiary.

During the nine months ended September 30, 2017, the loss on debt extinguishment of $14.2 million included the $15.2 million write-off of unamortized debt issuance costs and discount, $5.7 million of incentive fees paid to bondholders and $4.1 million legal fees offset by the $10.8 million gross settlement gain on the term loan.

Also included in the Other Income / (Expense), net is Other, net which was $1.9 million in expenses during the nine months ended September 30, 2017 compared to $1.5 million in expenses during 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 during the nine months ended September 30, 2017 also increased by $0.5 million compared to the corresponding period in 2016 due to a higher cash balance throughout the current period.

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 we are 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 we operate and earn income or are considered a 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, (i) the overall level of income before income taxes, (ii) changes in the blend of income that is taxed based on gross revenues rather than income before taxes, (iii) rig movements between taxing jurisdictions and (iv) changes in our rig operating structures which may alter the basis on which we are taxed in a particular jurisdiction.

Income tax expense for the nine months ended September 30, 2017 is lower than the same period in 2016 primarily due to (i) 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 we believe will be repatriated in the foreseeable future, (ii) tax benefits related to an increase in the amount of income tax refunds we believe we will recover in certain jurisdictions primarily due to a favorable court order received during 2017, and (iii) lower revenue for the 2017 period as we are taxed in various jurisdictions based on a percentage of gross revenue.

Year ended December 31, 2016 compared to year ended December 31, 2015

The following table summarizes our operating results for the years ended December 31, 2016 and 2015 and our selected balance sheet data as of December 31, 2016 and 2015:

	Years ended December 31,	
	2016	**2015**
	(in thousands)	
Revenue		
Operating revenue	$668,649	$1,012,757
Other revenue	15,668	18,541
	$684,317	$1,031,298
Operating costs and expenses		
Operating and maintenance	353,802	534,156
Depreciation	71,780	87,421
Amortization of deferred costs	91,763	80,984
General and administrative	46,889	139,722
Loss on impairment of assets	47,094	271,469
Loss on disposal of assets	4,826	11,299
Gain on insurance recovery	—	(25,432)
	616,154	1,099,619
Operating income (loss)	$ 68,163	$ (68,321)
Other (expense) / income, net		
Interest income	$ 356	$ 102
Interest expense and financing charges	(80,120)	(80,537)
Other, net	1,522	(873)
	$ (78,242)	$ (81,308)
Loss before income taxes	$ (10,079)	$ (149,629)
Income tax expense	19,757	30,373
Net loss	$ (29,836)	$ (180,002)
Adjusted EBITDA(1)	$289,827	$ 371,394

	As of December 31,	
	2016	**2015**
Consolidated balance sheet data		
Cash and cash equivalents	$ 213,139	$ 115,685
Total assets	1,585,940	1,483,883
Long-term debt	809,016	803,053
Obligations under sale and leaseback (current and long-term)	244,705	74,703
Total liabilities	1,206,486	1,073,104
Total equity	379,454	410,779

(1) For reconciliation to the most comparable GAAP measures see "—How we evaluate our business—Financial measures."

Revenue

Total revenue was $684.3 million for 2016 compared to $1,031.3 million for 2015, a decrease of $347.0 million or 33.6%. Operating revenue for 2016 was $668.6 million, or 97.7% of total revenue and other revenue was $15.7 million, or 2.3% of total revenue. In 2015, these same revenues were $1,012.8 million, or 98.2%, and $18.5 million, or 1.8%, respectively.

The decrease in revenue in 2016 compared to the same period in 2015 was primarily due to $230.4 million lower average earned dayrates ($75.2 thousand in 2016 compared to $104.3 thousand in 2015), $71.0 million lower marketable rig count (three rigs stacked in 2016, one rig ceased operations on March 22, 2015 following a fire incident and one rig operating under non-drilling contracts, partly offset by one rig reactivated which started operations in September 2015 and one newbuild rig that started operations on December 1, 2016), $17.6 million lower mobilization revenue amortization in 2016, $8.5 million lower recharge revenue across our fleet, $8.2 million lower revenue related to contract termination fees and $7.6 million for more rigs awaiting marketing opportunities in 2016 compared to 2015.

Marketed utilization for 2016 of 74% was higher than the marketed utilization for 2015 of 72% mainly due to fewer rigs in shipyards undergoing contract preparation and a reduced number of marketable rigs for the year ended December 31, 2016. There were 10 rigs for 555 days in shipyard undergoing contract preparation during the year ended December 31, 2016, compared to 12 rigs for 1,355 days during the year ended December 31, 2015.

Operating and maintenance expenses

Total operating and maintenance expenses were $353.8 million, or 51.7%, of total revenue, for 2016 compared to $534.2 million, or 51.8%, of total revenue, for 2015. Operating and maintenance expenses in 2016 consisted of $317.3 million rig-related expenses and $36.5 million shore-based expenses. In 2015, these same expenses were $482.3 million and $51.9 million, respectively.

In 2016, rig-related expenses included $188.7 million for rig personnel expenses, $95.0 million for rig maintenance expenses and $33.6 million for other rig-related expenses. This compares to $292.2 million, $188.4 million and $1.7 million for those respective categories in 2015. Compared to 2015, the decrease in rig-related expenses by $165.0 million was mainly due to $55.8 million of cost savings across rigs, $54.2 million lower expenses for idle rigs awaiting marketing opportunities, $26.5 million lower costs due to additional stacked rigs in 2016, $25.3 million lower maintenance and shipyard expenses, $6.0 million lower costs for a rig that is operating under non-drilling contracts since February 2016 whereby the operator bears the operating and maintenance costs, $3.6 million lower reactivation costs (no rig under reactivation in 2016 compared to one rig under reactivation in 2015) and $1.7 million lower costs on a rig that ceased operations on March 22, 2015 following a fire incident. This was partly offset by $6.6 million higher costs related to a rig which was operating in 2016 but undergoing reactivation in 2015 and $1.5 million costs on one newbuild rig that started operations on December 1, 2016.

There were $15.4 million of cost savings across local shore-based offices (a 30.0% decrease from 2015), primarily attributable to a decrease of $12.5 million in shore-based personnel expenses and $2.9 million in other shore-based expenses.

Depreciation expense

Depreciation expense was $71.8 million for 2016 compared to $87.4 million for 2015. The decrease of $15.6 million primarily related to $18.6 million lower depreciation on drilling rigs and equipment which were impaired in 2015. This was partly offset by an increase of $3.0 million primarily from depreciation on the total additions to property and equipment for the year ended December 31, 2016, including the capital expenditure transferred from construction in progress to completed assets related to rig-based capital equipment and shipyard costs.

Amortization of deferred costs expense

The amortization of deferred costs was $91.8 million for 2016 and $81.0 million for 2015. The $10.8 million increase in amortization primarily related to contracts which were terminated early during 2016.

General and administrative expenses

General and administrative expenses were \$46.9 million for 2016 compared to \$139.7 million for 2015. The \$92.8 million decrease in general and administrative expenses primarily resulted from the decrease of \$87.8 million for the net provision for doubtful debts and \$6.6 million in cost reductions. The decrease of \$87.8 million for the net provision for doubtful debts was largely due to the \$87.4 million provision recorded in 2015 in relation to the uncertainty of collectability in connection with specifically identified accounts receivable. This was partly offset by \$1.6 million for transaction costs recognized in 2016 relating to the refinancing of our debt structure which closed on January 12, 2017.

Loss on impairment of assets

Loss on impairment of assets was \$47.1 million for 2016 related to three rigs, of which one rig was impaired to salvage value, compared to \$262.1 million for 2015 related to 13 rigs, of which five rigs were impaired to salvage values. Additionally, in 2015, we wrote off \$9.3 million goodwill associated with the initial acquisition. The impairment loss was recorded as a result of indicators of impairment including the reduction in the number of prospective contract opportunities, lower dayrates and utilization rates due to significantly lower Brent crude oil prices, a decrease in worldwide demand and an increase in the global supply of jack-up rigs.

Loss on disposal of assets

Loss on disposal of assets was \$4.8 million and \$11.3 million for 2016 and 2015, respectively. The \$6.5 million decrease in loss on disposal of assets primarily resulted from the decrease of \$7.2 million related to the loss on retirement of capital equipment replaced during shipyards in 2015 compared to 2016. This was partly offset by \$1.1 million higher loss on retirement in 2016 related to the sale of two rigs that were stacked since the initial acquisition.

Gain on insurance recovery

Gain on insurance recovery was \$0 and \$25.4 million for 2016 and 2015, respectively. The gain in 2015 related to the gross insurance proceeds less associated costs pertaining to a fire incident on one of our rigs that resulted in the rig being declared a total constructive loss by our insurance underwriters.

Other income and expense

Other income and expense was \$78.2 million for 2016 and \$81.3 million for 2015. Other expense consisted primarily of interest expense and financing charges of \$80.1 million and \$80.5 million for 2016 and 2015, respectively. Interest expense and financing charges are related to our 8.625% Notes, the term loan, our revolver and sale and leaseback transactions. Other, net were \$1.5 million of income for 2016 compared to \$0.9 million of expenses for 2015.

Income tax expense

Income tax expense was \$19.8 million for 2016 compared to \$30.4 million for 2015. While we are 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 we operate and earn income or in which we are 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, (i) the overall level of income before income taxes, (ii) changes in the blend of income that is taxed based on gross revenue rather than income before taxes, (iii) rig movements between taxing jurisdictions and (iv) changes in rig operating structures. The primary reason for the decrease in income tax expense for 2016 compared to 2015 is that our overall taxable income (excluding loss on impairment of assets) has decreased significantly in 2016 as compared to 2015 primarily due to reduced revenue in 2016 as compared to 2015.

Liquidity and capital resources

Sources and uses of liquidity

Historically, we have met, and following this offering we expect to meet, our liquidity needs principally from cash balances in banks, cash generated from operations, availability under our revolver and the sale and leaseback financing of the newbuild rigs. Our primary uses of cash were, and following this offering we expect will be, repayment of long term debt, capital expenditures and deferred costs payments, debt issuance costs payments and interest and income tax payments.

Our estimated range of capital expenditures and deferred costs reflects an appropriation of money that we may or may not spend, and the timing of such expenditures may change. We will periodically review and adjust the estimated capital spending figures as necessary based upon current and forecasted cash flows and liquidity, anticipated market conditions in our business, the availability of financial resources and alternative sources of capital.

We had $106.6 million in cash and cash equivalents as of September 30, 2017, compared to $173.9 million as of September 30, 2016. Under our revolver, we had $14.6 million of surety bonds issued as of September 30, 2017 compared to $38.8 million as of September 30, 2016. In addition, there were no cash borrowings under our revolver during this period. As of December 31, 2017, we had $12.3 million of surety bonds issued and no borrowings under our revolver.

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 our revolver for working capital and other needs related to the operation of our business. We believe we will have adequate liquidity to fund our operations over the next twelve months.

Our cash flows for the nine months ended September 30, 2017 and 2016 are presented below:

	Nine months ended September 30,	
	2017	2016
	(in thousands)	
Net cash provided by operating activities	$ 51,120	$ 98,363
Net cash used in investing activities	(236,196)	(38,618)
Net cash provided by / (used in) financing activities	78,514	(1,495)
Net (decrease) / increase in cash and cash equivalents	$(106,562)	$ 58,250

Net cash provided by operating activities

Net cash provided by operating activities totaled $51.1 million during the nine months ended September 30, 2017, compared to $98.4 million during the corresponding 2016 period. The decrease of $47.3 million was primarily due to the cash payments associated with our debt refinancing activity and also due to the overall decline in our drilling business activity. See discussion of revenue in ''—Results of operations—Revenue.''

During the nine months ended September 30, 2017 and 2016, we made cash payments of $47.0 million and $52.3 million in interest and financing charges, respectively, net of interest amounts capitalized of $2.5 million and $8.5 million in relation to newbuild rig construction, respectively. The amounts for capitalized interest are included in cash used in investing activities as capital expenditures. The decrease of $5.3 million is mainly due to interest savings associated with the debt refinancing activity in January 2017.

We 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 and $6.0 million increase in restricted cash, 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 newbuild rigs and reduced capital spending initiatives across our fleet for the nine months ended September 30, 2017.

As part of the sale and leaseback agreements for the newbuild rigs, 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: the underlying firm contractual period to which the expenditures relate, or 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 table below sets out our capital expenditures and deferred costs for the nine months ended September 30, 2017 and 2016, which were $350.9 million and $206.6 million, respectively. The increase of $144.3 million was primarily 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.

	Nine months ended September 30,	
	2017	2016
	(in thousands)	
Regulatory and capital maintenance[(1)]	$ 20,377	$ 25,975
Contract preparation[(2)]	9,592	20,372
Fleet spares and other[(3)]	—	1,944
Reactivation projects	—	—
	29,969	48,291
Rig acquisitions[(4)]	228,947	—
Newbuild rigs[(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 capital expenditures and deferred costs associated with the acquisition of three premium jack-up drilling rigs in 2017.

(5) Includes 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 us and capitalized interest.

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	2016
	(in thousands)	
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
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)
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 $78.5 million during the nine months ended September 30, 2017 compared to net cash used in financing activities of $1.5 million during the nine months ended September 30, 2016.

In April 2017, the Parent completed the private placement of 28,125,000 new common shares at a price of $8.00 per share for total gross proceeds of $225.0 million. These proceeds were in turn contributed to the Issuer. We then acquired three premium jack-up drilling rigs from Seadrill for $75.4 million each using the proceeds from the private placement. Two of the rigs were delivered to us in May 2017 and the third rig was delivered in September 2017. See ''—Liquidity and capital resources—Sources and uses of liquidity—Capital expenditures and deferred costs'' for more information.

In connection with the refinancing of certain of our debt in January 2017, we used $28.5 million of cash to partially pay for the exchange and cancellation of the $444.6 million 8.625% SDHL Senior Secured Notes due November 2018 and $85.8 million in cash for the partial settlement of the $350 million Midco Term Loan, which was fully settled and cancelled. This resulted in total payments of long-term debt of $114.3 million, partially offset by the original discount of $10.5 million of cash provided by operating activities.

In addition to the refinancing of certain of our debt, $166.7 million of preferred shares were issued by the Parent to certain of the sponsors and $86.8 million 9.500% Notes (as defined herein) were issued for the full settlement of the term loan of Shelf Drilling Midco, Ltd., and $416.1 million 8.625% Notes were cancelled in exchange for 9.500% Notes. As a result, we issued a total of $502.8 million 9.500% Notes during 2017. These non-cash transactions were not reflected on the condensed consolidated interim statements of cash flows for the nine months ended September 30, 2017.

At the time of refinancing, we also amended our revolver to extend its maturity date to April 2020 and permanently reduced the facility from $200.0 million to $160.0 million.

During the nine months ended September 30, 2017, we 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.

During the nine months ended September 30, 2017, we paid a total of $8.5 million related to shares issuance costs, of which $7.8 million related to the issuance cost of the new common shares and $0.7 million was for the issuance of preferred shares. There were no such transactions for the same period in 2016.

No ordinary shares were redeemed during the nine months ended September 30, 2017. We paid $1.5 million for the repurchase and retirement of ordinary shares during the nine months ended September 30, 2016.

We paid preferred shares dividend of $9.6 million during the nine months ended September 30, 2017. The preferred shares are entitled to a dividend rate equal to LIBOR plus 9.0% per annum paid semi-annually on January 31 and July 31. The total dividend as of September 30, 2017 was $12.6 million of which $3.0 million was accrued but unpaid and presented under the changes in operating assets and liabilities in cash provided by operating activities.

During the nine months ended September 30, 2017, we 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, we 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.

Our cash flows for the years ended December 31, 2016 and 2015 are presented below:

	Years ended December 31,	
	2016	2015
	(in thousands)	
Net cash provided by operating activities	$136,532	$ 133,013
Net cash used in investing activities	(35,592)	(107,513)
Net cash used in financing activities	(3,486)	(861)
Net increase in cash and cash equivalents	$ 97,454	$ 24,639

Net cash provided by operating activities

Net cash provided by operating activities increased in 2016 to $136.5 million, from $133.0 million in 2015. The increase of $3.5 million, or 2.6%, was primarily driven by the variance of the 2016 results of operations compared to 2015. See "—Results of operations."

We made cash payments of $73.0 million and $68.9 million in interest during the years ended December 31, 2016 and 2015, respectively (net of interest amounts capitalized of $10.7 million and $7.6 million, respectively, in relation to the construction of our newbuild rigs).

We also made cash payments of $26.1 million and $40.7 million in income taxes during the years ended December 31, 2016 and 2015, respectively. The decrease of $14.6 million is primarily due to reduced revenue in 2016 as compared to 2015.

Net cash used in investing activities

Net cash used for investing activities in 2016 totaled $35.6 million compared to $107.5 million in 2015. Our primary uses of cash in investing activities for 2016 included $53.5 million for the construction, enhancement and other improvement of our drilling rigs, and $0.4 million increase in restricted cash. This was partially offset by $16.9 million paid to us by the lessor under the sale and leaseback transactions for costs incurred on a newbuild rig and $1.5 million proceeds from disposal of property and equipment.

Cash used for capital expenditures, including capitalized interest, amounted to $53.5 million in 2016 and $157.2 million in 2015. The decrease of $103.7 million was mainly due to $18.5 million milestone payments made by us in 2015 related to the newbuild rigs, lower expenditures on rig reactivation activity, and reduced capital spending across our fleet in 2016.

As part of the sale and leaseback transactions we made initial payments of $74.1 million or 20.0% of the total cost due to the shipyard for the two newbuild rigs in 2014 and 2015. In addition, contractual commitment payments totaling $148.1 million and $55.5 million were paid by the third party financial institutions directly to the shipyard constructing the rigs and $6.2 million and $0.6 million was recorded as capitalized interest and obligations under our sale and leaseback transactions. Therefore, these non-cash transactions were not reflected on the consolidated statements of cash flows for the years ended December 31, 2016 and 2015.

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 consolidated balance sheet and are amortized over the relevant periods covering: (i) the underlying firm contract period to which the expenditures relate or (ii) the period until the next planned similar expenditure is to be made.

The table below sets out our capital expenditures and deferred costs for the years ended December 31, 2013 to 2016. This comparison shows a significant decline in our capital expenditures and deferred costs since our inception. Our capital expenditures and deferred costs, excluding the newbuild rigs, decreased from an average of $235.0 million for each of the years ended December 31, 2013, 2014 and 2015, to $67.3 million for the year ended December 31, 2016. This is indicative of our strategy in the years immediately following our inception, during which we expended capital to (i) establish the Shelf Drilling brand, (ii) upgrade our rigs based on long-term market trends and customer requirements, (iii) enhance our fleet composition, (iv) significantly upgrade our equipment and (v) reposition our fleet to take advantage of growth opportunities in the Middle East and India, which were all largely completed by the end of 2015.

	Years ended December 31,			
	2016	2015	2014	2013
	(in thousands)			
Regulatory and capital maintenance[1]	$ 37,960	$127,695	$120,352	$ 89,057
Contract preparation[2]	22,353	65,232	46,551	35,278
Fleet spares and other[3]	6,964	11,646	25,670	20,567
Reactivation projects[4]	—	23,372	64,524	75,059
	67,277	227,945	257,097	219,961
Rig acquisitions	—	—	—	—
Newbuild rigs[5]	190,035	95,254	76,237	—
Total capital expenditures and deferred costs	$257,312	$323,199	$333,334	$219,961

(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 reactivation projects, including regulatory and capital maintenance as well as contract preparation.

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

The following table reconciles the cash payments related to additions to property and equipment and changes in deferred costs, net to the total capital expenditures and deferred costs for the years ended December 31, 2016 and 2015.

	Years ended December 31,	
	2016	2015
	(in thousands)	
Cash payments for additions to property and equipment	$ 53,541	$157,193
Net change in accrued but unpaid additions to property and equipment	(5,080)	(60,034)
	$ 48,461	$ 97,159
Add: Asset addition related to sale and leaseback transactions	154,306	74,703
Total capital expenditures	$202,767	$171,862
Changes in deferred costs, net	$ (37,218)	$ 70,353
Add: Amortization of deferred costs	91,763	80,984
Total deferred costs	$ 54,545	$151,337
Total capital expenditures and deferred costs	$257,312	$323,199

Net cash used in financing activities

We used $3.5 million and $0.9 million of net cash in 2016 and 2015, respectively. In 2016, we made rental payments of $1.8 million for the newbuild rig held under capital lease and $1.7 million payments for the repurchase of shares under our share-based compensation plan. In 2015, we incurred $0.6 million payments for debt issuance costs and $0.3 million payments for the retirement and repurchase of ordinary shares.

In addition, we did not distribute any dividends in 2016 or 2015. This compares to distributed dividends of $122.7 million in 2014 and $179.1 million in 2013.

Contractual obligations

In the normal course of business, we enter into various contractual obligations that impact or could impact our liquidity.

The table below contains our estimated contractual obligations stated at face value as of September 30, 2017 for the referenced years and does not give effect to the use of proceeds from this offering:

	Years ended September 30,						
	2018	2019	2020	2021	2022	Thereafter	Total
	(in thousands)						
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% Notes and 9.500% Notes.

(2) Assumes no change in the current variable interest rate applied, where applicable. Includes commitment fees on our revolver assuming no change in the undrawn balance.

(3) This represents minimum annual rental payments and purchase obligation price assuming estimated average interest rates under the sale and leaseback transactions as of September 30, 2017.

Other commercial commitments as of September 30, 2017

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 our performance regarding certain drilling contracts, customs import duties and other obligations in various jurisdictions.

As of September 30, 2017, we had surety bond facilities in either the U.S. Dollar or local currencies of approximately $94.3 million provided by several banks to guarantee various contractual, performance and customs obligations. We 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, we had outstanding bank guarantees and performance bonds against our revolver amounting to $14.6 million and $28.5 million as of September 30, 2017 and December 31, 2016, respectively.

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

At September 30, 2017, these obligations stated in U.S. Dollar equivalent and their expiration dates were as shown in table below:

	Years ended September 30,						
	2018	2019	2020	2021	2022	Thereafter	Total
	(in thousands)						
Surety bonds and guarantees	$22,975	$13,394	$7,008	$ —	$ —	$ —	$43,377

The table below contains our estimated contractual obligations stated at face value as of December 31, 2016 for the referenced years and does not give effect to the use of proceeds from this offering, the refinancing and the private placement:

	Years ended December 31,						
	2017	2018	2019	2020	2021	Thereafter	Total
	(in thousands)						
Debt repayment[1]	$ —	$825,000	$ —	$ —	$ —	$ —	$ 825,000
Interest on debt[2]	80,051	62,855	—	—	—	—	142,906
Sale and lease back obligations[3]	37,379	52,082	50,946	49,387	129,337	93,705	412,836
Operating leases	6,367	4,207	474	189	82	—	11,319
Total	$123,797	$944,144	$51,420	$49,576	$129,419	$93,705	$1,392,061

(1) Debt includes 8.625% Notes and the term loan.

(2) Assumes no change in the current variable interest rate applied. Includes commitment fees on our revolver assuming no change in the undrawn balance.

(3) This represents minimum annual rental payments and purchase obligation price assuming estimated average interest rates under the sale and leaseback transactions as of December 31, 2016.

Other commercial commitments as of December 31, 2016

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 our performance regarding certain drilling contracts, customs import duties and other obligations in various jurisdictions.

As of December 31, 2016, we had surety bond facilities in either the U.S. Dollar or local currencies of $85.0 million provided by several banks to guarantee various contractual, performance and customs obligations. We entered into these facilities in India, Egypt, UAE and Nigeria. The outstanding surety bonds were $33.3 million and $64.2 million at December 31, 2016 and 2015 (including $7.8 million surety bonds for which the credit facility was not in place which were secured by 100.0% cash deposits in 2015), respectively.

In addition, we had outstanding bank guarantees and performance bonds against our revolver amounting to $28.5 million and $48.3 million as of December 31, 2016 and 2015, respectively.

Therefore, the total outstanding bank guarantees and surety bonds issued by us were $61.8 million and $112.5 million as of December 31, 2016 and 2015, respectively.

Under the terms of the initial acquisition, the selling offshore drilling company agreed to continue to provide financial support by maintaining letters of credit, surety bonds and other performance and obligation guarantees. This agreement to provide financial support expired on November 30, 2015, and the selling offshore drilling company did not issue any new letters of credit, surety bonds and other performance and obligation guarantees after November 30, 2015. All outstanding surety bonds provided by the selling offshore drilling company on our behalf (which was $23.7 million as of December 31, 2015) were cleared and replaced by our issued surety bonds in 2016.

At December 31, 2016, these obligations stated in U.S. Dollar equivalent and their expiration dates were as shown in table below:

	Years ended December 31,						
	2017	2018	2019	2020	2021	Thereafter	Total
	(in thousands)						
Surety bonds and guarantees	$46,430	$4,531	$10,863	$ —	$ —	$ —	$61,824

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. We provide expanded discussion of our more significant accounting policies, estimates and judgments below. We believe that most of these accounting policies reflect our more significant estimates and assumptions used in preparation of our financial statements.

Revenue recognition

Revenue generated from drilling services contracts is recognized as services are performed. We may also recognize other revenue from lease rentals, amortization of drilling contract intangibles and amounts billed for goods and services such as personnel and catering costs which are generally billed to customers at a margin. We account for our dayrates, recharges, bonuses and other miscellaneous revenue on an earned basis. Mobilization fees and capital or upgrade reimbursements recorded at the commencement of a specific contract are deferred and amortized over the usual firm contract period.

Upon completion of drilling contracts, any demobilization fees are immediately recognized as revenue when collectability is reasonably assured. Certain of our contracts are based on the number of wells drilled rather than a specified term. In these rare cases, such amortization periods reflect an estimate of the time required to fulfill the contract obligations.

Revenue for rigs owned by us and operated by an offshore drilling company and its affiliates for a period of time from the date of the initial acquisition to when the rigs became operated by us was accounted for as net revenue after deducting the rig operating costs, the fixed per day per rig onshore support fee, the fixed per day per rig corporate services fee and taxes. Upon transfer of the operations of these rigs to us, the revenue and costs are accounted for on a gross basis. Drilling contracts acquired at the initial acquisition were subject to fair market valuation by applying independent estimates of the market dayrates that were available for similar contracts at the date of the initial acquisition. The fair value adjustments for these existing drilling contracts were recognized in drilling contract intangible assets and liabilities and were amortized over the remaining period of the drilling contract from the date of the initial acquisition.

See Note 2—''Significant accounting policies'' to our audited consolidated financial statements for the years ended December 31, 2016 and 2015.

Property and equipment

Property and equipment is stated at cost adjusted for any economic impairment in value. The property and equipment acquired as part of the initial acquisition were stated at fair market value as of the date of the initial acquisition. Inventory acquired with the business was capitalized as part of the rigs and is maintained at a level to support the operations of the rigs. Costs incurred that substantially enhance, improve or increase the useful lives of existing assets are capitalized. Depreciation is computed using the straight-line method, after allowing for salvage value where applicable, over the estimated useful lives of the assets. If an impairment loss is recognized, the adjusted carrying amount shall be depreciated over the remaining useful life of that asset.

The remaining estimated average useful life of existing drilling rigs in our fleet is 11 years. We evaluate property and equipment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. An impairment loss on property and equipment exists when the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. Any actual impairment loss recognized represents the excess of the asset's carrying value over the estimated fair value. We estimate the fair values of property and equipment by applying a combination of income and market approaches, using projected discounted cash flows and estimates of the exchange price that would be received for the assets in the principal or most advantageous market for the assets in an orderly transaction between market participants as of the measurement date. See Note 4—''Property and equipment'' to our unaudited condensed consolidated interim financial statements for the nine months ended September 30, 2017 and Note 7—''Property and equipment'' to our audited consolidated financial statements as of and for the years ended December 31, 2016 and 2015 for more information.

Operating and deferred costs

Rig operating costs are accrued as and when incurred.

Rig project costs are either capitalized, deferred or accounted for as operating costs depending upon the type of expenditure being incurred. In general expenditures which increase the functionality of the rig are capitalized; expenditures on regulatory surveys and underwater inspections are deferred and amortized over the time period until the next survey or inspection; expenditures for major overhauls are deferred and amortized over the time period until the next major overhaul; expenditures for contract preparation and mobilization are deferred and amortized over the firm contract period. Demobilization costs are expensed as incurred.

Share-based compensation

Share-based compensation is recognized in the consolidated statements of operations based on their fair values and the estimated number of shares or units that are ultimately expected to vest. For awards which vest based on service conditions, the value of the portion of the award that is ultimately expected to vest is recognized as an expense over the five year vesting period. For awards which vest only after an exit event or initial public offering, compensation expense is recognized upon the occurrence of the event.

The fair value of awards made under the share-based compensation plans is estimated at the grant date using intrinsic value or a standard quantitative modeling techniques performed by an independent third party. The estimates are established using a zero premium option, with reference to the volatility of a group of broadly similar offshore drilling service companies.

Derivative financial instruments

Our derivative financial instruments consist of foreign currency forward exchange contracts which we may designate as cash flow hedges. In accordance with GAAP, each derivative contract is stated in the balance sheet at fair value with gains and losses reflected in the consolidated statements of operations except that, to the extent the derivative qualifies for and is designated as an accounting hedge, the gains and losses are reflected in income in the same period as offsetting gains and losses on the qualifying hedged positions. Designated hedges are expected to be highly effective, and therefore, adjustments to record the carrying value of the effective portion of the derivative financial instruments to their fair value are recorded as a component of accumulated other comprehensive income / (loss) (''AOCIL''), in the consolidated balance sheets. The effective portion of the cash flow hedge will remain in AOCIL until it is reclassified into earnings in the period or periods during which the hedged transaction affects earnings or it is determined that the hedged transaction will not occur. We report such realized gains and losses as a component of operating and maintenance expenses in the consolidated statements of operations to offset the impact of foreign currency fluctuations of the expenditures in local currencies in the countries in which we operate. Derivatives with asset fair values and derivatives with liability fair values are reported in other current assets or other assets and other current liabilities or other long-term liabilities, respectively, on the consolidated balance sheets depending on their maturity date.

Fair value measurements

Fair value is estimated at a price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market for the asset or liability. Fair value measurements are based on a hierarchy which prioritizes valuation technique inputs into three levels. The fair value hierarchy is composed of: (i) Level 1 measurements, which are fair value measurements using quoted unadjusted market prices in active markets for identical assets or liabilities, (ii) Level 2 measurements, which are fair value measurements using inputs, other than Level 1 inputs, which are directly or indirectly observable for the asset or liability and (iii) Level 3 measurements, which are fair value measurements which use unobservable inputs. The fair value hierarchy gives the highest priority to Level 1 measurements and the lowest priority to Level 3 measurements.

Recent accounting pronouncements

See Note 2—''Recently adopted and issued accounting pronouncements'' to our unaudited condensed consolidated interim financial statements for the nine months ended September 30, 2017 and Note 3—''New accounting pronouncements'' to our audited consolidated financial statements as of and for the years ended December 31, 2016 and 2015 for a discussion of recently adopted and issued accounting pronouncements.

Related parties

Transactions and balances with related parties are disclosed in Note 19—''Related parties'' to our unaudited condensed consolidated interim financial statements for the nine months ended September 30, 2017 and Note 23—''Related parties'' to our audited consolidated financial statements as of and for the years ended December 31, 2016 and 2015.

Off-balance sheet arrangements

We had no off-balance sheet arrangements during the nine months ended September 30, 2017 and the years ended December 31, 2016 and 2015.

Quantitative and qualitative disclosures about market risk

We are exposed to various market risks, including liquidity risk, interest rate risk, foreign currency risk and credit risk.

Liquidity risk

We manage our liquidity risk by maintaining adequate cash reserves at banking facilities, and by continuously monitoring our cash forecasts, our actual cash flows and by matching the maturity profiles of financial assets and liabilities.

Interest rate risk

We are exposed to interest rate risk related to the fixed rate debt under the 9.500% Notes, 8.625% Notes and variable rate debts under our revolver, the SDA Facility and the obligations under our sale and leaseback transactions. 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, expose us 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, expose us to short-term changes in market interest rates.

Further, we may utilize derivative instruments to manage interest rate risk in the future. We are not engaged in derivative transactions for speculative or trading purposes.

Foreign currency risk

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

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

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

Our allowance for doubtful accounts was \$3.4 million and \$99.6 million as of September 30, 2017 and December 31, 2016, respectively.

BUSINESS

Our company

We are a leading international shallow water offshore drilling contractor providing equipment and services for the drilling, completion and well maintenance of shallow water offshore oil and natural gas wells. We are solely focused on shallow water operations in depths of up to 400 feet and own 38 ILC jack-up rigs and one swamp barge, making us the world's largest owner and operator of jack-up rigs by number of rigs according to Rystad.

Our fleet is well-suited to our core operating regions of the Middle East, India, West Africa and Southeast Asia. These markets are characterized by relatively benign operating conditions with activities concentrated in workover and development programs on producing assets with existing infrastructure. According to Rystad, as of September 30, 2017, we had more jack-up rigs deployed in each of the Middle East, India and West Africa markets than any other operator, giving us a leading position in these markets.

We have well-established customer relationships, primarily with NOCs and IOCs, including affiliates of Saudi Aramco, ONGC, ADNOC, Chevron, TOTAL and DPE. We believe that our customers prefer to work with well-established drilling contractors that have a strong track record of safety and operating results, and since our inception in 2012, our safety track record has consistently exceeded industry averages with our operating uptime being at least 98.5% per year. We believe this consistent performance has contributed to our average marketed utilization rate of 78% since 2015, which is 8.0% above the shallow water drilling industry average over the same period according to Rystad. We have secured contracts and extensions with an aggregate value of more than $5.1 billion since our inception and, for jack-up rigs, $3.4 billion since 2014, which is more than any other contract drilling company added for jack-up rigs according to Rystad.

Since our inception, we have applied our ''fit-for-purpose'' strategy to enhance the performance of our business, people and processes, leveraging our sole focus on the shallow water segment and the decades of experience of our people with our customers, rigs and markets where we operate. We believe that this approach has made us the lowest-cost global jack-up rig operator as compared to any U.S. public company competitor. This strategy relies on several key pillars, including locating rigs where they are well-suited to customer needs in the areas in which we operate, designing a lean and effective organization, featuring systems and processes streamlined to the specific needs of our business and fleet, and developing national content, as described below in ''—Our competitive strengths.'' This ''fit-for-purpose'' strategy provides substantial value to our customers, improves the productivity of our rigs and employees and advances our industry leading low cost structure and safety performance. This, in turn, drives repeat customer business and new contract wins and enables us to be the international jack-up contractor of choice.

Our revenue, net loss, Adjusted EBITDA and Adjusted EBITDA margin for the nine months ended September 30, 2017 were $426.9 million, $38.7 million, $183.6 million and 43.0%, respectively. For a reconciliation of Adjusted EBITDA to our most directly comparable measurement of net income (loss) under GAAP, see ''Management's discussion and analysis of financial condition and results of operations—How we evaluate our business—Financial measures.'' As of September 30, 2017, we had a total contract backlog of $1.4 billion and 1.5 years per contracted rig, 98.6% of which was with NOCs and IOCs.

Our history and development

We were incorporated in 2012 and commenced operations later that year following the acquisition of 37 ILC jack-up drilling rigs and one swamp barge from an offshore drilling company and its affiliates for $1.1 billion. The initial acquisition was a contrarian entry by us into the shallow water drilling industry driven by the attractive terms of the acquisition and the reduced focus of certain of our competitors on shallow water drilling. At our inception, we established the ''fit-for-purpose'' strategy to enhance the performance of our business, people and processes. By focusing on our strategy's key pillars of locating rigs in areas well-suited to customer needs, designing systems and processes tailored to the needs of our business and fleet and developing national content, we have created an industry leading low cost structure, secured contracts with substantial value and formed a high-quality, well-maintained fleet of jack-up rigs.

At the time of the initial acquisition of the 38 drilling units, 31 were operating, 5 were stacked and 2 were undergoing reactivation. In accordance with our ''fit-for-purpose'' strategy, when selecting which rigs to acquire, selected the rigs with design features that would be attractive to our customers. Sixty-one percent of the rigs we acquired were Marathon LeTourneau (''MLT'') rigs, which have proven designs and reputable track records in our key operating markets. We also emphasized the geographic location of the rigs. We selected rigs concentrated in the key markets where we wanted to focus our operations and where they would be well-suited for customer needs. At the time of the initial acquisition, 10 of the 31 active rigs were located in Southeast Asia, 6 rigs were located in India, 9 rigs were located in the Middle East and 6 rigs were located in West Africa. Subsequent to the initial acquisition, we identified market opportunities in the Middle East and India and repositioned our fleet to take advantage of those growth opportunities.

Since our inception, our significant investment in reactivation and upgrade projects has enhanced our fleet, contributed to the life expectancy of our rigs and enabled us to grow our business at attractive returns on capital. We acquired the five stacked rigs in 2012 due to their potential for ''smart upgrades'' and cost-effective reactivation paths. We have successfully reactivated three of these five stacked rigs and invested a total of $567.2 million in 28 major projects to enhance our original fleet, including ''smart upgrades'' to our fleet based on long-term market trends and customer needs. Examples of these upgrades include accommodation expansion, standardization of equipment and facilities, extending the water depth capability, cantilever envelope extension, increasing the capacity and pressure rating of the high-pressure mud system and increasing the derrick hook load capacity. These upgrades focused on improving the operating capability of each rig and thereby increased their competitiveness in our core operating regions. In particular, we believe that our upgrades to the Baltic, Adriatic I and Key Singapore made these rigs comparable to the specifications of the new MLT 116E drilling rigs and capable of commanding similar dayrates at a substantially lower cost to us. We believe our significant investment in reactivation and upgrade projects has greatly contributed to our ability to secure contracts and maintain higher utilization than many of our competitors throughout the commodity price down-cycle.

In addition to our reactivation and upgrade projects, we have continued to improve and expand our fleet. Consistent with our strategy to deliver favorable returns on invested capital, in May 2014, we entered into two five-year drilling contracts with Chevron for two newbuild rigs. According to Rystad, this term is significantly longer than the duration of the average drilling contract awarded by IOCs of 13.8 months. Additionally, the combined contract backlog over the five-year contract terms for these two rigs is $562.0 million, excluding revenue for mobilization, demobilization and miscellaneous adjustments. We commissioned two highly customized ''fit-for-purpose'' newbuild rigs to be constructed by Lamprell that were uniquely designed to meet Chevron's specific needs in the Gulf of Thailand. In September 2016, we successfully took delivery of the first newbuild rig which commenced operations for Chevron in December 2016, and in April 2017, we successfully took delivery of the second of our two newbuild rigs which commenced operations for Chevron in June 2017. This construction project was a unique collaborative effort among Chevron, our rig crews from Thailand, Lamprell and our experienced project teams, and both rigs were delivered on time and on budget. The total cost of the two newbuild rigs was $415.1 million, which includes yard costs, owner furnished equipment costs (including project management costs) and mobilization costs, and excludes capitalized interest, financing costs, brokerage fees and handling costs. We financed the construction primarily through sale and leaseback transactions we negotiated despite the challenging industry backdrop, demonstrating the value inherent in the underlying drilling contracts.

In April 2017, to further improve the quality of our fleet, we acquired three premium jack-up drilling rigs, near the historically low price for similar rigs for $226.1 million. Two of the rigs were delivered to us in May 2017, and the third rig was delivered in September 2017. In line with our ''fit-for-purpose'' strategy, these rigs have proven designs, reputable operating histories and are located in the Middle East, one of our core operating regions. We paid the purchase price for this acquisition with proceeds from the private placement.

As of September 30, 2017, we had 26 contracted rigs, 10 rigs marketable but uncontracted and 3 rigs and 1 swamp barge stacked. One of these stacked rigs was held for sale as of September 30, 2017 and sold in October 2017. We have secured contracts and extensions with an aggregate value of more than $5.1 billion since our inception and, for jack-up rigs, $3.4 billion since 2014, which is more than any other contract drilling company added for jack-up rigs according to Rystad. At our inception, we focused on the Middle East, India and West Africa, and have strategically placed 87.2% of our fleet in those markets. We now have the leading market position in those regions. The Middle East and India have been the most resilient shallow water drilling regions since the commodity price down-cycle that begun in late 2014, and we believe that focusing our operations and scale on these key markets and customers has mitigated and will continue to mitigate our exposure to the curtailment of development activities by other oil and gas companies in the lower commodity price environment. According to Rystad, the Middle East and India are expected to grow at a 7.1% compound annual growth rate from 2017 to 2020. In addition, we experienced an increase in market and tender inquiries from our customers in the first nine months of 2017, particularly in the Middle East and other key markets, and believe that we will have opportunities to redeploy uncontracted rigs in the near term.

Our competitive strengths

We believe that the following strengths differentiate us from many of our competitors and will contribute to our ongoing success:

Largest jack-up rig contractor globally by number of rigs, with a leading market position in our core operating regions in the Middle East, India and West Africa

According to Rystad, we are the largest jack-up rig operator in the world by number of rigs with a leading market position in the Middle East, India and West Africa. We believe that our sole focus on shallow water drilling allows us to optimize our size and scale in our core operating regions. In addition, we believe this focus allows us to concentrate our rigs in growing geographic markets, promoting operational efficiency and contributing to our low cost structure.

Since the commodity price down-cycle that began in late 2014, the Middle East and India have been the most resilient shallow water drilling regions. According to Rystad, while the jack-up rig count in the rest of the world declined by 39.0% from January 2015 to September 2017, Middle Eastern and Indian rig counts have remained comparatively steady, with the Middle East experiencing only a 15.0% decrease and India only a 5.0% decrease.

The Middle East and India are characterized by what we believe to be comparatively low breakeven points for our customers and are dominated by NOCs which tend to take a longer-term approach to project development through commodity price cycles. We believe focusing our operations and scale on these key markets and customers mitigated our exposure to the curtailment of development activities by other oil and gas companies in the lower commodity price environment in recent years. The Middle East and India comprised $723.2 million, or 52.4%, and $100.7 million, or 7.3%, of our contract backlog, respectively, as of September 30, 2017, and comprised $210.6 million, or 49.3%, and $91.7 million, or 21.5%, of our revenues, respectively, for the nine months ended September 30, 2017. According to Rystad, the jack-up rig markets in the Middle East and India are expected to grow at a 7.1% compound annual growth rate from 2017 to 2020.

Industry leading low cost structure, with high national content

We operate with a significantly lower cost structure compared to our peers. This lower cost structure promotes financial resilience through industry cycles and has supported operations cash flow stability in excess of many of our U.S. public company peers since the commodity price decline in 2014. According to Rystad, our daily operating and maintenance expenses per jack-up rig are 36.9% lower than comparable costs of our U.S. public company competitors in the shallow water drilling services market. Since our inception, we have focused on building high national content through hiring and developing nationals from the countries in which we operate, including across our leadership teams, building local supply chain networks across our geographies, standardizing equipment across our fleet and centralizing management of our supply chain and key maintenance activities, all of which are key drivers of our industry leading low cost structure. Our strategically-positioned headquarters in Dubai is in close proximity to our core operating regions and eliminates the need for numerous regional offices. Our focus on building high national content has resulted in national employees and contractors representing 80% of our workforce as of September 30, 2017 across all of our operating regions. In certain key markets, the percentage of our national workforce exceeds this average, with Egypt employing near 100% and India and Nigeria employing 99% and 98% respectively, of local employees and contractors as of September 30, 2017. Our high national content further strengthens customer and governmental relationships, particularly with NOCs, and produces relatively lower employee turnover as well as a lower cost base.

High-quality, well-maintained fleet

Our fleet is comprised of well-maintained jack-up rigs with proven technologies and operating capabilities. Since our inception, we have implemented a strategic fleet upgrade and renewal program. We have completed the reactivation and upgrade of five jack-up rigs and invested $567.2 million across 28 major projects related to our original fleet, including the upgrade of 9 rigs. In addition, we have constructed two newbuild rigs and, in 2017, we acquired three premium jack-up rigs. We believed that these rigs would be highly competitive in obtaining contracts and, since these acquisitions, we have secured contracts for all three rigs, making a positive impact on future cash flow and backlog. We have continuously evaluated and enhanced our fleet with ''smart upgrades'' where appropriate to meet specifications for the markets in which we intend them to operate, in accordance with our ''fit-for-purpose'' strategy. For example, we have standardized equipment across a significant number of our rigs, which facilitates our delivery of consistent and predictable performance in the environments in which we operate. According to Rystad, our average marketed utilization rate since 2015 is 8.0% above the shallow water drilling industry average over the same period. We believe this validates the suitability of our fleet and the operating performance that our rigs and crews have delivered.

Well-established customer relationships with large national and international oil and gas companies

We believe we have well-established relationships with our customers, which are primarily NOCs and IOCs, including Saudi Aramco, ONGC, ADNOC, Chevron, TOTAL and DPE. We believe that our customers prefer to work with drilling contractors who are well-established and have a strong track record of safety and operating uptime, and since our inception, our track record of safety and operating uptime has consistently exceeded industry averages with our operating uptime being at least 98.5% per year. We work with our customers to improve drilling efficiencies, which frequently results in rig operations being completed ahead of plan and ultimately lowering the cost per well for our customer. We are responsive and flexible in addressing our customers' specific needs and seek collaborative solutions to achieve customer objectives. We believe that our strong operational performance and close alignment with our customers' interests provide us a competitive advantage and contributes to our contracting success and high fleet utilization. We have secured contracts and extensions with an aggregate value of more than $5.1 billion since our inception and, for jack-up rigs, $3.4 billion since 2014, which is more than any other contract drilling company added for jack-up rigs according to Rystad.

Experienced management team with successful track record of executing operational strategy

The members of our executive management team are knowledgeable operating and financial executives with extensive experience in the global oil and gas industry. Our five executive officers have over 120 years of collective industry and financial experience and have held leadership positions at highly regarded shallow water offshore drilling and oilfield services companies, including Schlumberger Ltd., Transocean Ltd., Noble Corporation plc and Wellstream Holdings plc. All five members of our executive management team have been involved with us since our inception and have been responsible for the design and implementation of our ''fit-for-purpose'' strategy.

Our business strategies

Our strategy is focused on delivering returns on invested capital achieved through serving our customers' needs in attractive markets and driving cost efficiencies through our ''fit-for-purpose'' strategy. We expect to continue to achieve our objectives through the following strategies:

Capitalize on a potential increase in shallow water drilling activity in our core operating regions

Given our strong market positions, industry leading low cost structure and long-standing customer relationships in our core operating regions, we believe that we are well-positioned to benefit from a potential increase in shallow water drilling activity. In the first nine months of 2017, we experienced an increase in market and tender inquiries from our customers, particularly in the Middle East and other key markets, and believe that we will have opportunities to redeploy uncontracted rigs in the near term. According to Rystad, jack-up rig market demand in our core operating regions of the Middle East, India, West Africa and Southeast Asia will grow at a 6.5% compound annual growth rate from 2017 to 2020, representing an increase in jack-up rig demand from 174 to 212 rigs. The Middle East is expected to be the main regional driver of jack-up rig demand increase in our core operating regions, with demand increasing 22.4% from 107 to 131 jack-up rigs over the same time period. The growth in jack-up rig demand in our core operating regions is primarily driven by infill drilling and workover activities, which tend to provide upstream operators with lower-risk, short-cycle returns relative to exploration and development drilling, as well as an increase in plugging and abandonment activities for mature fields.

Apply "fit-for-purpose" strategy to maximize profitability

We plan to continue to apply our "fit-for-purpose" strategy to maximize profitability, including strategically deploying rigs well-suited for specific markets, leveraging our lean and effective organization, systems and processes streamlined to the specific needs of our business and fleet, and reinforcing strong long-term customer relationships through outstanding service and high national content. We expect this strategy will allow us to continue to leverage our strong operational track record and leading market position to maintain our comparatively high utilization rates and low cost structure. We believe this strategy has been critical in enabling us to consistently maintain our Adjusted EBITDA margin near 40% for the years ended December 31, 2013 to 2016, and the nine months ended September 30, 2017.

As of September 30, 2017, we had 10 marketable but uncontracted rigs and 5 rigs that are completing their contracts in 2017. Our marketable but uncontracted rigs can be reactivated quickly at relatively low cost and deployed rapidly to take advantage of opportunities in our core operating regions.

Selectively pursue acquisitions that suit our operational model and we believe are likely to increase cash flow

We are focused on the disciplined investment in and growth of our active drilling fleet to maximize our profitability. We believe the most attractive returns on invested capital are in opportunistic acquisitions of jack-up rigs that are complementary to our fleet and such rigs are currently available at historically low acquisition prices due to the current industry downturn. Additionally, we believe that, by selecting rigs that have existing contracts or that we believe in the near and long term have a competitive advantage in securing contracts, acquisitions have the potential to increase cash flow. For example, we acquired three premium jack-up rigs in 2017 at a price of at least 50.0% below the cost of construction for comparable newbuild rigs and subsequently secured contracts for all three rigs. We believe we are well-positioned to successfully deploy acquired jack-up rigs to our fleet due to our strong market positions, long-standing customer relationships and proven track record of integrating jack-up rigs to our active fleet as demonstrated by the fact that we have secured commitments for all three of our recently acquired jack-up rigs. We expect to further pursue acquisitions that meet the operational requirements of our customers and core markets to the extent they are available on attractive terms.

Continue to deliver safe, efficient and reliable operations

We intend to continue our focus on minimizing safety incidents, while also continually increasing our operational efficiency. This dual focus is intended to enable us to develop and maintain long-term customer relationships and maximize the utilization of our fleet while ensuring the safety of our and our customers' employees and contractors.

As a newly formed company in 2012, we were not burdened with legacy systems, structures or management personnel. As a result, we believe that we were able to build efficient systems and operating procedures from the ground up, with a high degree of centralization and a dedicated focus on shallow water jack-up operations. We believe that this has significantly contributed to the safety, efficiency and reliability of our operations. We had a TRIR of 0.29 for the nine months ended September 30, 2017, 48.2% below the IADC average, and our safety track record has consistently exceeded the industry benchmark since inception. In addition, we have consistently maintained an average fleet uptime of at least 98.5% since our inception in 2012. Through ongoing training, appropriate incentive structures at all levels and management oversight, we intend to continue improving our safety and operational performance as we strive to continue to reduce workplace incidents.

Maintain financial discipline to generate favorable returns on invested capital

We regularly explore opportunities to reduce our total cost of debt, ensure adequate liquidity and improve flexibility to operate our business and pursue growth projects. We focus on financial returns when evaluating our growth initiatives and our expansion strategy. In the period from 2013 to 2015, we were able to achieve attractive returns on the reactivation and upgrades of our existing jack-up rigs. In 2014, we began building two new rigs, which were delivered in September 2016 and April 2017, respectively, and had a $562.0 million contract backlog prior to commencing the construction of these rigs. We believe that our approach has delivered greater returns on invested capital relative to our U.S. public company competitors and facilitated maintaining adequate liquidity. We intend to continue pursuing contracts that offer an attractive combination of duration and dayrates, with an emphasis on duration to drive higher backlog and greater cash flow visibility.

We believe our balance sheet strength positions us well to compete in the current market and gives us a competitive advantage, providing us with financial and operational flexibility. As of September 30, 2017, on an as adjusted basis after giving effect to this offering and the use of proceeds therefrom, we would have $149.2 million of cash on hand, our total indebtedness would have been $911.7 million and we would have had availability of $145.4 million under our revolver. See ‘‘Description of other indebtedness and preferred shares—Our revolver’’ for a description of our revolver.

Our fleet

Our drilling fleet currently consists of 38 ILC jack-up rigs, including our recent acquisition of three premium jack-up rigs, our two newbuild rigs and one swamp barge.

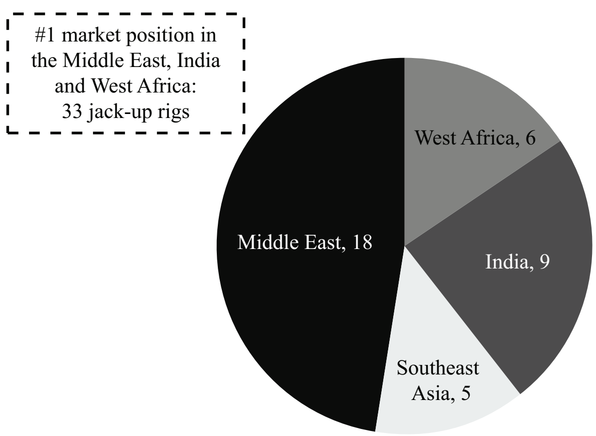
Our jack-up fleet includes ILC jack-up rigs only. The ILC design allows each leg to be independently raised or lowered, and permits the drilling platform to be extended out from the hull to perform operations over certain types of pre-existing platforms or structures. We believe these design features provide greater operational flexibility, safety and efficiency than alternative designs. Our jack-up rigs further feature proven, reliable technology and processes, utilizing mechanical features with generally lower operating costs compared to newer, higher-specification rigs. Within their given water depth capabilities, we believe our jack-up rigs are well-suited for our customers’ typical shallow water offshore drilling operations.

Since our inception, we have successfully reactivated five rigs and invested a total of $567.2 million in 28 major projects related to enhancing our original fleet, including ‘‘smart upgrades’’ to our fleet based on long-term market trends and customer needs. This investment has enabled us to grow our business and increase the life expectancy of our rigs. In addition, we constructed two newbuild rigs and acquired three premium jack-up rigs in 2017.

Our fleet is certified by the International Safety Management Code and the American Bureau of Shipping classification society, enabling universal recognition of our equipment as qualified for international operations.

We manage our business across four core operating regions: the Middle East, India, West Africa and Southeast Asia. We have strategically placed 86.8% of our jack-up fleet in the Middle East, India and West Africa, the regions in which we have the leading market position. The graphic below sets out the number of our jack-up rigs in each of our core operating regions:

Number of Shelf Drilling-operated jack-up rigs by region



Total jack-up rigs: 38

The following table sets forth additional information concerning our rig fleet:

Rig Name	Rig Make	Year Built/ Last Upgraded	Maximum Water Depth (feet)	Maximum Drilling Depth (feet)	Location
		Middle East			
Compact Driller	MLT 116-C	1992/2013	300	25,000	Bahrain
Key Hawaii	Mitsui 300 C	1983/2004	300	25,000	Bahrain
Key Manhattan	MLT 116-C	1980/2010	350	25,000	Italy
Comet	Sonat Cantilever	1980	250	20,000	Egypt
Rig 141	MLT 82-SD-C	1982	250	20,000	Egypt
Rig 124	Modec 200-C45	1980	250	20,000	Egypt
Trident 16	Modec 300-C38	1982/2012	300	25,000	Egypt
Main Pass I	F&G L-780 Mod II	1982/2013	300	25,000	Saudi Arabia
High Island II	MLT 82-SD-C	1979/2011	270	20,000	Saudi Arabia
High Island IV	MLT 82-SD-C	1980/2011	270	20,000	Saudi Arabia
High Island V	MLT 82-SD-C	1981/2013	270	20,000	Saudi Arabia
High Island IX	MLT 82-SD-C	1983/2012	250	20,000	Saudi Arabia
Main Pass IV	F&G L-780 Mod II	1982/2012	300	25,000	Saudi Arabia
High Island VII	MLT 82-SD-C	1982/2016	250	20,000	UAE
Key Singapore	MLT 116-C	1982/2015	350	25,000	UAE
Shelf Drilling Tenacious	Baker Marine Pacific Class 375	2007	375	30,000	UAE
Shelf Drilling Mentor	LeTourneau Super 116E	2010	350	30,000	UAE
		India			
C.E. Thornton	MLT 53-SC	1974/1984	300	21,000	India
F.G. McClintock	MLT 53-SC	1975/2002	300	21,000	India
Galveston Key	MLT 116-SC Mod	1978/2002	300	25,000	India
Harvey H. Ward	F&G L-780 Mod II	1981/2011	300	25,000	India
J.T. Angel	F&G L-780 Mod II	1982	300	25,000	India
Parameswara	Baker Marine BMC 300-IC	1983/2001	300	25,000	India
Ron Tappmeyer	MLT 116-C	1978	300	25,000	India
Trident II	MLT 84-SC Mod	1977/1985	300	21,000	India
Trident XII	Baker Marine BMC 300-IC	1982/1992	300	21,000	India
		West Africa			
Adriatic I	MLT 116-C	1981/2014	350	25,000	Nigeria
Adriatic X	MLT 116-C	1982/2006	350	30,000	Nigeria(1)
Trident XIV	Baker Marine BMC 300-IC	1982/2007	300	25,000	Nigeria
Baltic	MLT Super 300	1983/2015	375	25,000	Nigeria
Trident VIII	Modec 300-C35	1981	300	21,000	Nigeria
Shelf Drilling Resourceful	LeTourneau Super 116C	2008	350	30,000	Nigeria
		Southeast Asia			
Trident 15	Modec 300-C38	1982/2014	300	25,000	Malaysia
Shelf Drilling Chaophraya	LeTourneau Super 116E	2016	350	30,000	Thailand
Shelf Drilling Krathong	LeTourneau Super 116E	2017	350	30,000	Thailand
		United States			
Randolph Yost	MLT 116-C	1979	300	25,000	USA
		Stacked			
Hibiscus	Heavy Swamp Barge	1979/1993	21	20,000	Indonesia
Key Gibraltar(2)	MLT 84-C Mod	1976/2004	300	25,000	Bahrain
Trident IX	Modec 400-C	1982/2009	400	21,000	Malaysia

(1) Rig is temporarily in the Middle East but is assigned to Nigeria.

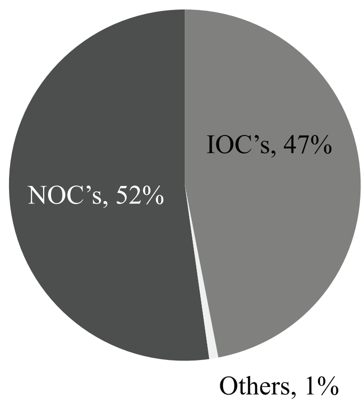
(2) Rig is currently being offered for sale.

Customers and contract backlog

Our customers include NOCs, IOCs and a small number of independent oil and gas companies. For the nine months ended September 30, 2017, our top five customers, which were Saudi Aramco, ONGC, ADNOC, Chevron and TOTAL, collectively accounted for 85.8% of our contract backlog and 83.0% of our revenues. No other customer accounted for more than 5.7% of our drilling revenue for that period.

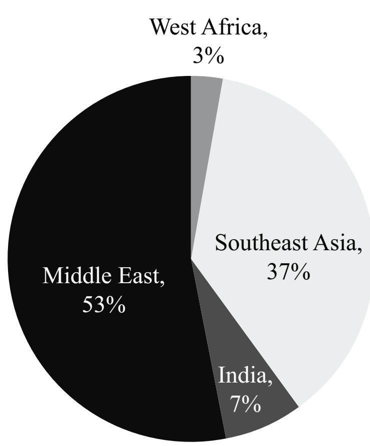
We have secured contracts and extensions with an aggregate value of more than $5.1 billion since our inception and, for jack-up rigs, $3.4 billion since 2014, which is more than any other contract drilling company added for jack-up rigs according to Rystad. As of September 30, 2017, we had a total contract backlog of $1.4 billion and 1.5 years per contracted rig across 26 contracted rigs, 98.6% of which were contracts with NOCs and IOCs. The remaining 1.4% was composed of independent oil companies. The graphic below illustrates the quality and diversity of our customers as measured by contract backlog as of September 30, 2017.

Shelf Drilling customer base



The Middle East and India comprised $723.2 million, or 52.4%, and $100.7 million, or 7.3%, of our contract backlog, respectively, as of September 30, 2017, and comprised $210.6 million, or 49.3%, and $91.7 million, or 21.5%, of our revenues for the nine months ended September 30, 2017, respectively. Our other core operating regions, Southeast Asia (which includes one rig in the United States) and West Africa comprise $507.9 million, or 36.8%, and $47.4 million, or 3.4%, of our contract backlog, respectively, as of September 30, 2017 and comprised $65.3 million, or 15.3%, and $59.3 million, or 13.9%, of our revenues for the nine months ended September 30, 2017, respectively. The graphic below sets out our contract backlog by region (for more information, see "Management's discussion and analysis of financial condition and results of operations—How we evaluate our business—Operational measures"):

Shelf Drilling contract backlog by region



Contract backlog is 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. Contract backlog is a key indicator of our potential future revenue generation.

See ''Management's discussion and analysis of financial condition and results of operations—How we evaluate our business—Operational measures'' and ''Management's discussion and analysis of financial condition and results of operations—Critical accounting policies and estimates—Revenue recognition'' for additional information.

Drilling contracts and other arrangements

Our drilling rigs are contracted to customers either through competitive bidding or direct negotiation. Our drilling contracts and other arrangements provide services that are individually negotiated and vary in their terms and provisions. No single contract accounted for more than 10.0% of our revenue for the nine months ended September 30, 2017.

We typically provide our drilling and related services on a dayrate contract basis, meaning that we provide a drilling rig and rig crew at a fixed amount per day. Dayrate contracts may provide for a lower dayrate or no dayrate for mobilizing the rig to the well location and a reduced dayrate, or no compensation, when drilling operations are interrupted or restricted by equipment breakdowns, adverse weather conditions or other conditions beyond the contractor's control. The customer bears substantially all of the ancillary costs of constructing the well and supporting drilling operations, as well as the economic risk relative to the success of the well. In addition to dayrates, we may receive upfront lump-sum fees for the mobilization of equipment, contract preparation and capital upgrades prior to the commencement of drilling services.

Our drilling contracts generally either cover the drilling of one or multiple wells, or have a stated term. Some contracts may be extended by exercising options for the drilling of additional wells, additional time or by exercising a right of first refusal, at mutually agreed, indexed or fixed rates.

Our drilling contracts may generally be terminated at the customer's sole discretion, often upon payment of a fee, or terminate automatically or at the option of the customer, typically without the payment of a termination fee, under the following circumstances:

- the rig is damaged, destroyed or lost;
- the drilling operations are suspended for an extended period of time as a result of a breakdown of major equipment;
- unsatisfactory performance;
- force majeure events beyond the control of either party that continue for a defined period of time; or
- the occurrence of other specified conditions.

Similar termination provisions apply as a result of non-performance or material breach by us.

In addition, drilling contracts with certain customers may be cancellable without cause, with prior notice and without penalty or early termination payments and rights. Termination fees, if applicable, typically vary from 50.0% to 100.0% of the dayrate multiplied by the number of contract days remaining. During periods of depressed market conditions, our customers may seek to renegotiate firm drilling contracts to reduce the term of their obligations or the average dayrate through term extensions, or may seek to repudiate their contracts. Suspension of drilling contracts will result in the reduction in or loss of dayrate for the period of the suspension. If our customers cancel some of our contracts and we are unable to secure new contracts on a timely basis and on substantially similar terms, or if contracts are suspended for an extended period of time or if a number of our contracts are renegotiated, it could adversely affect our consolidated results of operations or cash flows. See "Risk factors—Risks related to our business and our industry—Our future contracted revenue, or contract backlog, for our fleet of drilling rigs may not be ultimately realized."

Our drilling contracts typically contain, among others, the following commercial terms:

- payment by us for rig operating expenses, including labor and incidental rig supply costs, or capped replacement rig costs when terminated for cause;
- reimbursement of certain labor and operating costs from our customers;
- performance guarantees;
- local hiring requirements; and
- indemnification and insurance provisions.

Consistent with standard industry practice, our customers generally assume, and indemnify us against, well control and subsurface risks under dayrate drilling contracts. However, our drilling contracts are individually negotiated, and the degree of indemnification we receive against the liabilities discussed above can vary from contract to contract, based on market conditions and customer requirements existing when the contract was negotiated. In some instances, we have contractually agreed upon certain limits to our indemnification rights and can be responsible for damages up to a specified maximum U.S. Dollar amount. The nature of our liability and the prevailing market conditions, among other factors, can influence such contractual terms. In most instances in which we are indemnified for damages to the well, we have the responsibility to re-drill the well at a reduced dayrate. Notwithstanding a contractual indemnity from a customer, our customers may not be financially able to indemnify us or otherwise honor their contractual indemnity obligations to us. See "Risk factors—Risks related to our business and our industry—Our business involves numerous operating hazards and our insurance and contractual indemnity rights may not be adequate to cover any losses resulting from accidents or other events."

The interpretation and enforceability of a contractual indemnity depends upon the specific facts and circumstances involved, as governed by applicable laws, and may ultimately need to be decided by a court or other proceeding, which will need to consider the specific contract language, the facts and applicable laws. The law generally considers contractual indemnity for criminal fines and penalties to be against public policy. The inability or other failure of our customers to fulfill their indemnification obligations or the unenforceability of our contractual protections could have a material adverse effect on our consolidated statement of financial condition, results of operations or cash flows.

In addition, certain jurisdictions in which we operate, local customs and practice or governmental requirements necessitate the formation of joint ventures with local participation. We may or may not control these joint ventures, but we are an active participant in each of these joint ventures. In certain jurisdictions, such customs and laws also effectively mandate establishment of a relationship with a local agent or sponsor. When appropriate, we enter into agency or sponsorship agreements, in such jurisdictions.

We are currently party to four joint ventures, two of which are in Nigeria, one in Indonesia and the other in Malaysia. A company affiliated with our joint venture partner in Malaysia and a company affiliated with our joint venture partner in Nigeria are also performing marketing services for us. In addition, we have retained marketing agents in India, Egypt, Kuwait and the UAE. For more information regarding joint ventures, see Note 3—"Consolidated variable interest entities" to our unaudited condensed consolidated interim financial statements for the nine months ended September 30, 2017.

Suppliers

We maintain long-term relationships with our core suppliers and service providers through our collaborative approach. We believe that our depth of relationships with our key suppliers and service providers is critical as it allows us to benefit from economies of scale in the procurement of goods and services and sub-contracting work, as well as to operate a fit for purpose organization. Relationships with suppliers and sub-contractors also provide us with market intelligence on technologies which are sought after by our customers as well as the opportunity to develop new fit for purpose technologies.

To date, we have been able to obtain the services, equipment, materials and supplies necessary to support our operations on a timely basis. We believe that we will be able to make satisfactory alternative arrangements in the event of any interruption in the supply of these services, equipment and/or materials by any of our suppliers, as we have established alternative vendors for all critical products for our business. In addition, in several of the countries in which we operate, we assisted suppliers in developing manufacturing capability and obtaining original equipment manufacturer certification.

Competition

The shallow water offshore contract drilling industry is highly competitive. We compete on a worldwide basis and competition varies by region at any particular time. Our competition ranges from large international companies offering a wide range of drilling and other oilfield services to smaller, locally owned companies. Some of our competitors' fleets comprise a combination of offshore, onshore, shallow, midwater and deepwater rigs. We seek to differentiate our company from most of our competitors, which have mixed fleets, by exclusively focusing on shallow water drilling which we believe allows us to optimize our size and scale and achieve operational efficiency.

Drilling contracts are traditionally awarded on a competitive bid basis. We believe that the principal competitive factors in the markets we serve are pricing, technical capability of service and equipment, condition and age of equipment, rig availability, rig location, safety record, crew quality, operating integrity, reputation, industry standing and customer relations. We believe that pricing is often the primary factor in determining which qualified contractor is awarded a drilling contract, and because, according to Rystad, we operate at a significantly lower cost compared to our peers, this allows us to competitively bid for drilling contracts.

Employees

As of September 30, 2017, we had 1,862 employees with 1,560 working offshore and 302 working onshore. In addition, we engaged 775 qualified contractors, of which 721 work offshore and 54 onshore. These employees and contractors have extensive technical, operational and management experience in the jack-up segment of the shallow water offshore drilling industry.

Approximately 87% of our employees and contractors comprise shallow water offshore rig crew members who carry out day-to-day drilling operations. Our shallow water offshore crews include supervisors as well as trained and competent technical specialists in the areas of drilling operations, safety, maintenance and marine support. The remaining 13% are shore-based, with the largest concentration employed at our headquarters in Dubai. The other shore-based employees and contractors work in the offices and yards that support our activities in the various countries in which we operate. They provide support in operations, commercial and marketing, technical, finance, human resources, procurement, HSE and information technology to our customers and shallow water offshore rigs and crews.

The table below presents our employees and contractors by function as of September 30, 2017:

	Company employees	Contractors	Total
Rig-based	1,560	721	2,281
Shore-based	186	37	223
Corporate	116	17	133
Total	1,862	775	2,637

Employees in some of the countries in which we operate are represented by trade unions and arrangements may be made through collective bargaining agreements.

Our strategy is to employ national employees and contractors wherever possible in the markets in which our rigs operate. This enables us to strengthen customer and governmental relationships, particularly with NOCs, and results in a lower cost base as well as relatively lower employee turnover.

The table below shows the employee mix in certain of our key markets as of September 30, 2017:

	National employees and contractors
Egypt	99.5%
India	98.9%
Nigeria	97.8%
All other operating regions	51.6%

Risk management and insurance

Our operations are subject to hazards inherent in the drilling, completion and maintenance of shallow water offshore oil and natural gas wells. These hazards include, but are not limited to, blowouts, punch through, loss of control of the well, abnormal drilling conditions, mechanical or technological failures, seabed cratering, fires and pollution. These conditions can cause personal injury or loss of life, loss of revenues, pollution, damage to or destruction of property, the environment and equipment, the suspension of our or our customers' operations and could result in claims or investigations by employees, customers, regulatory bodies and others affected by such events.

In addition, claims for loss of oil production and damage to formations can occur in the shallow water offshore drilling industry. If a serious accident were to occur at a location where our equipment and services are being used, it could result in us being named as a defendant in lawsuits asserting large claims and incurring costs and losses associated with such claims.

Despite our efforts to maintain high safety standards, from time to time, we have suffered accidents, and there is a risk that we will experience accidents in the future. In addition to the property and personal losses from these accidents, the frequency and severity of these incidents affect our operating costs and insurability, and our relationship with customers, employees and regulatory agencies. Any significant increase in the frequency or severity of these incidents, or the general level of compensatory payments, could adversely affect the cost of, or our ability to obtain, workers' compensation and other forms of insurance, and could have other material adverse effects on our financial condition and results of operations.

We maintain insurance coverage of types and amounts that we believe to be customary in the industry, including general business liability, hull and machinery, cargo, casualty and third party liability. Our insurance policies may not be adequate to cover all losses and have exclusions of coverage for certain losses, deductibles and limits of liabilities. Further, some pollution and environmental risks are generally not completely insurable. In addition, we may not be able to maintain adequate insurance or obtain insurance coverage for certain risks in the future at rates we consider reasonable and commercially justifiable or on terms as favorable as our current arrangements.

We endeavor to allocate potential liabilities and risks between the parties in our drilling contracts, which provide for varying levels of indemnification for both us and our customers. Typically, we and our customers assume liability for our respective personnel and property; however, under certain drilling contracts, we may retain risk for damage to customer property and other third-party property on our rigs. Our customers typically assume responsibility for, and indemnify us from, any loss or liability resulting from pollution or contamination, including clean-up and wreck removal and third-party damages, arising from operations under the contract and originating below the surface of the water, including as a result of blow-outs or cratering of the well. However, we may retain certain liabilities, including for third-party damages resulting from pollution or contamination, subject to negotiated limits. We generally indemnify customers for pollution that originate from our rigs and above the surface of the water. In most instances in which we are indemnified for damages to the well, we would have responsibility to re-drill the well at a reduced dayrate.

The above description of our insurance program and indemnification provisions in our drilling contracts is a summary of the material terms of the typical insurance and indemnification that we have in place and does not reflect every insurance and/or indemnification contract that we have entered into or may enter into in the future, some of which may contain indemnity structures and risk allocations that are different than those described here.

Our drilling contracts are individually negotiated, and the degrees of indemnification and/or risk retention discussed above vary from contract to contract, based on negotiation and other factors. Local jurisdiction regulations may require us to post surety bonds, letters of credit and parent company guarantees for contract performance.

In addition, the indemnification provisions of our drilling contracts may be subject to differing interpretations, and enforcement of those provisions may be limited by public policy and other considerations.

Health, safety and environmental regulations

Our operations are subject to numerous stringent and complex HSE laws and regulations in the form of international conventions and treaties, national, state and local laws and various multi-jurisdictional regulations in force where our rigs operate or are registered. We are also required to obtain HSE permits from governmental authorities for our operations. To date, we have not incurred material costs to comply with environmental regulations. A failure to comply with applicable laws and regulations may result in administrative and civil penalties, criminal sanctions, the suspension or termination of our operations or other liabilities.

The following is a summary of certain applicable international conventions and other laws, which serve as examples of the various laws and regulations to which we are subject.

Greenhouse gas regulation

There is increasing attention worldwide concerning the issue of climate change and the effect of greenhouse gas emissions. In 2005, the Kyoto Protocol to the 1992 United Nations Framework Convention on Climate Change, which establishes a binding set of emission targets for greenhouse gases, became binding on all countries that had ratified it. In 2015, the United Nations Climate Change Conference in Paris resulted in the creation of the Paris Agreement. The Paris Agreement, entered into force on November 4, 2016, requires countries to review and ''represent a progression'' in their nationally determined contributions, which set emissions reduction goals, every five years beginning in 2020. While it is not possible at this time to predict how the Paris Agreement and other new treaties and legislation that may be enacted to address greenhouse gas emissions would impact our business, the modification of existing laws or regulations or the adoption of new laws or regulations curtailing exploratory or developmental drilling for oil and gas could materially and adversely affect our operations by limiting drilling opportunities or imposing materially increased costs. Moreover, incentives to conserve energy or use alternative energy sources could have a negative impact on our business if such incentives reduce the worldwide demand for oil and gas.

International Maritime Organization regulatory regime

The international conventions, laws and regulations of the IMO govern shipping and international maritime trade. IMO regulations have been widely adopted by U.N. member countries, and in some jurisdictions in which we operate, these regulations have been expanded upon. International conventions, laws and regulations applicable to our operations include MARPOL, CLC and BUNKER, which impose compliance obligations and liability related to the use, storage, treatment, disposal and release of petroleum products and hazardous substances. These laws govern the discharge of materials into the environment or otherwise relate to environmental protection, and in certain circumstances, may impose strict liability, rendering us liable for environmental and natural resource damages without regard to negligence or fault on our part. MARPOL regulates harmful air emissions from ships and is also applicable to shallow water offshore drilling rigs. Recent amendments to MARPOL require a progressive reduction of sulfur oxide levels in heavy bunker fuels and create more stringent nitrogen oxide emissions standards for marine engines in the future. Our drilling rigs are also subject to BUNKER, which holds us strictly liable for pollution damage caused by discharges of bunker fuel in jurisdictional waters of ratifying states. The IMO's Ballast Water Management Convention (the ''BWM Convention'') has also imposed obligations on our operations.

The BWM Convention's implementing regulations call for a phased introduction of mandatory ballast water exchange requirements (beginning in 2009), to be replaced in time with a requirement for mandatory ballast water treatment. The BWM Convention entered into force on September 8, 2017. Upon the BWM Convention's entry into force, all vessels in international traffic were required to comply with the ballast water exchange standard. Vessels are required to meet the more stringent ballast water performance standard no later than the first intermediate or renewal survey following the BWM Convention's entry into force. The IMO continues to review and introduce new regulations. It is impossible to predict what additional regulations, if any, may be passed by the IMO and what effect, if any, such regulation may have on our operations. We believe that all of our rigs are compliant in all material respects with all HSE regulations to which they are subject.

National and regional health, safety and environmental regulation

Certain aspects of our operations also are governed by the laws and regulations of the countries in whose jurisdiction our rigs operate. These laws and regulations may establish additional HSE obligations for our operations and impose liability for noncompliance and other events resulting in harm to the environment or human health, such as oil spills and other accidents.

For a discussion of the possible effects of environmental regulation on our business, see ‘‘Risk Factors—Risks related to our business—We are subject to complex laws and regulations, including environmental laws and regulations that can adversely affect the cost, manner or feasibility of doing business,’’ ‘‘Risk factors—Risks related to our business—Regulation of greenhouse gases and climate change could have a negative impact on our business’’ and ‘‘Risk factors—Risks related to our business—Our business involves numerous operating hazards and our insurance and contractual indemnity rights may not be adequate to cover any losses resulting from accidents and other events.’’

Other regulations

Our operations are further subject to various other international conventions, laws and regulations in various countries, including those relating to the importation and operation of drilling rigs and equipment, currency conversions and repatriation, oil and natural gas exploration and development, taxation of offshore earnings and earnings of expatriate personnel, the use of local employees and suppliers by foreign contractors and duties on the importation and exportation of drilling rigs and other equipment.

Maintenance and certifications

Each of our rigs is subject to the maintenance and inspection regime governed by the IMO’s Code for the Construction and Equipment of Mobile Offshore Drilling Units. Our rigs are subject to periodic testing with a major inspection every five years under the International Association of Classification Societies Special Periodic Survey (‘‘SPS’’) requirements. This inspection typically takes six to twelve weeks and is scheduled between customer contracts to minimize downtime. Our fleet is also subject to underwater inspections in lieu of drydocking, intermediate surveys and annual inspections between each SPS. While the marine equipment of our entire fleet is certified according to international safety standards under the International Safety Management Code and is certified by the American Bureau of Shipping classification society, enabling universal recognition of our equipment as being qualified for international operations, our equipment maintenance standards are governed by the guidelines, recommendations and standards provided by the American Petroleum Institute.

Properties

We maintain and lease our headquarters in Dubai, United Arab Emirates, and own an office in Lagos, Nigeria. Our fleet consists of 38 jack-up rigs and one swamp barge.

Legal proceedings

From time to time, we have various claims, lawsuits and administrative proceedings that are pending or threatened with respect to personal injury, workers’ compensation, contractual matters and other commercial matters. The outcome of these matters and the effect such outcomes may have on us are uncertain, we believe any ultimate liability resulting from the outcome of such claims, lawsuits or administrative proceedings, to the extent not otherwise provided for or covered by insurance or indemnities, will not have a material adverse effect on our business, operating results or financial condition.

MANAGEMENT

Set forth below are the names, ages and positions of our directors and executive officers as of January 29, 2018. The business address of each director and executive officer is: Dubai, United Arab Emirates at One JLT, Floor 12, Jumeirah Lakes Towers, P.O. Box 212201.

Name	Age	Position
David Mullen	60	Director and Chief Executive Officer
Graham Brooke	47	Director
John Castle	77	Director
Ernie Danner	63	Director
J. William Franklin, Jr.	46	Director
David Pittaway	66	Director
John Reynolds	47	Director
Benjamin Sebel	47	Director
Tyson Smith	30	Director
Usama Trabulsi	72	Director
David Williams	64	Director
William Hoffman	57	Executive Vice President and Chief Operating Officer
Gregory O'Brien	31	Executive Vice President and Chief Financial Officer
Ian Clark	58	Executive Vice President
Dzul Bakar	51	Vice President, General Counsel and Secretary

Directors

David Mullen, Director and Chief Executive Officer

Mr. Mullen has over 30 years' experience in the oil services business and has been our Chief Executive Officer since October 2012. From September 2010 to April 2011, Mr. Mullen was CEO of Wellstream Holdings PLC, a U.K. listed company that designed and manufactured subsea pipeline products and included as part of the product offering, subsea services and installation. From April 2008 to August 2010, Mr. Mullen served as Chief Executive Officer of Ocean Rig ASA, a Norwegian listed ultra-deep water drilling contractor. Prior to Ocean Rig ASA, Mr. Mullen also spent four years as a senior leader of Transocean Ltd. As Senior Vice President of Global Marketing, Business Development and M&A at Transocean Ltd., Mr. Mullen spearheaded marketing and strategic planning. Mr. Mullen had a 23-year career at Schlumberger Ltd., including as President of Oilfield Services for North and South America. Mr. Mullen received a B.A. in Geology & Physics from Trinity College Dublin and an M.Sc. degree in Geophysics from University College Galway.

Graham Brooke, Director

Mr. Brooke joined our board of directors in April 2017 and is a Managing Director of CHAMP Private Equity, which he joined in 2015. He is responsible for all aspects of the investment process from deal origination and the assessment of potential investee companies, to deal execution, monitoring and exit management at CHAMP Private Equity. Mr. Brooke has 17 years of experience in private equity, previously working in the London and Sydney offices of CVC Capital Partners. Prior to joining CVC in 1999, he qualified as a Chartered Accountant in the corporate finance and advisory practice of Arthur Andersen in the U.K. He graduated in 1993 with a degree in Classics from Oxford University (MA Hons Oxon).

John K. Castle, Director

Mr. Castle joined our board of directors in November 2012. Since 1987, Mr. Castle has served as Chairman and Chief Executive Officer of Castle Harlan, Inc. Since 2000, he has been a director of Castle Harlan Australian Mezzanine Partners Pty Ltd and a director of CHAMP Group Holdings Pty Ltd, both part of the CHAMP Private Equity Group. Mr. Castle has served as chairman of Castle Connolly Medical Ltd. since 1991, and has served as Chairman and Chief Executive Officer of Branford Castle, Inc., a holding company, since 1986. Prior to forming Castle Harlan, Inc., Mr. Castle was President and Chief Executive of investment banking firm Donaldson, Lufkin & Jenrette, Inc. Mr. Castle is a board member of various private equity companies, and he has previously been a director of numerous private and public companies. He also served as a Director of the Equitable Life Assurance Society of the U.S. Mr. Castle is a Life Member Emeritus of the Corporation of the Massachusetts Institute of Technology. Previously, he had served for 22 years as a Trustee of New York Medical College, including 11 of those years as Chairman of the board. Mr. Castle is a Trustee and Chairman of the Executive Committee of the St. Patrick's Cathedral in New York City and is a member of the Finance Council and various other entities associated with the Archdiocese of New York. Mr. Castle is an Advisory Director of the DuPont Investment Management Co. He is a member of The New York Presbyterian Hospital Board of Trustees and has served on various visiting committees at Harvard University, including the Harvard Business School. Mr. Castle received his Bachelor's degree from the Massachusetts Institute of Technology, his M.B.A. as a Baker Scholar with High Distinction from Harvard University, and has four Honorary Doctorate Degrees of Humane Letters.

Ernie Danner, Director

Mr. Danner joined our board of directors in October 2013 and has served as an Operating Partner of SCF Partners, a private equity firm focused on oil service investments, which he joined in October 2012. Mr. Danner served as President and Chief Executive Officer of Exterran Holdings Inc. from July 2009 to October 2011 and as a member of its board of directors from 1998 to October 2011. He also served as President Chief Executive Officer and a director of Exterran GP LLC the general partner of Exterran Partners L.P. Exterran was a global leader in natural gas compression products and services and a provider of equipment and solutions for processing, production, air emissions and water treatment to the energy sector with over 10,000 employees with operations in 30 countries. Since March 2017, Mr. Danner has served as Chairman of the board of directors of Nine Energy Service, Inc., a NYSE listed company providing completion and production services to oil and gas producers in North America. Mr. Danner has a Masters of Accounting and Bachelor of the Arts degree from Rice University.

J. William Franklin, Jr., Director

Mr. Franklin joined our board of directors in September 2012. He joined Lime Rock Partners in 2003 and was named a Managing Director in 2008. Currently based in Houston, Mr. Franklin has worked in the firm's Houston, Calgary, and Westport, Connecticut locations and has played a leadership role in the firm's investment efforts in the oilfield service and exploration and production sectors in North America and internationally. Before joining Lime Rock Partners, he had experience in private equity, energy company operations, and energy finance at Riverstone Holdings from 2000 to 2003, Simmons & Company International from 1996 to 1998, and Parker & Parsley Petroleum Company from 1995 to 1996. Mr. Franklin currently serves on the board of directors of AccessESP, AIRIS Wellsite Services, HCperf Holdings, OilSERV, and Xtreme Drilling, an onshore drilling contractor. He previously served on a number of the boards of private equity backed oil and gas related companies. He is a graduate of the University of Texas at Austin (B.A., B.B.A.) and Harvard Business School (M.B.A.).

David B. Pittaway, Director

Mr. Pittaway joined our board of directors in July 2015. Mr. Pittaway is a Senior Managing Director of Castle Harlan and has been with the firm since its founding in 1987. Prior to joining Castle Harlan, Mr. Pittaway was Vice President for Strategic Planning and Assistant to the President of Donaldson, Lufkin & Jenrette, Inc. Before joining DLJ, he was a management consultant in strategic planning with Bain & Company in Boston, Mass., and previously was an attorney with Morgan, Lewis & Bockius, specializing in labor relations. He is a board member of Gold Star Foods and Caribbean Restaurants, LLC and has also served on the boards of multiple other Castle Harlan portfolio companies, including American Achievement Corporation, Statia Terminals Group N.V., Morton's Restaurant Group and United Malt Holdings Inc. He also serves as Vice Chairman of Branford Castle, Inc. and Branford Chain, Inc. He is also currently a board member of The Cheesecake Factory Inc. and Bravo Brio Restaurant Group. Mr. Pittaway's community interests include being a director of the Dystrophic Epidermolysis Bullosa Research of America. In addition, he served for twenty years in the United States Army Reserve and, upon retiring as a Major, he co-founded and acts as a director of the Armed Forces Reserve Family Assistance Fund, which provides needed support for families of American service members whose breadwinners are serving their country in overseas conflicts. He is a graduate of the University of Kansas (B.A. with Highest Distinction), and has both an M.B.A. with High Distinction (Baker Scholar) and a Juris Doctor degree from Harvard University.

John Reynolds, Director

Mr. Reynolds joined our board of directors in September 2012 and is co-founder and a Managing Director of Lime Rock Partners. He joined Goldman Sachs in 1992 and spent six years in the Investment Research Department where he had senior analyst responsibility for global oil service sector research and was one of the top-rated analysts in the sector. He co-founded Lime Rock Partners in 1998. Based in Westport, Connecticut, Mr. Reynolds leads the Lime Rock Partners team's efforts in the global oilfield service sector. He currently serves on the board of directors of Archer, EnerMech and Revelation Energy. He previously served on the board of directors of Eastern Drilling, Hercules Offshore, IPEC, Noble Rochford Drilling, Patriot Drilling, Roxar, Sensa, Tercel Oilfield Products, Tesco Corporation, Torch Offshore, and VEDCO Holdings. Mr. Reynolds is a graduate of Bucknell University (B.A.) and serves as a member of its Board of Trustees.

Benjamin Sebel, Director

Mr. Sebel joined our board of directors in November 2012. He is a Senior Advisor to Branford Castle Partners and was most recently a Managing Director at CHAMP Private Equity, having been with the firm from 2005 until 2014. Immediately prior, Mr. Sebel was a Managing Director at Castle Harlan for seven years, and is experienced in all aspects of private equity investment including deal origination, realizations and fundraising in both the United States and Australia. Immediately prior to joining Castle Harlan, Mr. Sebel worked at Goldman Sachs & Co. in its Capital Markets Group. Previously, Mr. Sebel spent two years as Special Advisor to the Hon. Nick Greiner AC, a former premier of New South Wales, and commenced his career in the Management Consulting Services Group of PricewaterhouseCoopers (Australia), where he also qualified as a Chartered Accountant. Mr. Sebel is currently Chairman of Rocking Horse Finance Group and Chairman of Gerard Lighting Group. Mr. Sebel was formerly on the board of Riverina Fresh Pty. Ltd., ATF Services, Centric Wealth Limited, Healthcare Australia Holdings Pty Limited, Study Group Pty Limited, United Malt Holdings, Ion Track, Inc., Associated Packaging Technologies, Inc., Equipment Support Services, Inc. and AdobeAir, Inc. Mr. Sebel holds a Bachelor of Commerce (First Class Honours) from the University of New South Wales, an M.B.A. from the Harvard Business School, and is a graduate of the Australian Institute of Company Directors.

Tyson Smith, Director

Mr. Smith joined our board of directors in April 2017 and is an Associate Director of CHAMP Private Equity, which he joined in 2014. He is responsible for the assessment of potential investment opportunities, transaction execution and the ongoing monitoring and management of investee companies. Mr. Smith currently serves as an Alternate Director of Dutton Group. Prior to joining CHAMP Private Equity, Mr. Smith was an investment banking professional at Morgan Stanley, where he was involved in M&A and capital markets transactions across a broad range of industries. He holds a Bachelor of Commerce (Finance) and Bachelor of Laws (with Honours), both from the University of Sydney.

Usama Trabulsi, Director

Mr. Trabulsi joined our board of directors in August 2017 and is a Managing Member of Integrated Renewable Energy Systems Ltd., a Saudi Arabia registered privately held limited liability company. Previously, he was the Chief Financial Controller (Deputy Minister Portfolio) of the Ministry of Petroleum and Mineral Resources, Riyadh, Saudi Arabia for over 14 years and the representative of the Minister of Petroleum and Mineral Resources to the Executive Committee, Auditing Committee and Compensation Committee of Saudi Aramco for over 13 years. Mr. Trabulsi has served on the board of directors of Arabian Oil Company from 1996 to 2003 and Arabian Oil Holdings, Inc. Japan from 2003 to 2007, in each case as the representative of the Saudi Government. In addition, Mr. Trabulsi served as the Chairman of the board of directors of ''PEMREF'' Petromin-Mobil Oil Refinery Company Ltd., a joint venture company between Petromin (the State owned National Oil Company) and Mobil Oil Company from 1990 to 1993. Meanwhile, Mr. Trabulsi served as Executive Vice President for Operation and Marketing of SUMED Oil Pipelines Co., a joint venture company between Egypt, Saudi Arabia, Kuwait, UAE and Qatar. He received his B.A. in Economics and Political Science from King Saud University, Saudi Arabia in 1965 and received his M.B.A. from Michigan State University in 1970.

David Williams, Director

Mr. Williams joined our board of directors in August 2017. He has served as the Executive Chairman of Shepherd Group Ltd of York since 2014, the Chairman of Ramco Ltd since 2013 and the Chairman of Tharsus

Ltd of Newcastle upon Tyne since 2012. Previously, Mr. Williams was the Chairman of Frog Capital (previously known as Foursome Investments) for 13 years and the Interim Chief Executive Officer of Logstor Holdings A/S of Logstor, Denmark for two years. Prior to this, Mr. Williams was the Chairman, then Chief Executive, of Serimax Holdings SAS of Paris from June 2004 to June 2006 and June 2006 to October 2011, respectively. He also held several positions at 3i plc from 1985 to 2003, including regional managing director. Mr. Williams received a BSc (Hons) in Naval Architecture and Shipbuilding from the University of Newcastle upon Tyne in 1975, has a Certified Diploma in Accountancy and Finance and received an MSc from London Business School in 1985.

Executive officers

David Mullen, Director and Chief Executive Officer

Mr. Mullen has been our Chief Executive Officer since October 2012. See "—Directors."

William Hoffman, Executive Vice President and Chief Operating Officer

Mr. Hoffman has worked on rigs around the world and has over 30 years' experience in the global oil and gas contract drilling industry. He joined Shelf Drilling in October 2012. From August 2009 to April 2011, Mr. Hoffman was Senior Vice President and Chief Operating Officer of Seahawk Drilling, a Houston and Gulf of Mexico-based jack-up drilling provider where he was responsible for the company's daily operations and strategic business plan implementation. From 1991 through August 2009, Mr. Hoffman spent 18 years with Noble Corporation where he held senior operational and executive roles, including Vice President of Worldwide Marketing, Vice President of Western Hemisphere Operations and President of Noble's engineering services divisions, Triton Engineering Services. Mr. Hoffman received a B.S. degree from Southwest Texas State University.

Gregory O'Brien, Executive Vice President and Chief Financial Officer

Mr. O'Brien was appointed Executive Vice President and Chief Financial Officer in March 2016. Prior to his current role, Mr. O'Brien served as Director, Strategic Planning since 2014, in charge of Shelf Drilling's corporate development efforts. Mr. O'Brien joined Shelf Drilling from Lime Rock Partners, where he focused on oilfield services and exploration & production investment opportunities internationally. Before that, Mr. O'Brien held energy investment banking roles with J.P. Morgan and SunTrust Robinson Humphrey. Mr. O'Brien graduated from the McIntire School of Commerce at the University of Virginia in 2008.

Ian Clark, Executive Vice President

Mr. Clark has over 30 years' experience in the oil services business. Prior to joining Shelf Drilling in November 2012, Mr. Clark spent 12 years with Transocean Ltd. where he most recently served as Vice President of Human Resources and as part of its senior management team. Previous roles included Division Manager for Transocean Ltd.'s operations in Northeast Asia and also Managing Director for Nigeria. Before joining Transocean Ltd., Mr. Clark had a 20-year career with Schlumberger in various managerial, technical and marketing roles across Europe and Africa. Mr. Clark has a B.S. degree in Electrical and Electronic Engineering from Heriot Watt University in Edinburgh, Scotland and completed both the Advanced Management Program at Harvard Business School and the Financial Times Non-Executive Director Diploma.

Dzul Bakar, Vice President, General Counsel and Secretary

Mr. Bakar is Vice President, General Counsel and Secretary at Shelf Drilling since November 2012. Previously, Mr. Bakar served in a similar role as Associate General Counsel at Transocean Ltd. from April 2001 where he assumed various legal, governance, compliance and operational counsel responsibilities. Mr. Bakar has a strong background in international operations with over 22 years' experience covering the United States, Middle East and Asia. Prior to joining Transocean Ltd., Mr. Bakar had a six-year career with Schlumberger in a variety of legal roles of increasing responsibilities with postings in Singapore, Jakarta and Houston. At the beginning of his career, Mr. Bakar practiced professionally as an advocate and solicitor at a leading Malaysian law firm. Mr. Bakar graduated with combined degrees of Bachelor of Economics and Bachelor of Laws from the University of Tasmania and in 2011, completed an executive Management Acceleration Program at INSEAD Business School.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Preferred shares

On January 12, 2017, Shelf Drilling, Ltd. issued $166.67 million in preferred shares to certain of the sponsors in exchange for partial settlement of the term loan as part of our refinancing. The preferred shares rank senior in all respects to our common shares. Except for certain limited cases, holders of preferred shares have no right to receive notice of, nor any right to attend or to vote at, any general meeting of Shelf Drilling, Ltd. or to otherwise approve or consent to any matter. The preferred shares are classified as mezzanine equity in the balance sheet.

Agreement with the sponsors

We incurred costs of $4.0 million during the nine months ended September 30, 2017 and $5.2 million and $5.1 million during 2016 and 2015, respectively, related to the sponsors, which included fixed annual fees as a privately held company for providing business, organizational, strategic, financial and other advisory services. See Note 19—''Related parties'' to our unaudited condensed consolidated interim financial statements for the nine months ended September 30, 2017.

In addition, we have various agreements with the sponsors, including a sponsor shareholders agreement, that provide certain rights to the sponsors.

DESCRIPTION OF OTHER INDEBTEDNESS AND PREFERRED SHARES

Indebtedness

As of September 30, 2017, we had a total indebtedness of $850.6 million. This amount included: $496.0 million of 9.500% Notes, $30.1 million of 8.625% Notes, $1.7 million under our unsecured overdraft facility and $322.8 million in obligations under our sale and leaseback transactions. Our revolver and the SDA Facility remain undrawn.

We completed the refinancing of Shelf Drilling Midco, Ltd.'s indebtedness and all but $30.4 million of the Issuer's 8.625% Notes on January 12, 2017. Following the refinancing, we had total indebtedness, net of issuance costs, of $769.3 million comprising (i) $494.7 million of 9.500% Notes, (ii) $29.9 million of 8.625% Notes and (iii) $244.7 million of obligations under our sale and leaseback transactions. As a result of the refinancing, our long-term debt maturing before the end of 2018 was then reduced to $29.9 million.

Certain of such indebtedness, including our revolver, impose significant operating and/or financial restrictions on us. See ''Risk factors—Risks related to our business and our industry—Our existing indebtedness imposes significant operating and/or financial restrictions on us that may prevent us from pursuing business opportunities and restrict our ability to operate our business'' for additional information.

See Note 7—''Debt'' to our unaudited condensed consolidated interim financial statements for the nine months ended September 30, 2017 for additional information.

Credit Facility

On December 21, 2017, SDAIII, a wholly owned unrestricted subsidiary of the Company, entered into a $75 million senior secured credit facility (the ''SDA Facility''). The SDA Facility includes a $50 million uncommitted guarantee line, which can be used for issuing bank guarantees, and a $25 million term loan facility, which can be used to fund the upgrade and capital expenditure costs for the recently acquired premium jackup drilling rigs Shelf Drilling Mentor (''SDM'') and Shelf Drilling Tenacious (''SDT''). The SDA Facility matures on March 31, 2020.

The term loan facility is available for draws on or prior to March 31, 2018, and any amounts drawn as of March 31, 2018, are due for repayment in four equal semi-annual instalments beginning on or around September 28, 2018. Cash borrowings under the term loan facility bear interest at LIBOR plus 5% per annum and a 1.75% per annum commitment fee payable quarterly on the unused amount of such term loan facility. The guarantee facility fee accrues on issued bank guarantees at 2.75% per annum (or 1.375% per annum if the bank guarantee is cash collateralized). Interest and relevant fees are payable quarterly in arrears. As of December 31, 2017, there was no utilization under this facility. As of December 31, 2017, there were $0 in outstanding bank guarantees under the uncommitted guarantee line.

Additionally, the SDA Facility requires a total net leverage ratio (consolidated net debt to consolidated EBITDA, as defined in the SDA Facility) not to exceed 4:1, as tested semi-annually. In addition, the fair market value of SDM and SDT shall be tested annually, and such valuation must exceed 140% of the total outstanding amount under the SDA Facility. The Company is in compliance with both of these financial covenants as of December 31, 2017.

The SDA Facility is guaranteed by Shelf Drilling Intermediate, Ltd., and the SDA Facility's uncommitted guarantee line is guaranteed by Shelf Drilling Services Limited, a wholly-owned subsidiary of the Issuer that will guarantee the notes. The Issuer has pledged the equity of SDAIII to secure the obligations under the SDA Facility.

The Company incurred total debt issuance costs of $1.3 million, and these costs are deferred and amortized over the life of the SDA Facility. As of December 31, 2017, the unamortized debt issuance costs of $1.3 million was reported as long-term assets on the consolidated balance sheet.

Unsecured overdraft facility

On April 26, 2017, Shelf Drilling (Egypt) Limited, one of our wholly owned restricted subsidiaries, entered into a 90.0 million Egyptian Pound-denominated unsecured and uncommitted line of credit facility. The facility is available in Egyptian Pounds to finance the subsidiary's 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.

Our revolver

On February 24, 2014, the Issuer entered into a Credit Agreement for a $150.0 million revolving credit facility (our ''revolver''). The revolver was made available for utilization on February 28, 2014. On June 11, 2014, the facility amount was increased to $200.0 million in accordance with the terms of our revolver. Our revolver can be drawn as, or a mixture of, cash, letters of credit or bank guarantees, subject to the satisfaction of customary conditions set forth in the underlying agreement.

On January 12, 2017, we amended our revolver to, among other things, extend the maturity date to April 30, 2020 and permanently reduce the facility amount from $200.0 million to $160.0 million. All borrowings under our revolver mature on April 30, 2020, and letters of credit and bank guarantees issued under our revolver expire no later than five business days prior to April 30, 2020.

Cash borrowings under our revolver bear interest, at our option, at either (i) the adjusted Libor rate plus the applicable margin, as defined in our revolver, or (ii) the alternate base rate (the highest of a bank's prime rate, the federal funds rate plus 0.5% per year, or the one-month adjusted Libor rate (as defined in our revolver) plus 1.0% per year), plus the 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 50.0% of the applicable margin for borrowings at the adjusted Libor rate. The applicable margin is calculated based on our credit ratings by S&P's and Moody's. As of December 31, 2017, the applicable margin was 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 our revolver at 35.0% 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, our revolver requires that SDHL and our affiliates party to our revolver as guarantors (the ''revolver guarantors'') have a total net leverage ratio (consolidated net indebtedness to consolidated EBITDA, as defined in our revolver) not greater than 3.5:1. The obligations of the revolver guarantors are secured by liens on our rigs and other assets owned by the revolver guarantors, subject to certain exceptions. The liens securing our revolver are senior to the pari-passu liens securing the outstanding 8.625% Notes and 9.500% 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 our revolver. The unamortized debt issuance costs are carried as both short- and long-term term assets on our consolidated balance sheets.

See Note 7—''Debt'' to our unaudited condensed consolidated interim financial statements for the nine months ended September 30, 2017 for additional information.

Our 8.625% Senior Secured Notes due November 2018

On January 12, 2017, SDHL cancelled $444.6 million aggregate principal amount of our 8.625% Senior Secured Notes due November 2018 (''8.625% Notes''), issued by SDHL in exchange for $416.1 million aggregate principal amount of 9.500% Notes and a principal payment of $28.5 million in cash.

After the refinancing, $30.4 million aggregate principal amount of our 8.625% Notes remained, and currently remain, outstanding. Interest on SDHL's outstanding 8.625% Notes continues to accrue at a rate of 8.625% per year and is payable semi-annually in arrears on May 1 and November 1 of each year. SDHL may redeem its 8.625% Notes, in whole or in part, at par together with accrued and unpaid interest to the redemption date.

SDHL's obligations under the outstanding 8.625% Notes are guaranteed by a majority of SDHL's subsidiaries, subject to certain exceptions. The indenture governing the 8.625% Notes has been amended to (i) eliminate or waive many of the restrictive covenants in the indenture and (ii) eliminate certain events of default.

At December 31, 2016, the costs incurred for the refinancing were capitalized as prepaid expense. All costs to support the refinancing, including the $5.7 million incentive fee to the noteholders, were recognized in the first quarter of 2017.

We intend to refinance, repurchase and/or repay the 8.625% Notes pursuant to the Tender Offer. To the extent all of the 8.625% Notes are not purchased in the Tender Offer, SDHL intends to redeem the remaining 8.625% Notes. Assuming that all of the 8.625% Notes are properly tendered and not validly withdrawn in the Tender Offer and accepted for purchase by SDHL, SDHL expects that approximately $30.5 million of the proceeds from this offering will be used for the tender offer consideration for the 8.625% Notes.

See Note 7—''Debt'' to our unaudited condensed consolidated interim financial statements for the nine months ended September 30, 2017 for additional information.

Our 9.500% Senior Secured Notes due November 2020

On January 12, 2017, SDHL completed the issuance and sale of $502.8 million aggregate principal amount of the 9.500% Senior Secured Notes due November 2020 (''9.500% Notes''). The 9.500% Notes were sold at par in exchange for and cancellation of $444.6 million aggregate principal amount of 8.625% Notes (of which $28.5 million were settled for cash), and $86.8 million in exchange for partial settlement of our term loan. As a result of this transaction, SDHL incurred $8.1 million of debt issuance cost which is presented in the balance sheet as a direct deduction from the carrying value of the debt and is amortized over the term using the effective interest rate. Interest on our 9.500% Notes began accruing on January 12, 2017 at a rate of 9.500% per year and is payable semi-annually in arrears on May 1 and November 1 of each year.

SDHL's obligations under the 9.500% Notes are guaranteed by a majority of SDHL's subsidiaries, subject to certain exceptions. The obligations of the guarantors are secured by liens on the rigs and other assets owned by the guarantors, subject to certain exceptions. These liens are subordinated to the liens securing the obligations of the revolver guarantors.

SDHL may redeem the 9.500% Notes, in whole or in part, at the following redemption prices, together with accrued and unpaid interest to the redemption date:

- on or after January 12, 2018: 102.156%; or
- on or after January 12, 2019: 100.000%.

If SDHL experiences a change of control, as defined in the indenture governing the 9.500% Notes, it must offer to repurchase the 9.500% Notes at an offer price in cash equal to 101.0% 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 9.500% Notes at an offer price in cash equal to 100.0% of their principal amount, plus accrued and unpaid interest.

SDHL intends to refinance, repurchase and/or repay the 9.500% Notes pursuant to the Tender Offer. To the extent all of the 9.500% Notes are not purchased in the Tender Offer, SDHL intends to redeem the remaining 9.500% Notes. Assuming that all of the 9.500% Notes are properly tendered and not validly withdrawn in the Tender Offer and accepted for purchase by SDHL, SDHL expect that approximately $515.8 million of the proceeds from this offering will be used for the tender offer consideration for the 9.500% Notes.

See Note 7—''Debt'' to our unaudited condensed consolidated interim financial statements for the nine months ended September 30, 2017 for additional information.

Our obligations under sale and leaseback

On October 10, 2015, our two wholly-owned subsidiaries, Shelf Drilling TBN I, Ltd and Shelf Drilling TBN II, Ltd (collectively, the ''lessee''), whose assets consisted solely of two ''fit-for-purpose'' newbuild jack-up rigs under construction, entered into sale and leaseback transactions with Hai Jiao 1502 Limited and Hai Jiao 1503 Limited (collectively, the ''lessor''), which are wholly owned subsidiaries of Industrial and Commercial Bank of China Leasing. These sale and leaseback transactions are guaranteed by Shelf Drilling, Ltd. In connection with these transactions, we executed bareboat charter agreements with the lessor to operate the newbuild rigs and to execute two drilling services contracts with Chevron for a period of five years each.

The first and second newbuild rigs commenced five-year contracts with Chevron after completion of the final customer acceptance requirements on December 1, 2016 and June 1, 2017, respectively. We 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.

The bareboat charter agreements require rent with variable and fixed payment components through their expiry dates of December 28, 2021 and July 5, 2022, respectively, at which time the lessee will have the obligation to acquire the newbuild rigs from the lessor for the purchase obligation price (which is $82.5 million for the Shelf Drilling Chaophraya and $82.5 million for the Shelf Drilling Krathong). The fixed monthly average payments for each rig at the inception of the bareboat charter period are approximately $1.5 million. The average variable payments over the lease term for each rig are calculated on each payment date using a projected three month Libor rate plus applicable margin of 4.0% annually on the notional rent outstanding (which is the prepaid purchase price for the newbuild rigs reduced by fixed payments). The charter payments are made on every fifth day of the month.

The below table is a summary of the estimated future rental payments on capital leases including the purchase obligation price as of September 30, 2017 under our sale and leaseback transactions.

For the twelve months ending September 30,	(in thousands)
2018	$ 52,488
2019	51,477
2020	49,894
2021	47,824
2022	187,782
Thereafter	—
Total future rental payments	**$ 389,465**

Under our sale and leaseback transactions, we are required to maintain (i) a minimum of 90 days of rent in a debt reserve account, (ii) 120.0% of security coverage ratio (fair market value of the rig plus additional cash collateral or any other additional security we have provided to the lessor divided by the notional rent outstanding) and (iii) a consolidated net debt to consolidated EBITDA ratio at or below 4:1, each as defined in the bareboat charter agreements.

See Note 8—''Sale and leaseback'' to our unaudited condensed consolidated interim financial statements for the nine months ended September 30, 2017 for additional information.

Mezzanine equity

On January 12, 2017, we issued $166.7 million in preferred shares to certain of the sponsors as part of the retirement of our term loan. We have incurred $0.7 million of incremental direct issue costs which were netted against the issue value of the preferred shares. See ''—Preferred shares'' and ''Certain relationships and related party transactions—Preferred Shares.'' See Note 24—''Subsequent events'' to our audited consolidated financial statements for the years ended December 31, 2016 and 2015 for additional information.

Preferred shares

The preferred shares at SDL are held by Castle Harlan and CHAMP Private Equity, each holding 500,000 preferred shares. The preferred shares rank senior in all respects to all other classes or series of share capital of the Company.

Dividends. So long as there are any preferred shares issued and outstanding at any time, SDL shall not declare a dividend in respect of any common shares unless such dividend is approved by holders of at least 75% of the issued and outstanding preferred shares voting as a single class. Each holder of preferred shares is entitled to receive a cumulative preferred dividend for each preferred share on a semi-annual basis, on January 31 and July 31 of each year and on any date on which preferred shares are redeemed.

Liquidation preference. The preferred shares also have a per share liquidation preference that is due and payable upon a liquidation, dissolution or winding up of SDL.

Redemption. SDL may redeem any or all of the preferred shares for cash at a price per preferred share equal to the liquidation preference, calculated pursuant to SDL's articles of association. Further, upon the occurrence of certain events, SDL may be required to redeem the preferred shares at the election of either the holders of a majority of the preferred shares or a majority of the directors on the board of directors of SDL who are not affiliated with or designated by any of the holders of the preferred shares or their affiliates, as applicable.

Voting rights. The preferred shares have no voting rights, however with the approval by holders of at least 75% of the issued and outstanding preferred shares voting as a single class, certain actions may be taken by SDL or its subsidiaries.

Transfer. The preferred shares may be transferred subject to notice to SDL and certain limitations set out in SDL's articles of association, including a limitation on transfers to competitors of SDL and its subsidiaries.

DESCRIPTION OF NOTES

Certain terms used in this description are defined under the subheading ''Certain Definitions.'' In this description, the term ''Issuer'' refers only to Shelf Drilling Holdings, Ltd. and not to any of its subsidiaries.

The Issuer will issue the notes offered hereby (the ''*Notes*'') under an Indenture (the ''*Indenture*'') among itself, the Guarantors party thereto, and Wilmington Trust, National Association, as Trustee. The Notes will be issued in a private transaction that is not subject to the registration requirements of the Securities Act. We do not intend to list the Notes on any securities exchange. We will not be required to, nor do we currently intend to, offer to exchange the Notes for notes registered under the Securities Act or otherwise register the Notes for resale under the Securities Act. The Indenture will not be qualified under the Trust Indenture Act or subject to the terms of the Trust Indenture Act. Accordingly, the terms of the Notes include only those stated in the Indenture.

The following description is only a summary of the material provisions of the Indenture. We urge you to read the Indenture because it, and not this description, defines your rights as Holders of the Notes. You may request copies of the Indenture at our address set forth under the heading ''Summary—Company Information.''

Brief Description of the Notes

The Notes

The Notes will:

- be senior unsecured obligations of the Issuer;
- rank equally in right of payment with all existing and future senior unsecured Indebtedness of the Issuer;
- be effectively subordinated to any secured Indebtedness of the Issuer, including Indebtedness under the Credit Agreement, to the extent of the value of the collateral securing such Indebtedness;
- be Guaranteed on a senior unsecured basis by each Guarantor;
- be structurally subordinated to all existing and future Indebtedness, claims of holders of Preferred Stock and other liabilities of Subsidiaries of the Issuer that do not Guarantee the Notes, if any; and
- rank senior in right of payment to all future Subordinated Obligations of the Issuer, if any.

The Guarantees

The Notes will be fully and unconditionally, jointly and severally, guaranteed by all of the Guarantors. On the Issue Date, all of the Issuer's Subsidiaries that Guarantee the Existing Notes and the Credit Agreement will Guarantee the Notes, except for the Issuer's Subsidiaries organized in Egypt (the ''Egyptian Subsidiaries''), to the extent that required governmental approvals have not been obtained by the Issue Date, and the Issuer's Subsidiary organized in Indonesia (the ''Indonesian Subsidiary''), to the extent that local notary requirements and time zone differences prevent them from Guaranteeing the notes by the Issue Date; provided, that the Egyptian Subsidiaries shall use commercially reasonable efforts to obtain such governmental approvals, and shall guarantee the Notes as promptly as practicable after obtaining such approvals and the Indonesian Subsidiary shall use commercially reasonable efforts to satisfy such notary requirements and Guarantee the Notes as promptly as practicable thereafter. In the future, certain other Restricted Subsidiaries may Guarantee payment on the Notes in accordance with the requirements described under the caption ''—Certain Covenants—Future Guarantors.''

Each Note Guarantee will:

- be a senior unsecured obligation of such Guarantor;
- rank equally in right of payment with all existing and future senior unsecured Indebtedness of such Guarantor;
- be effectively subordinated to any secured Indebtedness of such Guarantor, including Indebtedness under the Credit Agreement, to the extent of the value of the collateral securing such Indebtedness;
- be structurally subordinated to all existing and future Indebtedness, claims of holders of Preferred Stock and other liabilities of Subsidiaries of such Guarantor that do not Guarantee the Notes, if any; and

- rank senior in right of payment to all future Subordinated Obligations of such Guarantor, if any.

Principal, Maturity and Interest

The Issuer will issue the Notes initially with a maximum aggregate principal amount of $600.0 million. The Issuer will issue the Notes in minimum denominations of $2,000 and integral multiples of $1,000 in excess thereof. The Notes will mature on February 15, 2025. Subject to our compliance with the covenant described under the subheading ''—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock,'' we are permitted, without the consent of the Noteholders, to issue more Notes from time to time (the ''*Additional Notes*''). The Notes and the Additional Notes, if any, will be treated as a single class for all purposes of the Indenture, including waivers, amendments, redemptions and offers to purchase. Because, however, any Additional Notes may not be fungible with the Notes for Federal income tax purposes, they may have a different CUSIP number or numbers, be represented by a different Global Note or Notes and otherwise be treated as a separate class or classes of Notes for other purposes. Unless the context otherwise requires, for all purposes of the Indenture and this ''Description of Notes,'' references to the Notes include any Additional Notes actually issued.

Interest on the Notes will accrue at the rate of 8.250% per annum and will be payable in cash semiannually in arrears on February 15 and August 15, commencing on August 15, 2018. The Issuer will make each interest payment to the Noteholders of record on the immediately preceding February 1 and August 1.

Interest on the Notes will accrue from the date of original issuance. Interest will be computed on the basis of a 360-day year comprised of twelve 30-day months.

Additional Amounts

All payments made by the Issuer or any Guarantor under or with respect to the Notes or its Note Guarantee, as the case may be, will be made free and clear of and without withholding or deduction for, or on account of, any present or future tax, duty, levy, impost, assessment or other governmental charge of whatever nature, including, penalties and interest related thereto (''*Taxes*'') imposed or levied by or on behalf of any jurisdiction in which the Issuer or such Guarantor, as the case may be, is then incorporated, engaged in business or resident for tax purposes or any political subdivision thereof or therein or any jurisdiction by or through which payment is made (each, a ''*Tax Jurisdiction*''), unless the withholding or deduction of such Taxes is then required by law. If any deduction or withholding for, or on account of, any Taxes imposed or levied by or on behalf of any Tax Jurisdiction will at any time be required to be made from, or such Taxes are imposed directly on any holder of the Notes or beneficial owner of the Notes on, any payments made by the Issuer or such Guarantor, as the case may be, under or with respect to the Notes or its Note Guarantee, as the case may be, including payments of principal, redemption price, purchase price, interest or premium, the Issuer or such Guarantor, as the case may be, will pay such additional amounts (the ''*Additional Amounts*'') as may be necessary in order that the net amounts received and retained in respect of such payments by each holder of the Notes (including Additional Amounts) after such withholding, deduction or imposition will equal the respective amounts which would have been received and retained in respect of such payments in the absence of such withholding, deduction or imposition; *provided, however*, that no Additional Amounts will be payable with respect to:

(1) any Taxes which would not have been imposed but for the existence of any present or former connection between the holder of the Notes or beneficial owner of the Notes (or between a fiduciary, settlor, beneficiary, member or shareholder of such holder of the Notes, if such holder of the Notes is an estate, a trust, a partnership, or a corporation) and the relevant Tax Jurisdiction, including, without limitation, such holder of the Notes (or such fiduciary, settlor, beneficiary, member or shareholder) being or having been a citizen or resident thereof or being or having been engaged in a trade or business or present therein or having, or having had, a permanent establishment therein, other than by the mere holding of such Note or enforcement of rights thereunder or the receipt of payments in respect thereof;

(2) any Taxes that are imposed or withheld as a result of the failure of the holder of the Notes or beneficial owner of the Notes to comply with any written request, made to that holder of the Notes or beneficial owner of the Notes in writing at least 90 days before any such withholding or deduction would be payable, by the Issuer to provide timely or accurate information concerning the nationality, residence or identity of such holder of the Notes or beneficial owner of the Notes or to make any valid or timely declaration or similar claim or satisfy any certification, information

or other reporting requirement, (A) which is required or imposed by a statute, treaty, regulation or administrative practice of the relevant Tax Jurisdiction as a precondition to exemption from all or part of such Taxes and (B) with respect to which such holder is legally entitled to comply;

(3) any Note presented for payment (where presentation is required) more than 30 days after the relevant payment is first made available for payment to the holder of the Notes (except to the extent that the holder of the Notes would have been entitled to Additional Amounts had the Note been presented on the last day of such 30 day period);

(4) any estate, inheritance, gift, sale, transfer capital gains, excise, personal property or similar tax or assessment;

(5) if any Paying Agent is in a member state of the European Union, any Note presented for payment by or on behalf of a holder of Notes who would have been able to avoid such withholding or deduction by presenting the relevant Note to another Paying Agent in a member state of the European Union; or

(6) any combination of items (1) through (5) above.

Notwithstanding anything to the contrary in the preceding paragraph, none of the Issuer, any Paying Agent or any other person shall be required to pay any additional amounts with respect to any withholding or deduction imposed on or in respect of any Note pursuant to Sections 1471 through 1474 of the U.S. Internal Revenue Code of 1986, as amended, and the regulations promulgated thereunder (''*FATCA*''), the laws of the Cayman Islands implementing FATCA, or any agreement between the Issuer and the United States or any authority thereof entered into for FATCA purposes.

In addition to the foregoing, the Issuer and each Guarantor will also pay and indemnify the holder of the Notes for any present or future stamp, issue, registration, court or documentary Taxes, or any other excise or property Taxes, charges or similar levies or Taxes which are levied by any jurisdiction on the execution, delivery, registration or enforcement of any of the Notes, the Indenture, or any other document or instrument referred to therein, or the receipt of any payments under or with respect to the Notes or its Note Guarantee, as the case may be.

If the Issuer or a Guarantor becomes aware that it will be obligated to pay Additional Amounts with respect to any payment under or with respect to the Notes or its Note Guarantee, the Issuer or such Guarantor, as the case may be, will deliver to the Trustee on a date which is at least 30 days prior to the date of that payment (unless the obligation to pay Additional Amounts arises after the 30th day prior to that payment date, in which case the Issuer or such Guarantor, as the case may be, shall notify the Trustee promptly thereafter) an Officer's Certificate stating the fact that Additional Amounts will be payable and the amount estimated to be so payable. The Officer's Certificate must also set forth any other information reasonably necessary to enable the Paying Agents to pay Additional Amounts to Holders of the Notes on the relevant payment date. The Trustee shall be entitled to rely solely on the Officer's Certificate as conclusive proof that such payments are necessary.

The Issuer or applicable Guarantor, as the case may be, will make all withholdings and deductions required by law and will remit the full amount deducted or withheld to the relevant Tax Jurisdiction in accordance with applicable law. The Issuer or applicable Guarantor, as the case may be, will furnish to the Trustee and the Holders of the Notes, within 60 days after the date the payment of any Taxes so deducted or withheld is made, certified copies of Tax receipts evidencing payment by the Issuer or such Guarantor, as the case may be, or if, notwithstanding such entity's efforts to obtain receipts, receipts are not obtained, other evidence of payments by such entity which shall include evidence of a wire transfer or other similar payment.

Whenever in the Indenture or in this ''Description of Notes'' there is mentioned, in any context, the payment of amounts based upon the principal amount of the Notes or of principal, premium, if any, interest or of any other amount payable under or with respect to any of the Notes or a Note Guarantee, such mention shall be deemed to include mention of the payment of Additional Amounts to the extent that, in such context, Additional Amounts are, were or would be payable in respect thereof.

Redemption for Change in Taxes

The Issuer may redeem the Notes, in whole, but not in part, at its discretion at any time upon giving not less than 30 nor more than 60 days' prior notice to the Holders of the Notes (which notice will be irrevocable and given in accordance with the procedures described in "—Selection and Notice of Redemption"), at a redemption price equal to the principal amount thereof, together with accrued and unpaid interest, if any, to, but not including, the date fixed by the Issuer for redemption (a "*Tax Redemption Date*") and all Additional Amounts (if any) then due and which will become due on the Tax Redemption Date as a result of the redemption or otherwise (subject to the right of Holders of the Notes on the relevant record date to receive interest due on an interest payment date falling on or prior to the redemption date and Additional Amounts (if any) in respect thereof), if on the next date on which any amount would be payable in respect of the Notes or its Note Guarantee, the Issuer or the applicable Guarantor, as the case may be, has or would be required to pay Additional Amounts, and the Issuer or such Guarantor, as the case may be, cannot avoid any such payment obligation by taking reasonable measures available to it (which shall not include substitution of an obligor under the Notes or any Note Guarantee), as a result of:

(1) any change in, or amendment to, the laws or treaties (or any regulations, or rulings promulgated thereunder) of the relevant Tax Jurisdiction affecting taxation which change or amendment becomes effective on or after the Issue Date (or, if the relevant Tax Jurisdiction has changed since the Issue Date, the date on which the then current Tax Jurisdiction became the applicable Tax Jurisdiction under the Indenture); or

(2) any change in, or amendment to, the existing official position or the introduction of an official position regarding the application, administration or interpretation of such laws, treaties, regulations or rulings (including a holding, judgment or order by a court of competent jurisdiction or a change in published practice), which change, amendment, application or interpretation becomes effective on or after the Issue Date (or, if the relevant Tax Jurisdiction has changed since the Issue Date, the date on which the then current Tax Jurisdiction became the applicable Tax Jurisdiction under the Indenture).

The Issuer will not give any such notice of redemption earlier than 90 days prior to the earliest date on which the Issuer or the applicable Guarantor, as the case may be, would be obligated to make such payment or withholding if a payment in respect of the Notes or its Note Guarantee, as the case may be, were then due. Prior to giving any notice of redemption of the Notes pursuant to the foregoing, the Issuer will deliver to the Trustee an Officer's Certificate and the opinion of an internationally recognized law firm experienced in such matters, who is reasonably acceptable to the Trustee, to the effect that there has been such change or amendment which would entitle the Issuer to redeem such Notes hereunder and an Officer's Certificate to the effect that the Issuer cannot avoid any obligation to pay Additional Amounts by taking reasonable measures available. The Trustee will accept such Officer's Certificate and opinion as sufficient evidence of the existence and satisfaction of the conditions precedent as described above, in which event it will be conclusive and binding on the Holders of the Notes.

Optional Redemption

Except as set forth below and as set forth under the caption "—Redemption for Change in Taxes," we will not be entitled to redeem the Notes at our option prior to February 15, 2021.

On and after February 15, 2021, we will be entitled at our option to redeem all or a portion of the Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed in percentages of principal amount) set forth below, plus accrued and unpaid interest to, but not including, the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the 12-month period beginning on February 15 of the years set forth below:

Period	Redemption Price
2021	106.188%
2022	104.125%
2023	102.063%
2024 and thereafter	100.000%

In addition, at any time prior to February 15 2021, we will be entitled at our option on one or more occasions to redeem Notes (which includes Additional Notes, if any) in an aggregate principal amount not to exceed 35% of the aggregate principal amount of the Notes (which includes Additional Notes, if any) issued under the Indenture at a redemption price (expressed as a percentage of principal amount) of 108.250%, plus accrued and unpaid interest to, but not including, the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date), in an amount not to exceed the Net Cash Proceeds from one or more Qualified Equity Offerings; *provided, however*, that

(1) at least 65% of such aggregate principal amount of Notes (which includes Additional Notes, if any) issued under the Indenture remains outstanding immediately after the occurrence of each such redemption (other than Notes held by the Issuer or any of its Subsidiaries); and

(2) each such redemption occurs within 120 days after the date of the related Qualified Equity Offering.

Prior to February 15, 2021, we will be entitled at our option to redeem all or any part of the Notes at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest to, but not including, the redemption date (subject to the right of Holders on the relevant record date to receive interest due on the relevant interest payment date). Notice of such redemption must be mailed or delivered not less than 30 nor more than 60 days prior to the redemption date.

''*Applicable Premium*'' means, with respect to a Note at any date of redemption, the greater of (i) 1.0% of the principal amount of such Note and (ii) the excess, if any, of (A) the present value at such date of redemption of (1) the redemption price of such Note at February 15, 2021 (such redemption price being described in this ''—Optional Redemption'') plus (2) all remaining required interest payments due on such Note through February 15, 2021 (excluding accrued but unpaid interest to, but not including, the date of redemption), computed using a discount rate equal to the Treasury Rate plus 50 basis points, over (B) the principal amount of such Note. The Issuer shall determine the Applicable Premium and redemption price.

''*Treasury Rate*'' means, as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H. 15 (519) which has become publicly available at least two Business Days prior to the redemption date (or, if such Statistical Release is no longer published, any publicly available source for similar market data)) most nearly equal to the period from the redemption date to February 15, 2021; *provided, however*, that if the period from the redemption date to February 15, 2021 is not equal to the constant maturity of a United States Treasury security for which a weekly average yield is given, the Treasury Rate will be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of United States Treasury securities for which such yields are given, except that if the period from the redemption date to February 15, 2021 is less than one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used. The Issuer shall obtain the foregoing Treasury Rate.

The amount due and payable upon any acceleration of the Notes pursuant to the caption ''—Defaults'' shall include the Applicable Premium as if the Notes were redeemed pursuant to this caption ''—Optional Redemption'' on the date such Event of Default occurred or such Default Notice of Acceleration giving rise to such acceleration is delivered as provided for in caption ''—Defaults'' irrespective of whether such obligations (in whole or in part) are paid in cash, or otherwise satisfied or discharged pursuant to a plan of reorganization or otherwise.

Selection and Notice of Redemption

If we are redeeming less than all the Notes at any time, the Trustee will select Notes by lot or such other methods in accordance with applicable procedures of DTC.

We will redeem Notes of $2,000 or less in whole and not in part. Notices of redemption will be mailed by first class mail or delivered by electronic transmission (for Notes held in book-entry form) at least 30 but not more than 60 days before the redemption date to each Holder of Notes to be redeemed at its registered address, except that redemption notices may be delivered more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the Notes or a satisfaction and discharge of the Indenture.

Any redemption may, at the Issuer's option, be subject to one or more conditions precedent, including but not limited to a Qualified Equity Offering or a Change of Control. In addition, if such redemption is subject to satisfaction of one or more conditions precedent, such notice shall describe each such condition and if applicable, shall state that, in the Issuer's discretion, the Redemption Date may be delayed until such time (but not more than 60 days after the date the notice of redemption was mailed or delivered, including by electronic transmission) as any or all such conditions shall be satisfied, or such redemption may not occur and such notice may be rescinded in the event that any or all such conditions shall not have been satisfied by the Redemption Date, or by the Redemption Date as so delayed, or such notice may be rescinded at any time in the Issuer's discretion if in the good faith judgment of the Issuer any or all of such conditions will not be satisfied.

If any Note is to be redeemed in part only, the notice of redemption that relates to that Note will state the portion of the principal amount thereof to be redeemed. In the case of Certificated Notes, we will issue a new Certificated Note in a principal amount equal to the unredeemed portion of the original Certificated Note in the name of the holder upon cancelation of the original Certificated Note. Notes called for redemption become due on the date fixed for redemption. On and after the redemption date, interest will cease to accrue on Notes or portions of them called for redemption unless the Issuer defaults in delivering the redemption funds.

Mandatory Redemption; Offers to Purchase; Open Market Purchases

We are not required to make any mandatory redemption or sinking fund payments with respect to the Notes. However, under certain circumstances, we may be required to offer to purchase Notes as described under the captions ''—Change of Control Offer'' and ''—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock.'' The Issuer and its Affiliates may at any time and from time to time purchase Notes in the open market, by tender offer, negotiated transactions or otherwise.

Ranking

The Indenture Obligations will be unsecured and will rank equally in right of payment with all existing and future senior unsecured Indebtedness of the Issuer and the Guarantors, as the case may be. The Indenture Obligations will be effectively subordinated to any secured Indebtedness of the Issuer and the Guarantors, including Indebtedness under the Credit Agreement, to the extent of the value of the collateral securing such Indebtedness. The Notes will be guaranteed by the Guarantors and will rank senior in right of payment to all future Subordinated Obligations of the Issuer and the Guarantors, as the case may be, if any.

$526.1 million of senior secured Indebtedness of the Issuer and its Restricted Subsidiaries is outstanding, comprised of $526.1 million of secured Indebtedness in respect of the Existing Notes and $0 million of secured Indebtedness Incurred under the Credit Agreement. The Indebtedness outstanding under the Credit Agreement will be effectively senior to all of the Issuer's and the Guarantors' obligations with respect to the Notes and the Note Guarantees, to the extent of the value of the collateral that secures such Indebtedness. Any Existing Notes remaining outstanding upon consummation of the Tender Offer are expected to be redeemed, satisfied and discharged at which time the collateral securing the Existing Notes will be released under the terms of the applicable indenture.

Although the Indenture will contain limitations on the amount of additional Indebtedness that the Issuer and the Restricted Subsidiaries (including the Guarantors) may incur, under certain circumstances the amount of such additional Indebtedness could be substantial and under certain circumstances such additional Indebtedness may be secured. See ''—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock'' and ''—Certain Covenants—Limitation on Liens.''

Guarantees

Initially, all of the Issuer's Restricted Subsidiaries that guarantee the Existing Notes and the Credit Agreement will guarantee the Notes, except for the Egyptian Subsidiaries, to the extent that required governmental approvals have not been obtained by the Issue Date, and the Indonesian Subsidiary, to the extent that local notary requirements and time zone differences prevent them from guaranteeing the notes by the Issue Date; provided, that the Egyptian Subsidiaries shall use commercially reasonable efforts to obtain such governmental approvals and shall guarantee the Notes as promptly as practicable after obtaining such approvals and the Indonesian Subsidiary shall use commercially reasonable efforts to satisfy such notary requirements and guarantee the Notes as promptly as practicable thereafter. In the future, certain other Restricted Subsidiaries of the Company may be required to guarantee the Notes under the circumstances described under ''—Certain Covenants—Future Guarantors.''

The Guarantors will, jointly and severally, irrevocably and unconditionally, guarantee, on a senior unsecured basis, the full and punctual payment when due, whether at maturity, by acceleration or otherwise, all Indenture Obligations of the Issuer.

The Issuer has agreed to cause its subsidiary, Shelf Drilling Asset III, Ltd (''SDAIII''), which will be an Unrestricted Subsidiary on the Issue Date and which holds two newly acquired Rigs, to become a Restricted Subsidiary and guarantee the Notes within one year of the Issue Date in accordance with the covenant described under ''—Certain Covenants—Future Guarantors''. In addition, until such time that SDAIII becomes a Guarantor, it will be subject to certain restrictions on the incurrence of Indebtedness and Liens and on Asset Dispositions, even though it is an Unrestricted Subsidiary, as described under ''—Certain Covenants—Limitations on Certain Actions of Shelf Drilling Asset III, Ltd.'' Assuming that SDAIII's Note Guarantee was in effect on the Issue Date, for the nine months ended September 30, 2017 the non-Guarantor subsidiaries would have accounted for $514 million, or 30%, of our total assets, and $37 million, or 20%, of our Adjusted EBITDA. Not including the Note Guarantee of SDAIII, the non-Guarantor subsidiaries accounted for $665 million, or 39% of our total assets, and $37 million, or 20% of our Adjusted EBITDA, for the nine months ended September 30, 2017. SDAIII currently has a $50 million uncommitted guarantee line and a $25 million term loan facility and, as of December 31, 2017, there are $0 in outstanding bank guarantees under the uncommitted guarantee line, and no borrowings have been made under the term loan facility. SDAIII and our other non-Guarantor Subsidiaries (including our other Unrestricted Subsidiaries) had $322.8 of outstanding liabilities as of September 30, 2017.

The Issuer's future Subsidiaries may not be required to guarantee the Notes. In the event of a bankruptcy, liquidation, reorganization or similar proceeding of any non-Guarantor Subsidiaries, the non-Guarantor Subsidiaries will pay the holders of their debt, their trade creditors and the holders of their other liabilities before they will be able to distribute any of their assets to the Issuer or a Guarantor. As a result, all of the existing and future liabilities of our non-guarantor Subsidiaries, including any claims of trade creditors, will be effectively senior to the Notes. The Indenture will not limit the amount of liabilities that are not considered Indebtedness which may be incurred by the Issuer or its Subsidiaries, including the non-Guarantors.

The obligations of each Guarantor under its Note Guarantee will be limited as necessary to prevent the Note Guarantee from constituting a fraudulent conveyance under applicable law. This provision may not, however, be effective to protect a Note Guarantee from being voided under applicable fraudulent transfer law, or may reduce the applicable Guarantor's obligation to an amount that effectively makes its Note Guarantee worthless. If a Note Guarantee is rendered voidable, it could be subordinated by a court to all other indebtedness (including Guarantees and other contingent liabilities) of the Guarantor, and, depending on the amount of such indebtedness, a Guarantor's liability on its Note Guarantee could be reduced to zero. See ''Risk Factors—Risks Relating to the Notes—Under certain circumstances, a court could cancel the notes or the related guarantees and the security interests that secure the notes and the related guarantees under fraudulent conveyance laws.''

Pursuant to the Indenture, (A) a Guarantor may consolidate with, merge with or into, or transfer all or substantially all its assets to any other Person to the extent described below under ''—Certain Covenants—Merger and Consolidation'' and (B) the Capital Stock of a Guarantor may be sold or otherwise disposed of to another Person to the extent described below under ''—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock''; *provided, however*, that in the case of the consolidation, merger or transfer of all or substantially all the assets of such Guarantor, to a Person that is not the Issuer or a Guarantor, such Guarantor's obligations under the Note Guarantee must be expressly assumed by such other Person, except that such assumption will not be required in the case of:

(1) the sale or other disposition (including by way of consolidation or merger) of a Guarantor, including the sale or disposition of Capital Stock of a Guarantor following which such Guarantor is no longer a Subsidiary of the Issuer; or

(2) the sale or disposition of all or substantially all the assets of a Guarantor,

in each case as permitted by the Indenture. Upon any sale or disposition described in clause (1) or (2) above, the obligor on the related Note Guarantee will be released from its obligations thereunder.

The Note Guarantee of a Guarantor will be automatically and unconditionally released:

(1) upon any sale or other disposition described in the immediately preceding sentence;

(2) upon the designation by the Issuer of such Guarantor as an Unrestricted Subsidiary;

(3) if we exercise our legal defeasance option or our covenant defeasance option as described under "—Defeasance;"

(4) if our obligations under the Indenture are satisfied and discharged in accordance with the terms of the Indenture;

(5) (i) if the Credit Agreement is in effect at such time, upon the release or discharge of the Guarantee by, or direct obligation of, a Guarantor with respect to the Credit Agreement, except a discharge or release by or as a result of payment under such Guarantee or direct obligation (it being understood that a release subject to a contingent reinstatement is still a release);

(ii) if the Credit Agreement is not in effect at such time, upon the release or discharge of the Guarantee by, or direct obligation of, a Guarantor with respect to all Material Credit Facilities in effect at such time, except a discharge or release by or as a result of payment under such Guarantee or direct obligation (it being understood that a release subject to a contingent reinstatement is still a release); or

(iii) if none of the Credit Agreement or any Material Credit Facility is in effect at such time, so long as such Guarantor is not a Significant Subsidiary;

provided, that prior to the date that SDAIII has Guaranteed the Credit Agreement (or if the Credit Agreement is not then in effect, any Material Credit Facility), it shall not be entitled to a release under clauses (i) and (ii) above; or

(6) if such Guarantor is dissolved or liquidated.

Book-Entry, Delivery and Form

The Notes are being offered and sold to qualified institutional buyers in reliance on Rule 144A under the Securities Act ("*Rule 144A Notes*").The Notes may also be offered and sold outside the United States to non-U.S. persons in reliance on Regulation S under the Securities Act ("*Regulation S Notes*"). Except as set forth below, the Notes will be issued in registered, global form in minimum denominations of $2,000 and integral multiples of $1,000 in excess thereof. Notes will be issued at the closing of this offering only against payment in immediately available funds.

Rule 144A Notes will initially be represented by one or more notes in registered, global form without interest coupons (collectively, the "*Rule 144A Global Notes*"). Regulation S Notes will initially be represented by one or more temporary notes in registered, global form without interest coupons (collectively, the "*Regulation S Temporary Global Notes*"). The Rule 144A Global Notes and the Regulation S Temporary Global Notes will be deposited upon issuance with the Trustee as custodian for The Depository Trust Company ("*DTC*"), and registered in the name of DTC or its nominee, in each case, for credit to an account of a direct or indirect participant in DTC as described below. Through and including the 40th day after the later of the commencement of this offering and the closing of this offering (such period through and including such 40th day, the "*Restricted Period*"), beneficial interests in the Regulation S Temporary Global Notes may be held only through the Euroclear System ("*Euroclear*") and Clearstream Banking, S.A. ("*Clearstream*") (as indirect participants in DTC), unless transferred to a person that takes delivery through a Rule 144A Global Note in accordance with the certification requirements described below. Within a reasonable time period after the expiration of the Restricted Period, the Regulation S Temporary Global Notes will be exchanged for one or more permanent notes in registered, global form without interest coupons (collectively, the "*Regulation S Permanent Global Notes*" and, together with the Regulation S Temporary Global Notes, the "*Regulation S Global Notes*;" the Regulation S Global Notes and the Rule 144A Global Notes collectively being the "*Global Notes*") upon delivery to DTC of certification of compliance with the transfer restrictions applicable to the notes and pursuant to Regulation S, as provided in the mandatory exchange process as further described in the Indenture. Beneficial interests in the Rule 144A Global Notes may not be exchanged for beneficial interests in the Regulation S Global Notes or vice versa at any time except in the limited circumstances described below. See "—Exchanges Between Regulation S Global Notes and Rule 144A Global Notes."

Rule 144A Notes and Regulation S Notes (including beneficial interests therein) will be subject to certain restrictions on transfer and will bear a restrictive legend as described under ''Notice to Investors.'' Transfers of beneficial interests in the Global Notes will be subject to the applicable rules and procedures of DTC and its direct or indirect participants (including, if applicable, those of Euroclear and Clearstream), which may change from time to time.

Except as set forth below, the Global Notes may be transferred, in whole and not in part, only to another nominee of DTC or to a successor of DTC or its nominee. Beneficial interests in the Global Notes may not be exchanged for Notes in certificated form (''*Certificated Notes*'') except in the limited circumstances described below. See ''—Exchange of Global Notes for Certificated Notes.'' Except in the limited circumstances described below, owners of beneficial interests in the Global Notes will not be entitled to receive physical delivery of Notes in certificated form.

Depository Procedures

The following description of the operations and procedures of DTC, Euroclear and Clearstream are provided solely as a matter of convenience. These operations and procedures are solely within the control of the respective settlement systems and are subject to changes by them. We take no responsibility for these operations and procedures and urge investors to contact the system or its Participants directly to discuss these matters.

DTC has advised us that DTC is a limited-purpose trust company organized under the laws of the State of New York, a ''banking organization'' within the meaning of the New York Banking Law, a member of the Federal Reserve System, a ''clearing corporation'' within the meaning of the Uniform Commercial Code and a ''clearing agency'' registered pursuant to the provisions of Section 17A of the Exchange Act. DTC was created to hold securities for its participating organizations (collectively, the ''*Participants*'') and to facilitate the clearance and settlement of transactions in those securities between the Participants through electronic book-entry changes in accounts of its Participants. The Participants include securities brokers and dealers (including the initial purchasers), banks, trust companies, clearing corporations and certain other organizations. Access to DTC's system is also available to other entities such as banks, brokers, dealers and trust companies that clear through or maintain a custodial relationship with a Participant, either directly or indirectly (collectively, the ''*Indirect Participants*''). Persons who are not Participants may beneficially own securities held by or on behalf of DTC only through the Participants or the Indirect Participants. The ownership interests in, and transfers of ownership interests in, each security held by or on behalf of DTC are recorded on the records of the Participants and Indirect Participants.

DTC has also advised us that, pursuant to procedures established by it:

(1) upon deposit of the Global Notes, DTC will credit the accounts of the Participants designated by the initial purchasers with portions of the principal amount of the Global Notes; and

(2) ownership of these interests in the Global Notes will be shown on, and the transfer of ownership of these interests will be effected only through, records maintained by DTC (with respect to the Participants) or by the Participants and the Indirect Participants (with respect to other owners of beneficial interests in the Global Notes).

Investors in the Rule 144A Global Notes who are Participants may hold their interests therein directly through DTC. Investors in the Rule 144A Global Notes who are not Participants may hold their interests therein indirectly through organizations (including Euroclear and Clearstream) which are Participants. Investors in the Regulation S Global Notes must initially hold their interests therein through Euroclear or Clearstream, if they are participants in such systems, or indirectly through organizations that are participants. After the expiration of the Restricted Period (but not earlier), investors may also hold interests in the Regulation S Global Notes through Participants in the DTC system other than Euroclear and Clearstream. Euroclear and Clearstream will hold interests in the Regulation S Global Notes on behalf of their participants through customers' securities accounts in their respective names on the books of their respective depositaries, which are Euroclear Bank S.A./N.V., as operator of Euroclear, and Citibank, N.A., as operator of Clearstream. All interests in a Global Note, including those held through Euroclear or Clearstream, may be subject to the procedures and requirements of DTC. Those interests held through Euroclear or Clearstream may also be subject to the procedures and requirements of such systems.

The laws of some jurisdictions may require that certain Persons take physical delivery in definitive form of securities that they own. Consequently, the ability to transfer beneficial interests in a Global Note to such Persons will be limited to that extent. Because DTC can act only on behalf of the Participants, which in turn act on behalf of Indirect Participants, the ability of a Person having beneficial interests in a Global Note to pledge such interests to Persons that do not participate in the DTC system, or otherwise take actions in respect of such interests, may be affected by the lack of a physical certificate evidencing such interests.

Except as described below, owners of an interest in the Global Notes will not have Notes registered in their names, will not receive physical delivery of Certificated Notes and will not be considered the registered owners or "Holders" thereof under the Indenture for any purpose.

Payments in respect of the principal of, and interest and premium, if any, on a Global Note registered in the name of DTC or its nominee will be payable to DTC in its capacity as the registered Holder under the Indenture. Under the terms of the Indenture, the Issuer, the Guarantors and the Trustee will treat the Persons in whose names the Notes, including the Global Notes, are registered as the owners of the Notes for the purpose of receiving payments and for all other purposes. Consequently, none of the Issuer, the Guarantors, the Trustee or any agent of the Issuer, the Guarantors or the Trustee has or will have any responsibility or liability for:

(1) any aspect of DTC's records or any Participant's or Indirect Participant's records relating to or payments made on account of beneficial ownership interests in the Global Notes or for maintaining, supervising or reviewing any of DTC's records or any Participant's or Indirect Participant's records relating to the beneficial ownership interests in the Global Notes; or

(2) any other matter relating to the actions and practices of DTC or any of its Participants or Indirect Participants.

DTC has advised us that its current practice, at the due date of any payment in respect of securities such as the Notes (including principal and interest), is to credit the accounts of the relevant Participants with the payment on the payment date unless DTC has reason to believe it will not receive payment on such payment date. Each relevant Participant is credited with an amount proportionate to its beneficial ownership of an interest in the principal amount of the relevant security as shown on the records of DTC. Payments by the Participants and the Indirect Participants to the beneficial owners of Notes will be governed by standing instructions and customary practices and will be the responsibility of the Participants or the Indirect Participants and will not be the responsibility of DTC, the Trustee, the Issuer or the Guarantors. None of the Issuer, the Guarantors or the Trustee will be liable for any delay by DTC or any of the Participants or the Indirect Participants in identifying the beneficial owners of the Notes, and the Issuer, the Guarantors and the Trustee may conclusively rely on and will be protected in relying on instructions from DTC or its nominee for all purposes.

Subject to the transfer restrictions set forth under "Notice to Investors," transfers between the Participants will be effected in accordance with DTC's procedures, and will be settled in same-day funds and transfers between participants in Euroclear and Clearstream will be effected in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the notes described herein, cross-market transfers between the Participants, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected through DTC in accordance with DTC's rules on behalf of Euroclear or Clearstream, as the case may be, by their respective depositaries; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in the relevant Global Note in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositaries for Euroclear or Clearstream.

DTC has advised the Issuer that it will take any action permitted to be taken by a Holder of Notes only at the direction of one or more Participants to whose account DTC has credited the interests in the Global Notes and only in respect of such portion of the aggregate principal amount of the Notes as to which such Participant or Participants has or have given such direction. However, if there is an Event of Default under the Notes, DTC reserves the right to exchange the Global Notes for Certificated Notes, and to distribute such Notes to its Participants.

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Notes among participants in DTC, Euroclear and Clearstream, they are under no obligation to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Guarantors, the Trustee or any of their respective agents will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants, of their respective obligations under the rules and procedures governing their operations.

Exchange of Global Notes for Certificated Notes

A Global Note is exchangeable for Certificated Notes in minimum denominations of $2,000 and in integral multiples of $1,000 in excess thereof, if:

(1) DTC (a) notifies the Issuer that it is unwilling or unable to continue as depositary for the Global Notes or (b) has ceased to be a clearing agency registered under the Exchange Act and, in either case, a successor depositary is not appointed within 90 days;

(2) the Issuer, at its option, notifies the Trustee in writing that it elects to cause the issuance of the Certificated Notes; provided that in no event shall the Regulation S Temporary Global Note be exchanged for Certificated Notes prior to (a) the expiration of the Restricted Period and (b) the receipt of any certificates required under the provisions of Regulation S; or

(3) there has occurred and is continuing an Event of Default with respect to the Notes and DTC has requested such exchange.

In all cases, Certificated Notes delivered in exchange for any Global Note or beneficial interests in Global Notes will be registered in the names, and issued in any approved denominations, requested by or on behalf of the depositary (in accordance with its customary procedures) and will bear the applicable restrictive legend referred to in ''Notice to Investors,'' unless that legend is not required by applicable law.

Exchange of Certificated Notes for Global Notes

Certificated Notes may not be exchanged for beneficial interests in any Global Note, except in the limited circumstances provided in the Indenture. See ''Notice to Investors.''

Exchanges Between Regulation S Notes and Rule 144A Notes

Prior to the expiration of the Restricted Period, beneficial interests in the Regulation S Global Note may be exchanged for beneficial interests in the Rule 144A Global Note only if:

(1) such exchange occurs in connection with a transfer of the Notes pursuant to Rule 144A; and

(2) the transferor first delivers to the Trustee a written certificate (in the form provided in the Indenture) to the effect that the Notes are being transferred to a person:

  (a) who the transferor reasonably believes to be a qualified institutional buyer within the meaning of Rule 144A;

  (b) purchasing for its own account or the account of a qualified institutional buyer in a transaction meeting the requirements of Rule 144A; and

(3) in accordance with all applicable securities laws of the states of the United States and other jurisdictions.

Beneficial interests in a Rule 144A Global Note may be transferred to a Person who takes delivery in the form of an interest in the Regulation S Global Note, whether before or after the expiration of the Restricted Period, only if the transferor first delivers to the Trustee a written certificate (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Rule 903 or 904 of Regulation S or Rule 144 (if available) and that, if such transfer occurs prior to the expiration of the Restricted Period, the interest transferred will be held immediately thereafter through Euroclear or Clearstream.

Transfers involving exchanges of beneficial interests between the Regulation S Global Notes and the Rule 144A Global Notes will be effected by DTC by means of an instruction approved by the Trustee through the DTC Deposit/Withdraw at Custodian system. Accordingly, in connection with any such transfer, appropriate adjustments will be made to reflect the changes in the principal amount of the Regulation S Global Note and the Rule 144A Global Note, as applicable. Any beneficial interest in one of the Global Notes that is transferred to a Person who takes delivery in the form of an interest in the other Global Note will, upon transfer, cease to be an interest in such Global Note and will become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other Global Note for so long as it remains such an interest. The policies and practices of DTC may prohibit transfers of beneficial interests in the Regulation S Global Note prior to the expiration of the Restricted Period.

Certifications by Holders of the Regulation S Temporary Global Notes

A holder of a beneficial interest in the Regulation S Temporary Global Notes must provide Euroclear or Clearstream, as the case may be, with a certificate in the form required by the Indenture certifying that the beneficial owner of the interest in the Regulation S Temporary Global Note is either a non-United States person or a United States person that has purchased such interest in a transaction that is exempt from the registration requirements under the Securities Act, and Euroclear or Clearstream, as the case may be, must provide to the Trustee (or the paying agent if other than the Trustee) a certificate in the form required by the Indenture, prior to any exchange of such beneficial interest for a beneficial interest in the Regulation S Permanent Global Notes.

Same Day Settlement and Payment

The Issuer will make payments in respect of the Notes represented by the Global Notes (including principal, interest and premium, if any) by wire transfer of immediately available funds to the accounts specified by the Global Note Holder. The Issuer will make all payments of principal, interest and premium, if any, with respect to Certificated Notes by wire transfer of immediately available funds to the accounts specified by the Holders of the Certificated Notes or, if no such account is specified, by mailing a check to each such Holder's registered address. The Notes represented by the Global Notes are expected to be eligible to trade in DTC's Same-Day Funds Settlement System, and any permitted secondary market trading activity in such Notes will, therefore, be required by DTC to be settled in immediately available funds. The Issuer expects that secondary trading in any Certificated Notes will also be settled in immediately available funds.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Note from a Participant will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day (which must be a business day for Euroclear and Clearstream) immediately following the settlement date of DTC. DTC has advised us that cash received in Euroclear or Clearstream as a result of sales of interests in a Global Note by or through a Euroclear or Clearstream participant to a Participant will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as of the business day for Euroclear or Clearstream following DTC's settlement date.

Change of Control Offer

Upon the occurrence of a Change of Control Repurchase Event, each Holder shall have the right to require that the Issuer repurchase such Holder's Notes at a purchase price in cash equal to 101% of the principal amount thereof on the date of purchase plus accrued and unpaid interest to, but not including, the date of purchase (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date).

Within 30 days following a Change of Control Repurchase Event, we will mail or electronically transmit a notice to each Holder with a copy to the Trustee (the "*Change of Control Offer*") stating:

(1) that a Change of Control Repurchase Event has occurred and that such Holder has the right to require us to purchase such Holder's Notes at a purchase price in cash equal to 101% of the principal amount thereof on the date of purchase, plus accrued and unpaid interest to, but not including, the date of purchase (subject to the right of Holders of record on the relevant record date to receive interest on the relevant interest payment date);

(2) the circumstances and relevant facts regarding such Change of Control Repurchase Event;

(3) the purchase date (which shall be no earlier than 30 days nor later than 60 days from the date such notice is mailed or delivered);

(4) the instructions, as determined by us, consistent with the covenant described hereunder, that a Holder must follow in order to have its Notes purchased; and

(5) if such notice is sent prior to the occurrence of a Change of Control Repurchase Event, that the Change of Control Offer is conditional on the occurrence of such Change of Control Repurchase Event and describing each such condition, and, if applicable, that, in the Issuer's discretion, the Change of Control Payment Date may be delayed until such time (but not more than 60 days after the notice is mailed or delivered, including by electronic transmission) as any or all such conditions shall be satisfied, or that such purchase may not occur and such notice may be rescinded in the event that the Issuer shall determine that any or all such conditions shall not have been satisfied by the relevant payment date.

We will not be required to make a Change of Control Offer following a Change of Control Repurchase Event if (1) a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by us and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer or (2) notice of redemption has been given for the redemption of all (and not less than all) of the Notes pursuant to the Indenture as described above under the caption ''—Optional Redemption'' or ''—Redemption for Changes in Taxes'', unless and until there is a default in payment of the applicable redemption price.

Notwithstanding anything to the contrary contained herein, a Change of Control Offer may be made in advance of a Change of Control Repurchase Event, and conditioned upon such Change of Control Repurchase Event, if a definitive agreement is in place for the Change of Control at the time of making of the Change of Control Offer.

If Holders of not less than 90% in aggregate principal amount of the outstanding Notes validly tender and do not withdraw such Notes in a Change of Control Offer and the Issuer, or any third party making a Change of Control Offer in lieu of the Issuer as described above, purchases all of the Notes validly tendered and not withdrawn by such Holders, the Issuer or such third party will have the right, upon not less than 30 nor more than 60 days' prior notice (provided that such notice is given not more than 30 days following such purchase pursuant to the Change of Control Offer described above) to redeem all Notes that remain outstanding following such purchase at a price in cash equal to 101% of the aggregate principal amount of such Notes, plus accrued and unpaid interest on the Notes that remain outstanding to, but not including, the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date).

We will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Notes as a result of a Change of Control Repurchase Event. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the covenant described hereunder, we will comply with the applicable securities laws and regulations and shall not be deemed to have breached our obligations under the covenant described hereunder by virtue of our compliance with such securities laws or regulations.

The Change of Control purchase feature of the Notes may in certain circumstances make more difficult or discourage a sale or takeover of us. It is possible that we could decide to engage in a transaction involving a Change of Control in the future. Subject to the limitations discussed below, we could, in the future, enter into certain transactions, including acquisitions, refinancings or other recapitalizations, that would not constitute a Change of Control under the Indenture, but that could increase the amount of indebtedness outstanding at such time or otherwise affect our capital structure or credit ratings. Restrictions on our ability to Incur additional Indebtedness are contained in the covenants described under ''—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock'' and ''—Certain Covenants—Limitation on Liens.'' Such restrictions can only be waived with the consent of the Holders of a majority in principal amount of the Notes then outstanding. Except for the limitations contained in such covenants, however, the Indenture will not contain any covenants or provisions that may afford Holders of the Notes protection in the event of a highly leveraged transaction.

The Credit Agreement provides that the occurrence of certain change of control events with respect to the Issuer will constitute a default thereunder. Future indebtedness that we may incur may contain prohibitions on the occurrence of certain events that would constitute a Change of Control or require the repurchase of such indebtedness upon a Change of Control. Moreover, the exercise by the Holders of their right to require us to repurchase their Notes could cause a default under such indebtedness, even if the Change of Control itself does not, due to the financial effect of such repurchase on us. Finally, our ability to pay cash to the Holders of Notes following the occurrence of a Change of Control Repurchase Event may be limited by our then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make any required repurchases.

The definition of ''Change of Control'' includes a disposition of all or substantially all of the properties and assets of the Issuer and its Restricted Subsidiaries to any Person (other than a Permitted Holder). Although there is a limited body of case law interpreting the phrase ''substantially all,'' there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of ''all or substantially all'' of the properties and assets of the Issuer and its Restricted Subsidiaries. As a result, it may be unclear as to whether a Change of Control has occurred and whether a holder of Notes may require the Issuer to make an offer to repurchase the Notes as described above.

The provisions under the Indenture relating to our obligation to make an offer to repurchase the Notes as a result of a Change of Control Repurchase Event may be waived or modified with the written consent of the Holders of a majority in principal amount of the Notes then outstanding.

Certain Covenants

The Indenture contains covenants including, among others, the following:

Limitation on Indebtedness and Issuances of Preferred Stock

(a) The Issuer will not, and will not permit any Restricted Subsidiary to, Incur, directly or indirectly, any Indebtedness and will not permit any Restricted Subsidiary to issue any Preferred Stock; *provided, however*, that the Issuer will be entitled to Incur Indebtedness (including Acquired Indebtedness) and any Restricted Subsidiary will be entitled to Incur Indebtedness (including Acquired Indebtedness) and to issue any Preferred Stock if, on the date of such Incurrence or issuance and after giving effect thereto on a *pro forma* basis, the Consolidated Coverage Ratio would have been at least 2.00 to 1.00; *provided, however*, that the amount of Indebtedness and Preferred Stock that may be Incurred or issued pursuant to the foregoing by Restricted Subsidiaries that are not Guarantors, when taken together with the aggregate amount of outstanding Indebtedness and Preferred Stock that is Incurred or issued pursuant to clauses (b)(1) and (b)(15) below by Restricted Subsidiaries that are not Guarantors, shall not exceed $25.0 million at any time outstanding.

(b) Notwithstanding the foregoing paragraph (a), the Issuer and the Restricted Subsidiaries will be entitled to Incur any or all of the following Indebtedness:

(1) Indebtedness Incurred by the Issuer or any Restricted Subsidiary under a Credit Facility and the issuance and creation of letters of credit, bank guarantees and bankers' acceptances thereunder (with letters of credit, bank guarantees and bankers' acceptances being deemed to have a principal amount equal to the face amount thereof (excluding Cash-Collateralized Credit Support up to an aggregate face amount of $50.0 million, which shall be deemed to have a principal amount of $0)) in an aggregate principal amount outstanding at any time not to exceed (A) prior to the date SDAIII becomes a Guarantor, the greater of (x) $160.0 million and (y) 10% of Total Assets and (B) on and after the date SDAIII becomes a Guarantor, the greater of (i) $235.0 million and (ii) 15% of Total Assets; *provided*, however, that the amount of Indebtedness that may be Incurred pursuant to the foregoing by Restricted Subsidiaries that are not Guarantors, when taken together with the aggregate amount of outstanding Indebtedness and Preferred Stock that is Incurred or issued pursuant to the second proviso to clause (a) above and clause (b)(15) below by Restricted Subsidiaries that are not Guarantors, shall not exceed $25.0 million at any time outstanding;

(2) Indebtedness owed to and held by the Issuer or a Restricted Subsidiary and the issuance by any Restricted Subsidiary to the Issuer or any Restricted Subsidiary of shares of Preferred Stock; *provided, however*, that (A) any subsequent issuance or transfer of any Capital Stock which results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of such Indebtedness (other than to the Issuer or a Restricted Subsidiary) shall be deemed, in each case, to constitute the Incurrence of such Indebtedness by the obligor thereon and (B) if the Issuer is the obligor on such Indebtedness and the obligee is not a Guarantor, such Indebtedness is expressly subordinated in right of payment to the prior payment in full in cash of all obligations with respect to the Notes and (C) if a Guarantor is the obligor on such Indebtedness and the obligee is not the Issuer or another Guarantor, such Indebtedness is expressly subordinated in right of payment to the prior payment in full in cash of all obligations of such Guarantor with respect to its Note Guarantee;

(3) Indebtedness represented by the Notes issued on the Issue Date and Additional Notes issued thereafter in an aggregate principal amount not exceeding $75.0 million and the related Note Guarantees;

(4) Indebtedness outstanding on the Issue Date (other than Indebtedness described in clause (1), (2) or (3) of this covenant), including Indebtedness represented by the Existing Notes and the Existing Note Guarantees;

(5) Refinancing Indebtedness in respect of Indebtedness Incurred pursuant to paragraph (a) above or pursuant to clause (3), (4) (other than with respect to the Existing Notes), (5), (10), (12), (13) or (15) of this paragraph (b);

(6) Bank Product Obligations and Hedging Obligations; provided that such Hedging Obligations are entered into for bona fide hedging purposes and not for the purpose of speculation;

(7) obligations in respect of workers' compensation claims, self-insurance obligations, bankers' acceptances, performance, bid, completion and surety bonds or guarantees and similar types of obligations, in each case Incurred in the ordinary course of business or in respect of judgments or awards not resulting in an Event of Default;

(8) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business; *provided, however*, that such Indebtedness is extinguished within ten Business Days of its Incurrence; and Indebtedness in respect of cash management obligations and netting services, automatic clearinghouse and similar arrangements in the ordinary course of business, in each case in connection with deposit accounts;

(9) the Guarantee by the Issuer or any Restricted Subsidiary of Indebtedness of the Issuer or a Restricted Subsidiary of the Issuer that was permitted to be incurred by another provision of this covenant; *provided, however*, that if the Indebtedness being Guaranteed is contractually subordinated to or pari passu with the Notes or a Note Guarantee, then the Guarantee Incurred pursuant to this clause (9) shall be contractually subordinated or pari passu, as applicable, to the same extent as the Indebtedness being Guaranteed;

(10) Indebtedness (including Capital Lease Obligations, mortgage financings or purchase money obligations) of the Issuer or a Restricted Subsidiary Incurred, or Preferred Stock of any Restricted Subsidiary issued, to finance the purchase, lease, construction, development, design, installation, remodeling or improvement of any property, plant, equipment or any other fixed asset used or to be used in the business of the Issuer or such Restricted Subsidiary, whether, with respect to any such purchase, through the direct purchase of fixed assets or the Capital Stock of any Person owning such fixed assets, in an aggregate outstanding principal amount or liquidation preference amount which, when taken together with the principal amount of all other Indebtedness Incurred or liquidation preference amount of Preferred Stock issued pursuant to this clause (10), including

all Refinancing Indebtedness Incurred which serves to refund, refinance or replace any Indebtedness Incurred or Preferred Stock issued pursuant to this clause (10), and then outstanding on the date of such Incurrence, does not exceed the greater of (a) $30.0 million and (b) 3.0% of the Total Assets of the Issuer;

(11) the Incurrence by the Issuer or any of the Restricted Subsidiaries of Indebtedness consisting of earn-outs, indemnities or obligations in respect of purchase price adjustments in connection with the disposition or acquisition of assets; provided that with respect to any disposition, the maximum aggregate liability in respect of all such Indebtedness shall at no time exceed the gross proceeds including non-cash proceeds (the fair market value of such non-cash proceeds being measured at the time received and without giving effect to subsequent changes in value) actually received by the Issuer and its Restricted Subsidiaries in connection with such disposition;

(12) Indebtedness Incurred on behalf of, or representing guarantees of Indebtedness of, joint ventures of the Issuer or any Restricted Subsidiary in an aggregate outstanding principal amount which, when taken together with the principal amount of all other Indebtedness Incurred pursuant to this clause (12), including all Refinancing Indebtedness Incurred which serves to refund, refinance or replace any Indebtedness Incurred pursuant to this clause (12), and then outstanding on the date of such Incurrence, does not exceed the greater of (a) $30.0 million and (b) 3.0% of the Total Assets of the Issuer;

(13) the Incurrence by the Issuer or any Restricted Subsidiary of Indebtedness or the issuance of any Preferred Stock by any Restricted Subsidiary in an aggregate outstanding principal amount or liquidation preference amount which, when taken together with the principal amount of all other Indebtedness Incurred or liquidation preference amount of Preferred Stock issued pursuant to this clause (13), including all Refinancing Indebtedness Incurred which serves to refund, refinance or replace any Indebtedness Incurred or Preferred Stock issued pursuant to this clause (13), and then outstanding on the date of such Incurrence, does not exceed the greater of (a) $50.0 million and 5.0% of the Total Assets of the Issuer; *provided, however*, that the amount of Indebtedness and Preferred Stock that may be Incurred or issued pursuant to the foregoing by Restricted Subsidiaries that are not Guarantors shall not exceed $10.0 million at any time outstanding;

(14) Indebtedness owed to an insurance company or an Affiliate thereof for the financing of insurance premiums or Indebtedness consisting of take-or-pay obligations contracted in supply agreements;

(15) (i) Indebtedness of the Issuer or a Restricted Subsidiary Incurred, or Preferred Stock of a Restricted Subsidiary issued, to finance an acquisition and (ii) Indebtedness or Preferred Stock of Persons that are acquired by the Issuer or any Restricted Subsidiary or merged with or into the Issuer or a Restricted Subsidiary in accordance with the terms of the Indenture; *provided, however*, that in the case of such clause (15)(i) or (15)(ii) above, after giving effect to such acquisition or merger and the Incurrence of such Indebtedness or the issuance of such Preferred Stock either, (x) the Issuer would have been entitled to Incur at least $1.00 of additional Indebtedness pursuant to paragraph (a) of this covenant or (y) the Consolidated Coverage Ratio would be greater than or equal to the Consolidated Coverage Ratio calculated immediately prior to such acquisition or merger; provided, further, that the amount of Indebtedness and Preferred Stock that may be Incurred or issued pursuant to such clause (15)(i) or (15)(ii) above by Restricted Subsidiaries that are not Guarantors, when taken together with the aggregate amount of outstanding Indebtedness and Preferred Stock that is Incurred or issued pursuant to the second proviso to clause (a) above and clause (b)(1) above by Restricted Subsidiaries that are not Guarantors, shall not exceed $25.0 million at any time outstanding;

(16) Indebtedness representing deferred compensation or other similar arrangements to employees and directors of the Issuer or any of its Restricted Subsidiaries incurred in the ordinary course of business;

(17) the Incurrence by the Issuer or any Restricted Subsidiary of Indebtedness to the extent the proceeds thereof are used to defease or discharge Notes in accordance with the terms of the Indenture;

(18) the incurrence by the Issuer or any Restricted Subsidiary of Indebtedness consisting of obligations to make payments to current or former directors, officers, employees or consultants, their respective Affiliates, Heirs and executors with respect to the cancellation, purchase or redemption of, Capital Stock of the Issuer or its Restricted Subsidiaries to the extent permitted under clause (4) of paragraph (b) of the covenant described below under the caption ''—Limitation on Restricted Payments'';

(19) Indebtedness of the Issuer or any Restricted Subsidiary supported by a letter of credit or bank guarantee issued pursuant to a Credit Facility permitted hereby, in a principal amount not in excess of the stated amount of such letter of credit or bank guarantee;

(20) Indebtedness under letters of credit (other than those issued under the Credit Agreement), bank guarantees, performance bonds, bid bonds, customs bonds and similar credit support that supports obligations (other than obligations of the type described in clauses (1) through (3) of the definition of ''*Indebtedness*'') of the Issuer and its Restricted Subsidiaries incurred in the ordinary course of business; and

(21) the incurrence by the Issuer or any of its Restricted Subsidiaries of any liability in respect of the Indebtedness of any Unrestricted Subsidiary but only to the extent that such liability consists of Liens permitted pursuant to clause (24)(b) of the definition of ''Permitted Liens'' and any guarantee given solely to support such Liens, which guarantee is not recourse to the Issuer or any Restricted Subsidiary.

(c) For purposes of determining compliance with this covenant:

(1) any Indebtedness outstanding under the Credit Agreement on the Issue Date shall be deemed incurred on such date under clause (1) of paragraph (b) above and may not be reclassified;

(2) in the event that an item of Indebtedness (or any portion thereof) meets the criteria of more than one of the types of Indebtedness described above, the Issuer, in its sole discretion, may divide and classify such item of Indebtedness (or any portion thereof) at the time of Incurrence and will only be required to include the amount and type of such Indebtedness in one of the above clauses;

(3) the Issuer will be entitled to divide and classify an item of Indebtedness in more than one of the types of Indebtedness described above; and

(4) following the date of its Incurrence, any Indebtedness originally classified as Incurred pursuant to one of the clauses in paragraph (b) above may later be reclassified by the Issuer such that it will be deemed as having been Incurred pursuant to paragraph (a) above or another clause in paragraph (b) above, as applicable, to the extent that such reclassified Indebtedness could be Incurred pursuant to such new clause and the other provisions of the Indenture at the time of such reclassification.

(d) For purposes of the calculation of the Consolidated Coverage Ratio, in connection with the incurrence of any Indebtedness pursuant to paragraph (a) above or clause (1) of paragraph (b) above, or the Incurrence of any Lien pursuant to clause (7) of the definition of ''Permitted Liens,'' the Issuer may elect, pursuant to an Officer's Certificate delivered to the Trustee, to treat all or any portion of the commitment (any such amount elected until revoked as described below, an ''Elected Amount'') under any Indebtedness which is to be Incurred (or any commitment in respect thereof) or secured by such Lien, as the case may be, as being Incurred as of the applicable date of determination and (i) any subsequent Incurrence of Indebtedness under such commitment (so long as the total amount under such Indebtedness does not exceed the Elected Amount) shall not be deemed, for purposes of this calculation, to be an Incurrence of additional Indebtedness or an additional Lien at such subsequent time, (ii) the Issuer may revoke an election of an Elected Amount pursuant to an Officer's Certificate delivered to the Trustee and (iii) for purposes of all subsequent calculations of the Consolidated Coverage Ratio, the Elected Amount (if any) shall be deemed to be outstanding, whether or not such amount is actually outstanding, so long as the applicable commitment remains outstanding.

(e) For purposes of determining compliance with any U.S. dollar denominated restriction on the Incurrence of Indebtedness where the Indebtedness Incurred is denominated in a different currency, the amount of such Indebtedness will be the U.S. Dollar Equivalent, determined on the date of the Incurrence of such Indebtedness; *provided, however*, that if any such Indebtedness denominated in a different currency is subject to a Currency Agreement with respect to U.S. dollars covering all principal, premium, if any, and interest payable on such Indebtedness, the amount of such Indebtedness expressed in U.S. dollars will be as provided in such Currency Agreement. The principal amount of any Refinancing Indebtedness Incurred in the same currency as the Indebtedness being Refinanced will be the U.S. Dollar Equivalent of the Indebtedness Refinanced, except to the extent that (1) such U.S. Dollar Equivalent was determined based on a Currency Agreement, in which case the Refinancing Indebtedness will be determined in accordance with the preceding sentence, and (2) the principal amount of the Refinancing Indebtedness exceeds the principal amount of the Indebtedness being Refinanced, in which case the U.S. Dollar Equivalent of such excess will be determined on the date such Refinancing Indebtedness is Incurred.

Limitation on Restricted Payments

(a) The Issuer will not, and will not permit any Restricted Subsidiary, directly or indirectly, to make a Restricted Payment if at the time the Issuer or such Restricted Subsidiary makes such Restricted Payment:

(1) a Default shall have occurred and be continuing (or would result therefrom);

(2) the Issuer is not entitled to Incur an additional $1.00 of Indebtedness pursuant to paragraph (a) of the covenant described under ''—Limitation on Indebtedness and Issuances of Preferred Stock''; or

(3) the aggregate amount of such Restricted Payment and all other Restricted Payments since the Issue Date (including Restricted Payments permitted by clauses (3) and (11) of the next succeeding paragraph, but excluding all other Restricted Payments permitted by the next succeeding paragraph) would exceed the sum of (without duplication):

(a) 50% of the Consolidated Net Income accrued during the period (treated as one accounting period) from July 1, 2016 to the end of the most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment (or, in case such Consolidated Net Income shall be a deficit, minus 100% of such deficit); plus

(b) 100% of the aggregate Net Cash Proceeds or Fair Market Value of any assets received by the Issuer either (x) from the issuance or sale of its Qualified Capital Stock subsequent to July 1, 2016, including Qualified Capital Stock issued upon the exercise of warrants or options, or (y) as a contribution in respect of the outstanding Capital Stock of the Issuer by its direct or indirect stockholders or members subsequent to July 1, 2016; plus

(c) the amount by which Indebtedness of the Issuer or any of the Restricted Subsidiaries is reduced on the Issuer's balance sheet upon the conversion or exchange subsequent to July 1, 2016 of any Indebtedness of the Issuer or such Restricted Subsidiary convertible or exchangeable for Capital Stock (other than Disqualified Stock) of the Issuer or any direct or indirect parent of the Issuer (including any accrued interest or unpaid fees then outstanding in respect of such Indebtedness to the extent the obligation to pay such interest or fees is extinguished as a result of such exchange); plus

(d) an amount equal to the sum of (x) the net reduction in the Investments (other than Permitted Investments) made by the Issuer or any Restricted Subsidiary in any Person resulting from repurchases, repayments or redemptions of such Investments by such Person, proceeds realized on the sale of such Investment and proceeds representing the return of capital (excluding dividends and distributions), in each case received by the Issuer or any Restricted Subsidiary, and (y) in the case of any designation of an Unrestricted Subsidiary as a Restricted Subsidiary or the merger, amalgamation or consolidation of an Unrestricted Subsidiary into the Issuer or a Restricted Subsidiary or the transfer of all or substantially all of the assets of an Unrestricted Subsidiary to the Issuer or a Restricted Subsidiary after the Issue Date, the portion (proportionate to the Issuer's equity interest in such Subsidiary) of the

Fair Market Value of the net assets of such Unrestricted Subsidiary at the time such Unrestricted Subsidiary is designated a Restricted Subsidiary; *provided, however*, that the foregoing sum shall not exceed, in the case of any such Person or Unrestricted Subsidiary, the amount of Investments (excluding Permitted Investments) previously made (and treated as a Restricted Payment) by the Issuer or any Restricted Subsidiary in such Person or Unrestricted Subsidiary; plus

(e) 100% of any dividends or distributions (including the Fair Market Value of assets transferred) received by the Issuer or a Restricted Subsidiary of the Issuer after July 1, 2016 from an Unrestricted Subsidiary of the Issuer, to the extent that such dividends or distributions (including transfers of assets) were not otherwise included in the Consolidated Net Income of the Issuer for such period.

As of September 30, 2017, the amount of Restricted Payments that can be made by the Issuer pursuant to clause (3) above is approximately $40 million.

(b) The preceding provisions will not prohibit:

(1) any Restricted Payment made out of the Net Cash Proceeds of the substantially concurrent sale of, or made by exchange for, Qualified Capital Stock or a substantially concurrent cash capital contribution received by the Issuer; *provided, however*, that the Net Cash Proceeds from such sale or such cash capital contribution (to the extent so used for such Restricted Payment) shall be excluded from the calculation of amounts under clause (3)(b) of paragraph (a) above;

(2) any purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Subordinated Obligations of the Issuer or a Guarantor made by exchange for, or out of the proceeds of the substantially concurrent Incurrence of, Refinancing Indebtedness of such Person which is permitted to be Incurred pursuant to the covenant described under ''—Limitation on Indebtedness and Issuances of Preferred Stock'';

(3) dividends paid within 60 days after the date of declaration thereof if at such date of declaration such dividend would have complied with this covenant and the redemption of any Subordinated Obligations within 60 days after the date on which notice of such redemption was given, if at said date of the giving of such notice, such redemption would have complied with this covenant;

(4) the redemption, repurchase or other acquisition or retirement for value of any shares of Capital Stock of the Issuer or any of its Restricted Subsidiaries, or any Restricted Payment to effect the purchase, redemption, or other acquisition of shares of Capital Stock of any direct or indirect parent of the Issuer (a) held by any current or former director, officer, employees or consultants of the Issuer or any of its Subsidiaries (or Heirs or other permitted transferees of any of the foregoing), pursuant to any management equity subscription plan or agreement, stock option or stock purchase plan or agreement or employee benefit plan or other similar agreement or arrangement as may be adopted by the Issuer or any of its Restricted Subsidiaries from time to time or pursuant to any agreement with any director, officer, employee or consultant of the Issuer or any of its Restricted Subsidiaries in existence on the Issue Date or (b) from an employee of Issuer or any of its Restricted Subsidiaries (or any direct or indirect parent of the Issuer) upon the termination of such employee's employment with Issuer or any of its Restricted Subsidiaries; *provided, however*, that the aggregate amount of such Restricted Payments shall not in any calendar year exceed the sum of:

(a) $2.0 million plus any unused amount in any preceding calendar year subject to a maximum of $5.0 million in any calendar year; plus

(b) the Net Cash Proceeds from the sale of Qualified Capital Stock of the Issuer or, to the extent contributed to the common equity of the Issuer, Qualified Capital Stock of any direct or indirect parent of the Issuer, to employees, directors, officers or consultants of the Issuer and the Restricted Subsidiaries that occurs after the Issue Date (in each case to the extent such Net Cash Proceeds have not otherwise been applied to the payment of Restricted Payments or included in the calculation pursuant to clause (3)(b) of paragraph (a) above); plus

(c) the cash proceeds of key man life insurance policies received by the Issuer or any Restricted Subsidiary after the Issue Date;

provided further, however, that the cancelation of Indebtedness owing to the Issuer from employees, directors, officers and consultants of the Issuer or any of the Restricted Subsidiaries in connection with the repurchase of Qualified Capital Stock of the Issuer from such Persons will not be deemed to constitute a Restricted Payment for purposes of this covenant or any other provision of the Indenture;

(5) repurchases, acquisitions or retirements of Capital Stock of the Issuer or any of its Restricted Subsidiaries, or any Restricted Payment to effect the repurchase, acquisition or retirements of Capital Stock of any direct or indirect parent of the Issuer, in any such case deemed to occur upon the exercise or vesting of stock options, warrants or restricted stock or similar rights under employee benefit plans of the Issuer, its Restricted Subsidiaries or any direct or indirect parent of the Issuer if such Capital Stock represents all or a portion of the exercise price thereof and repurchases, acquisitions or retirements of Capital Stock or options to purchase Capital Stock in connection with the exercise or vesting of stock options, warrants or restricted stock to the extent necessary to pay applicable withholding taxes;

(6) cash payments in lieu of the issuance of fractional shares in connection with the exercise of warrants, options or other securities convertible into or exchangeable for Capital Stock of the Issuer (or any direct or indirect parent of the Issuer); *provided, however*, that any such cash payment shall not be for the purpose of evading the limitation of the covenant described under this subheading (as determined in good faith by the Board of Directors of the Issuer);

(7) in the event of a Change of Control, the payment, purchase, redemption, defeasance or other acquisition or retirement of Subordinated Obligations or Disqualified Stock of the Issuer or any Restricted Subsidiary; *provided, however*, that prior to such payment, purchase, redemption, defeasance or other acquisition or retirement, the Issuer (or a third party to the extent permitted by the Indenture) has made a Change of Control Offer with respect to the Notes as a result of such Change of Control and has repurchased all Notes validly tendered and not withdrawn in connection with such Change of Control Offer;

(8) in the event of an Asset Disposition that requires the Issuer to offer to repurchase Notes pursuant to the covenant described under ''—Limitation on Sales of Assets and Subsidiary Stock,'' the payment, purchase, redemption, defeasance or other acquisition or retirement of Subordinated Obligations or Disqualified Stock of the Issuer or any Restricted Subsidiary; *provided, however*, that prior to such payment, purchase, redemption, defeasance or other acquisition or retirement, the Issuer has made an offer with respect to the Notes pursuant to the provisions of the covenant described under ''—Limitation on Sales of Assets and Subsidiary Stock'' and has repurchased all Notes validly tendered and not withdrawn in connection with such offer;

(9) Restricted Payments to any direct or indirect parent of the Issuer or any Subsidiary of the Issuer or any direct or indirect parent of the Issuer in amounts required for such parent or Subsidiary to pay (i) consolidated, combined or unitary Federal, state, local or foreign income taxes (and any interest, penalties and additions thereto or thereon), as the case may be, that are not payable directly by the Issuer or its Subsidiaries and that are attributable to the Issuer, any Subsidiary thereof, or any of their operations, assets and activities, and (ii) franchise, income and other taxes, fees, and assessments in lieu of income taxes;

(10) the payment of any Restricted Payment, if applicable:

(a) in amounts required for any direct or indirect parent of the Issuer, if applicable, to pay fees and expenses required to maintain its corporate existence, customary salary, bonus and other benefits payable to, and indemnities provided on behalf of, directors, officers and employees of any direct or indirect parent of the Issuer, if applicable, and general corporate overhead expenses of any direct or indirect parent of the Issuer, if applicable, in each case to the extent such fees and expenses are attributable to the ownership or operation of the Issuer, if applicable, and its Restricted Subsidiaries (for so long as such direct or indirect parent owns no assets other than the Capital Stock in the Issuer or another direct or indirect parent of the

Issuer and other *de minimis* assets, if any, such fees and expenses shall be deemed for purposes of this clause (10)(a) to be so attributable to such ownership or operation) in an aggregate amount not to exceed $2.0 million in any calendar year; and

(b) in amounts required for any direct or indirect parent of the Issuer to pay fees and expenses, other than to Affiliates of the Issuer, related to any unsuccessful equity or debt offering of such parent in an aggregate amount not exceed $2.0 million to the extent the net proceeds thereof were intended to be contributed to the Issuer or to redeem, repurchase or otherwise retire for value Indebtedness of the Issuer or its Restricted Subsidiaries;

(11) the declaration or payment of dividends on the common equity of the Issuer, or Restricted Payments to effect the declaration or payment of dividends on the common equity of any direct or indirect parent of the Issuer, in either case following the first public offering of the common stock of the Issuer or any such direct or indirect parent, of up to 6% per annum of the Net Cash Proceeds actually received by the Issuer in any such public offering (and in the case of an offering of such common stock of any such direct or indirect parent, the Net Cash Proceeds actually contributed to the common equity of the Issuer), other than public offerings with respect to the Issuer's or such direct or indirect parent company's common stock registered on Form S-8;

(12) the payment or distribution to dissenting equity holders pursuant to applicable law in connection with a consolidation, merger, amalgamation or transfer of assets that complies with the provisions of the Indenture applicable to mergers, consolidations, amalgamations and transfers of all or substantially all of the property and assets of the Issuer or any of the Restricted Subsidiaries;

(13) the distribution, as a dividend or otherwise, of shares of Capital Stock of, or Indebtedness owed to, the Issuer or a Restricted Subsidiary by, Unrestricted Subsidiaries;

(14) Restricted Payments to any direct or indirect parent of the Issuer to make payments and dividends permitted to be made directly by the Issuer pursuant to the covenant described under the caption ''—Limitation on Affiliate Transactions'' (but excluding any payments contemplated under clause (b)(4) thereof);

(15) so long as no Default shall have occurred and be continuing (or would result therefrom), other Restricted Payments in an aggregate amount not to exceed $75.0 million; and

(16) Restricted Payments solely for the payment of scheduled or accrued dividends on the Preferred Instrument in an aggregate amount not to exceed in any calendar year the lesser of (x) $20.0 million and (y) the unpaid scheduled or accrued dividends on the Preferred Instrument; provided, however, that at the time of such Restricted Payment, the Issuer is entitled to Incur an additional $1.00 of Indebtedness pursuant to clause (a) of the covenant described above under the caption ''—Limitation on Indebtedness and Issuances of Preferred Stock''.

The amount of all Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Issuer or such Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. In the event that a Restricted Payment meets the criteria of more than one of the above clauses, including clause (a) of this covenant or the definition of ''Permitted Investment'' (other than clause (16) thereof), the Issuer may classify, and from time to time may reclassify, such Restricted Payment if such classification would be permitted at the time of such reclassification. In addition, a Restricted Payment may be made in reliance in part on one clause and in part on another clause.

Limitation on Certain Activities of Shelf Drilling Asset III, Ltd.

Until such time that SDAIII provides a Note Guarantee as set forth under ''—Guarantees'' (the ''*Guarantee Date*''), the Issuer will not permit SDAIII:

(i) to Incur any Indebtedness for borrowed money, except for Indebtedness under, or expressly permitted by the terms of, the SDA Credit Facility (as in effect on the Issue Date); or

(ii) to Incur or permit to exist any Lien securing any Indebtedness, except for (1) Permitted Liens (other than Liens permitted pursuant to clauses (6) through (10), (13) and (16) of the definition of ''Permitted Liens'') and (2) Liens securing the SDA Credit Facility, as in effect on the Issue Date.

In addition, any disposition or series of dispositions of assets by SDAIII or of the Capital Stock of SDAIII on or prior to the Guarantee Date that would have constituted an ''Asset Disposition'' if SDAIII were a Restricted Subsidiary of the Issuer as of the date of such disposition, shall be required to comply with the covenant described under ''—Certain Covenants—Limitation on Sales of Asset and Subsidiary Stock'' as if SDAIII were a Restricted Subsidiary, *provided* that any such Net Cash Proceeds of any such disposition may be first applied toward the repayment or collateralization of Indebtedness under the SDA Credit Facility prior to application in accordance with such covenant.

Limitation on Certain Activities of Newbuild Subsidiaries.

For so long as a Newbuild Subsidiary is an Unrestricted Subsidiary, the Issuer will not permit such Newbuild Subsidiary:

(a) to Incur any Indebtedness for borrowed money, Capital Lease Obligations or Attributable Debt, except for:

(1) Attributable Debt in respect of the Newbuild Sale and Leaseback to which such Newbuild Subsidiary is a party outstanding as of the Issue Date, less fixed rental payments made thereunder;

(2) Refinancing Indebtedness in respect of the Indebtedness specified in subclause (1) above and subclauses (3) and (4) below;

(3) Indebtedness to finance the purchase or acquisition of a newbuild rig at or prior to the end of the term of the applicable Newbuild Sale and Leaseback in an amount not to exceed the then applicable purchase price of such newbuild rig pursuant to any purchase option under such Newbuild Sale and Leaseback (a ''Newbuild Purchase Option'' and such purchase price, the ''Newbuild Purchase Price''), plus premia, accrued and unpaid rent, fees and expenses Incurred in connection with such purchase and such Indebtedness Incurred;

(4) Indebtedness Incurred for the repair, maintenance, remodeling or improvement of any property, plant, equipment or any other fixed asset used or to be used in the business of a Newbuild Subsidiary (including all Refinancing Indebtedness Incurred which serves to refund, refinance or replace any such Indebtedness) in an aggregate amount not to exceed $40,000,000 at any one time outstanding; provided, that such Indebtedness under this subclause (4) is Incurred within 60 days of the completion of such repair, maintenance, remodeling or improvement; and

(5) Indebtedness for Capital Lease Obligations Incurred in the ordinary course of business of the Newbuild Subsidiary; or

(b) to Incur or permit to exist any Lien securing any Indebtedness, except for:

(1) Permitted Liens (other than Liens permitted pursuant to clauses (6) through (7), (9), (10), (13) and (16) of the definition of ''Permitted Liens''),

(2) Liens in respect of the Newbuild Sale and Leasebacks;

(3) Liens securing Refinancing Indebtedness Incurred pursuant to subclause (2) of clause (a) above;

(4) Liens securing Indebtedness Incurred pursuant to subclause (3) of clause (a) above; and

(5) Liens securing Indebtedness Incurred pursuant to subclause (4) of clause (a) above;

provided, that in the case of Liens permitted under subclauses (2), (3), (4) and (5) of this clause (b), such Liens shall be limited to the property or Capital Stock of the Newbuild Subsidiaries.

Notwithstanding anything in the covenants described under the captions ''—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock'' or ''—Certain Covenants—Limitation on Liens,'' if a Newbuild Subsidiary is designated or otherwise becomes a Restricted Subsidiary,

(i) any Indebtedness Incurred in compliance with clause (a) above prior to the date on which such Newbuild Subsidiary becomes a Restricted Subsidiary shall be treated in the covenant described under the captions ‘‘—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock’’ as if such Indebtedness had been incurred under clause (b)(4) of such covenant; provided, that any Indebtedness Incurred under this clause (i) or any Lien Incurred under clause (ii) below, and any Refinancing Indebtedness in respect thereof or any Lien securing such Refinancing Indebtedness, shall not be Guaranteed by the Issuer or any Restricted Subsidiary (other than a Newbuild Subsidiary) until such time that (A) any such Liens are released or otherwise discharged and (B) the Newbuild Subsidiaries that are obligors in respect thereof are Guarantors, unless, in the case of this clause (B), any such Refinancing Indebtedness would be permitted under one of the categories of Indebtedness for Restricted Subsidiaries that are not Guarantors under the caption ‘‘—Certain Covenants—Limitation on Indebtedness and Issuance of Preferred Stock’’ (without giving effect to the provisions of this covenant ‘‘—Limitation on Certain Activities of Newbuild Subsidiaries’’);

(ii) any Lien Incurred or existing on the date on which such Newbuild Subsidiary becomes a Restricted Subsidiary in compliance with clause (b) above shall be treated in the covenant described under the captions ‘‘—Certain Covenants—Limitation on Liens’’ as if such Lien had been incurred under clause (8) of such covenant; and

(iii) if at any time after the date that such Newbuild Subsidiary becomes a Restricted Subsidiary, a Newbuild Purchase Option becomes available, the applicable Newbuild Subsidiaries will be permitted to Incur Indebtedness up to the applicable Newbuild Purchase Price (plus premia, accrued and unpaid rent or interest, and fees and expenses Incurred in connection with such purchase and such Indebtedness Incurred) and will be permitted to Incur and permit to exist a Lien to secure such Indebtedness, provided, that such Lien shall be limited to the property or Capital Stock of the Newbuild Subsidiaries, and such Indebtedness shall be treated in the covenant described under the caption ‘‘—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock’’ as if such Indebtedness had been incurred under clause (b)(4) of such covenant, and such Lien shall be treated in the covenant described under the caption ‘‘—Certain Covenants—Limitation on Liens’’ as if such Lien had been incurred under clause (8) of such covenant; provided, further, that none of the Issuer or any other Restricted Subsidiary will be permitted to Guarantee or otherwise provide direct or indirect credit support for any Indebtedness or Liens described under this clause (iii) or any Refinancing Indebtedness in respect thereof. If either (x) such Newbuild Subsidiary has Incurred Indebtedness and Liens under clauses (a)(2) or (3) and (b)(3) or (4), respectively, above, or (y) such Newbuild Subsidiary has Refinanced any Indebtedness described under clause (i) above with Indebtedness pursuant to one of the categories of Indebtedness permitted under the caption ‘‘—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock’’ (without giving effect to the provisions of this covenant ‘‘—Limitation on Certain Activities of Newbuild Subsidiaries’’), then the Incurrence of Indebtedness and Liens pursuant to this clause (iii) shall no longer be permitted with respect to such Newbuild Subsidiary.

In addition, any disposition or series of dispositions of all or any material portion of a newbuild rig by a Newbuild Subsidiary and any disposition of the Capital Stock of a Newbuild Subsidiary (in each case, other than to the Issuer or a Restricted Subsidiary) on or prior to the date such Newbuild Subsidiary becomes a Restricted Subsidiary shall be treated as an Asset Disposition by a Restricted Subsidiary and shall be required to comply with the covenant described under ‘‘—Certain Covenants—Limitation on Sales of Asset and Subsidiary Stock’’ as if such Newbuild Subsidiary were a Restricted Subsidiary; *provided* that any Net Cash Proceeds of any such disposition may be first applied toward the repayment or collateralization of Indebtedness permitted under clause (a) above prior to application of such Net Cash Proceeds in accordance with such covenant.

Furthermore, each Newbuild Subsidiary that owns or charters a Rig or that is a party to a drilling contract for any such Rig shall at all times prior to the date such Newbuild Subsidiary becomes a Restricted Subsidiary be a direct or indirect Wholly Owned Subsidiary of the Issuer.

Limitation on Restrictions on Distributions from Restricted Subsidiaries

The Issuer will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to (a) pay dividends or make any other distributions on its Capital Stock to the Issuer or a Restricted Subsidiary or pay any Indebtedness owed to the Issuer or a Restricted Subsidiary, (b) make any loans or advances to the Issuer or a Restricted Subsidiary or (c) transfer any of its property or assets to the Issuer or a Restricted Subsidiary, except:

(1) any encumbrance or restriction pursuant to an agreement in effect at or entered into on the Issue Date (as in effect on the Issue Date) or with respect to the Credit Agreement (as in effect on the Issue Date);

(2) any agreement or obligation of a Person acquired by the Issuer or any of its Restricted Subsidiaries as in effect at the time of such acquisition, which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired; provided that, in the case of Indebtedness, such Indebtedness was permitted by the terms of the Indenture to be Incurred;

(3) any encumbrance or restriction pursuant to an agreement of any Unrestricted Subsidiary at the time it is designated or is deemed to become a Restricted Subsidiary, which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Unrestricted Subsidiary;

(4) any encumbrance or restriction with respect to an asset or a Restricted Subsidiary imposed pursuant to an agreement entered into for the sale or disposition of such asset or all or substantially all the Capital Stock or assets of such Restricted Subsidiary pending the closing of such sale or disposition;

(5) any encumbrance or restriction pursuant to applicable law, rule, regulation or order;

(6) restrictions on cash, Cash Equivalents or other deposits or net worth imposed under contracts entered into in the ordinary course of business, including such restrictions imposed by customers or insurance, surety or bonding companies;

(7) provisions contained in any license, permit or other accreditation with a regulatory authority relating to a Related Business and entered into in the ordinary course of business;

(8) provisions in agreements or instruments which prohibit the payment or making of dividends or other distributions other than on a pro rata basis;

(9) customary non-assignment provisions in contracts, licenses and other agreements (including, without limitation, leases) entered into in the ordinary course of business;

(10) provisions limiting the disposition or distribution of assets or property in partnership agreements, limited liability company operating agreements, asset sale agreements, sale-leaseback agreements, stock sale agreements and other similar agreements entered into with the approval of the Board of Directors of the Issuer or otherwise in the ordinary course of business of the Issuer, which limitation is applicable only to the assets that are the subject of such agreements and any proceeds therefrom;

(11) provisions contained in the Indenture Documents;

(12) any agreement or instrument relating to other Indebtedness or Preferred Stock permitted to be incurred subsequent to the Issue Date under the provisions of the covenant described above under the caption "—Limitation on Indebtedness and Issuances of Preferred Stock" if the encumbrances and restrictions are (i) not materially more restrictive than the terms of the Credit Agreement as in effect on the Issue Date (as determined in good faith by an Officer of the Issuer) or (ii) customary for instruments of such type in the market at such time and will not materially adversely impact the ability of the Issuer to make required payments of principal, interest or premium or Additional Amounts, if any, on the Notes;

(13) Liens permitted to be incurred under the provisions of the covenant described below under the caption ''—Limitation on Liens'' that limit the right of the debtor to dispose of the assets subject to such Liens;

(14) purchase money obligations for property acquired in the ordinary course of business and Capital Lease Obligations that impose restrictions on that property of the nature described in clause (c) of the first paragraph of this covenant;

(15) customary provisions in joint venture agreements and other similar agreements relating solely to such joint venture; and

(16) any amendment, modification, restatement, renewal, increase, supplement, refunding, replacement or refinancing of an agreement referred to in clauses (1) through (15) above, *provided, however* that such amendment, modification, restatement, renewal, increase, supplement, refunding, replacement or refinancing (A) is not materially more restrictive, taken as a whole, than (i) the agreement as it existed prior to such amendment, modification, restatement, renewal, increase, supplement, refunding, replacement or refinancing or (ii) the Credit Agreement (as in effect on the Issue Date), in each case as determined in good faith by an Officer of the Issuer or (B) is customary for instruments of such type in the market at such time and will not materially adversely impact the ability of the Issuer to make required payments of principal, interest or premium or Additional Amounts, if any, on the Notes.

For purposes of determining compliance with this covenant, (1) the priority of any Preferred Stock in receiving dividends or liquidating distributions prior to dividends or liquidating distributions being paid on common stock shall not be deemed a restriction on the ability to make distributions on Capital Stock and (2) the subordination of loans or advances made to the Issuer or a Restricted Subsidiary to other Indebtedness Incurred by the Issuer or any such Restricted Subsidiary shall not be deemed a restriction on the ability to make loans or advances.

Limitation on Sales of Assets and Subsidiary Stock

The Issuer will not, and will not permit any of its Restricted Subsidiaries to, consummate an Asset Disposition, unless:

(a) the Issuer or such Restricted Subsidiary, as the case may be, receives consideration at the time of such Asset Disposition at least equal to the Fair Market Value of the assets sold or otherwise disposed of (measured as of the date of the definitive agreement with respect to such Asset Disposition); and

(b) at least 75% of the consideration therefor received by the Issuer or such Restricted Subsidiary, as the case may be (which, for purposes of this clause (b), consideration will not include any contingent payment obligations related to such Asset Disposition, including, earn-out payments, purchase price adjustments and deferred purchase price payments), is in the form of cash or Cash Equivalents; provided that the amount of:

(1) any liabilities, as shown on the Issuer's or such Restricted Subsidiary's most recent balance sheet or in the notes thereto, of the Issuer or any of its Restricted Subsidiaries (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes) (A) that are assumed by the transferee of any such assets, or (B) in respect of which neither the Issuer nor any Restricted Subsidiary following such Asset Disposition has any obligation;

(2) any securities or other obligations received by the Issuer or such Restricted Subsidiary from such transferee that are converted by the Issuer or such Restricted Subsidiary into cash or Cash Equivalents (to the extent of the cash or Cash Equivalents received) within 180 days following the closing of such Asset Disposition;

(3) any Capital Stock, properties or assets of the kind referred to in clause (b) of the following paragraph;

(4) cash held in escrow as security for any purchase price settlement, for damages in respect of a breach of representations and warranties or covenants or for payment of other contingent obligations in connection with such Asset Disposition; and

(5) any Designated Noncash Consideration received by the Issuer or any Restricted Subsidiary in such Asset Disposition having an aggregate Fair Market Value, taken together with all other Designated Noncash Consideration received pursuant to this clause (5) that is at that time outstanding, not to exceed the greater of (x) $20.0 million and (y) 2.0% of the Total Assets of the Issuer at the time of the receipt of such Designated Noncash Consideration, with the Fair Market Value of each item of Designated Noncash Consideration being measured at the time received and without giving effect to subsequent changes in value,

in each case, shall be deemed to be Cash Equivalents for purposes of this provision and for no other purpose.

Within 365 days after the receipt of any Net Cash Proceeds of any Asset Disposition, the Issuer or such Restricted Subsidiary, at its option, may apply the Net Cash Proceeds from such Asset Disposition to one or more of the following, or any combination,

(a) to reduce or repay:

(1) to permanently repay Secured Indebtedness or unsecured Senior Indebtedness of the Issuer or the Guarantors (or, in each case, make an offer to repurchase or redeem such Indebtedness; provided that such repurchase or redemption or offer for repurchase or redemption closes within 45 days after the end of such 365-day period); provided, that if such debt constitutes revolving Indebtedness, commitments for such revolving Indebtedness must be reduced by an amount equal to such repayment; or

(2) to the extent the property that is subject to such Asset Disposition was sold by a non-Guarantor Subsidiary, Indebtedness of a non-Guarantor Subsidiary, other than Indebtedness owed to the Issuer or another Restricted Subsidiary; or

(b) to make (1) an Investment in any one or more businesses; provided that such Investment in any business is in the form of the acquisition of Capital Stock of a Restricted Subsidiary or results in the Issuer or its Restricted Subsidiaries owning an amount of the Capital Stock of such business such that it constitutes a Restricted Subsidiary, (2) capital expenditures in respect of the Issuer, its Restricted Subsidiaries or their respective assets or (3) acquisitions of other properties or assets to be held by the Issuer or its Restricted Subsidiaries (including assets that replace the business, properties and assets of the Issuer or any of its Restricted Subsidiaries that were the subject of such Asset Disposition), in the case of each of (1), (2) and (3), used or useful in a Related Business; or

(c) to reduce or repay Obligations under the Notes in accordance with the provision set forth under ''Optional Redemption,'' through open market purchases of the Notes or through an offer to purchase Notes (in accordance with the procedures set forth below for an Asset Disposition Offer); provided, that all Net Cash Proceeds used to make such an offer to purchase shall be deemed to have been so applied whether or not accepted by the Holders;

provided that a binding commitment to apply Net Cash Proceeds as set forth in clause (b) above shall be treated as a permitted application of the Net Cash Proceeds from the date of such commitment so long as the Issuer or such Restricted Subsidiary enters into such commitment with the good faith expectation that such Net Cash Proceeds will be applied to satisfy such commitment within 180 days of the end of such 365-day period (an ''*Acceptable Commitment*'') and, in the event any Acceptable Commitment is later cancelled or terminated for any reason before the Net Cash Proceeds are applied in connection therewith, then the Issuer or such Restricted Subsidiary shall be permitted to apply the Net Cash Proceeds in any manner set forth above before the expiration of such 180-day period and, in the event the Issuer or such Restricted Subsidiary fails to do so, then such Net Cash Proceeds shall constitute Excess Proceeds (as defined below).

Any Net Cash Proceeds from an Asset Disposition that are not invested or applied as provided and within the time period set forth in the second paragraph of this covenant will be deemed to constitute ''*Excess Proceeds*.'' The Issuer shall make an offer to all Holders of the Notes (an ''*Asset Disposition Offer*'') and all holders of other Indebtedness that is *pari passu* with the Notes containing provisions similar to those set forth in the Indenture with respect to offers to purchase, prepay or redeem with the proceeds of sales of assets to purchase, prepay or redeem the maximum aggregate principal amount of the Notes (equal to $2,000 or integral multiples of $1,000 in excess thereof) and such other *pari passu* Indebtedness (plus all accrued interest on such

Indebtedness and the amount of all fees and expenses, including premiums, incurred in connection therewith), that may be purchased out of the Excess Proceeds at an offer price in cash in an amount equal to 100% of the principal amount thereof (or, in the event such other *pari passu* Indebtedness was issued with original issue discount, 100% of the accreted value thereof), plus accrued and unpaid interest to, but not including, the date fixed for the closing of such offer (subject to the rights of Holders of Notes on the relevant record date to receive interest due on the relevant interest payment date), in accordance with the procedures set forth in the Indenture or the agreements governing such other *pari passu* Indebtedness, as applicable. The Issuer will commence an Asset Disposition Offer with respect to Excess Proceeds within 30 days after the date that Excess Proceeds exceed $30.0 million by delivering the notice required pursuant to the terms of the Indenture, with a copy to the Trustee. The Issuer may, at its election, satisfy the foregoing obligations with respect to any Net Cash Proceeds from an Asset Disposition by making an Asset Disposition Offer with respect to such Net Cash Proceeds prior to the expiration of the relevant 365-day period (or such longer period provided above).

To the extent that the aggregate amount of Notes and other *pari passu* Indebtedness tendered pursuant to an Asset Disposition Offer is less than the Excess Proceeds, the Issuer may use any remaining Excess Proceeds for any purpose not prohibited by the Indenture. If the aggregate principal amount of Notes and other *pari passu* Indebtedness surrendered by such holders thereof exceeds the amount of Excess Proceeds, the Trustee shall select the Notes and the applicable agent or the Issuer shall select such *pari passu* Indebtedness to be purchased on a pro rata basis, in accordance with the applicable procedures of DTC, based on the accreted value or principal amount of the Notes tendered (with adjustments as necessary so that no Notes will be repurchased in part in an unauthorized denomination) or such *pari passu* Indebtedness tendered. Upon completion of any such Asset Disposition Offer, the amount of Excess Proceeds that resulted in the Asset Disposition Offer shall be reset to zero.

Pending the final application of any Excess Proceeds, the Issuer (or the applicable Restricted Subsidiary) may temporarily reduce revolving credit borrowings or otherwise invest the Excess Proceeds in any manner that is not prohibited by the Indenture.

The Issuer will comply with the requirements of Rule 14e-l under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws or regulations are applicable in connection with the repurchase of the Notes pursuant to an Asset Disposition Offer. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the Indenture, the Issuer will comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations described in the Indenture by virtue thereof.

The provisions under the Indenture relating to the Issuer's obligation to make an Asset Disposition Offer may be waived or modified with the written consent of a majority in principal amount of the Notes.

Limitation on Affiliate Transactions

(a) The Issuer will not, and will not permit any Restricted Subsidiary to, make any payment to, or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, or advance with, or guarantee for the benefit of, any Affiliate of the Issuer involving aggregate payments or consideration in excess of $1.0 million (each of the foregoing, an "*Affiliate Transaction*") unless:

(1) such Affiliate Transaction is on terms that are not materially less favorable to the Issuer or the relevant Restricted Subsidiary than those that would have been obtained at the time of the Affiliate Transaction in a comparable transaction by the Issuer or such Restricted Subsidiary with a Person who is not an Affiliate; and

(2) the Issuer delivers to the Trustee with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate payments or consideration in excess of $20.0 million, a resolution adopted by the majority of the Board of Directors approving such Affiliate Transaction and set forth in an Officer's Certificate certifying that such Affiliate Transaction complies with the Indenture, including clause (1) above.

(b) The provisions of the preceding paragraph (a) will not be applicable to:

(1) transactions between or among the Issuer and/or its Restricted Subsidiaries and any merger of the Issuer and any direct parent of the Issuer; provided that at the time of such merger such parent shall have no material liabilities and no material assets other than cash, Cash Equivalents and the Capital Stock of the Issuer and such merger is otherwise in compliance with the terms of the Indenture;

(2) Permitted Investments and Restricted Payments permitted to be made pursuant to the covenant described under ''—Limitation on Restricted Payments'';

(3) employment arrangements and stock option and stock ownership plans and any issuance of securities of the Issuer, any direct or indirect parent of the Issuer or a Restricted Subsidiary, or other payments, awards or grants in cash, securities or otherwise pursuant thereto, in each case, approved by the Board of Directors of the Issuer;

(4) director, officer, employee and consultant compensation, benefit, reimbursement and indemnification agreements, plans and arrangements entered into by the Issuer, any of the Restricted Subsidiaries or any direct or indirect parent company of the Issuer in the ordinary course of business, and any payments pursuant thereto;

(5) the issuance or sale of any Capital Stock (other than Disqualified Stock) of the Issuer or any direct or indirect parent company of the Issuer or the granting or performance of registration rights in respect of any such Capital Stock, which rights have been approved by the Board of Directors of such Person;

(6) the payment of fees, expenses and indemnities to the Equity Sponsors or their respective Affiliates pursuant to the Management Agreement as in effect on the Issue Date not to exceed an aggregate amount of $6.5 million in any calendar year; provided that (i) no portion of such fees may be paid at any time that an Event of Default has occurred and is continuing or would result from such payment, although such portion not permitted to be so paid may continue to accrue (without interest), and (ii) any portion of such fees that has accrued but which was not permitted to be paid pursuant to preceding clause (i) may be paid immediately after such Event of Default has been cured or waived;

(7) the provision of services in the ordinary course of business at rates comparable to those offered to third party customers to an Affiliate which would constitute an Affiliate Transaction solely as a result of the Issuer or any of the Restricted Subsidiaries being in or under common control with such Affiliate;

(8) payments by the Issuer or any Restricted Subsidiary to the Equity Sponsors or their respective Affiliates made for any financial advisory, financing, underwriting or placement services or in respect of other investment banking activities, including, without limitation, in connection with acquisitions or divestitures which payments are approved by a majority of the Board of Directors of the Issuer in good faith;

(9) transactions in which the Issuer or any Restricted Subsidiary, as the case may be, delivers to the Trustee a letter from an Independent Qualified Party stating that such transaction is fair to the Issuer or such Restricted Subsidiary from a financial point of view or meets the requirements of clause (1) of the preceding paragraph;

(10) any agreement as in effect on the Issue Date (other than the Management Agreement), or any amendment thereto (so long as any such amendment, taken as a whole, is not materially less favorable to the Issuer and its Restricted Subsidiaries than the agreement as in effect on Issue Date (as determined by the Board of Directors of the Issuer in good faith));

(11) the existence of, or the performance by the Issuer or any of its Restricted Subsidiaries of its obligations under the terms of, any equityholders agreement (including any registration rights agreement or purchase agreement related thereto) to which it is a party as of the Issue Date and any similar agreements which it may enter into thereafter; provided, however, that the existence of, or the performance by the Issuer or any Restricted Subsidiary of obligations under any future

amendment to any such existing agreement or under any similar agreement entered into after the Issue Date shall only be permitted by this clause (11) to the extent that the terms of any such amendment or new agreement, taken as a whole, are not materially less favorable to the Issuer and its Restricted Subsidiaries than any agreement in effect on the Issue Date (as determined by the Board of Directors of the Issuer in good faith);

(12) entering into any tax sharing agreement or arrangement;

(13) transactions with customers, clients, suppliers, purchasers or sellers of goods or services or Unrestricted Subsidiaries, in each case in the ordinary course of business and otherwise in compliance with the terms of the Indenture which are fair to the Issuer and the Restricted Subsidiaries, in the reasonable determination of the Board of Directors of the Issuer or the senior management thereof, or are on terms at least as favorable as might reasonably have been obtained at such time from an unaffiliated party (as determined by the Board of Directors of the Issuer in good faith);

(14) transactions in the ordinary course with joint ventures in which the Issuer or a Restricted Subsidiary of the Issuer holds or acquires an ownership interest (whether by way of Capital Stock or otherwise) so long as the terms of any such transactions are not materially less favorable to the Issuer or Restricted Subsidiary participating in such joint ventures than they are to other joint venture partners;

(15) any contribution to the capital of the Issuer;

(16) pledges of Capital Stock of Unrestricted Subsidiaries as contemplated by clause (24)(b) of the definition of "Permitted Liens" and any guarantee given solely to support such pledge, which guarantee is not recourse to the Issuer or any Restricted Subsidiary;

(17) intercompany transactions undertaken in good faith (as certified by a responsible financial or accounting officer of the Issuer in an Officer's Certificate) for the purpose of improving the tax efficiency of the Issuer and its Subsidiaries for consolidated, combined or unitary Federal, state or local income taxes, as the case may be, and not for the purpose of circumventing any covenant set forth in the Indenture; *provided, however*, that such transactions shall not result in a deemed taxable exchange of the Notes by the Holders for Federal income tax purposes;

(18) transactions with Affiliates of the Issuer solely in their capacity as holders of Indebtedness or Capital Stock of the Issuer or any Restricted Subsidiary, *provided*, that (i) a significant amount of the Indebtedness or Capital Stock of the same class is also held by persons that are not Affiliates of the Issuer, (ii) any such transaction is with all holders of the applicable class of Indebtedness or Capital Stock and (iii) such Affiliates are treated no more favorably than non-Affiliate holders of such Indebtedness or Capital Stock generally; and

(19) transactions with a Person (other than an Unrestricted Subsidiary of the Issuer) that is an Affiliate of the Issuer solely because the Issuer owns, directly or through a Restricted Subsidiary, Capital Stock in, or controls, such Person.

Limitation on Line of Business

The Issuer will not, and will not permit any Restricted Subsidiary, to engage in any business other than a Related Business.

Limitation on Liens

The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, Incur or permit to exist any Lien (other than Permitted Liens) of any nature whatsoever on any of its properties or assets (including Capital Stock of a Subsidiary other than an Unrestricted Subsidiary) securing Indebtedness, whether owned at the Issue Date or thereafter acquired, unless all Indenture Obligations are secured on an equal and ratable basis or on a senior basis with the Indebtedness so secured until such time as such Indebtedness is no longer secured by a Lien.

Any Lien on property or assets of the Issuer or any Restricted Subsidiary created for the benefit of Holders of the Notes pursuant to the preceding paragraph shall provide by its terms that such Lien shall be automatically and unconditionally released and discharged upon the release and discharge of the Lien that gave rise to the obligation to secure the Indenture Obligations. In addition, in the event that the triggering Lien is or becomes a Permitted Lien, the Issuer may, at its option and without the consent of any Holder, elect to release and discharge the Lien created for the benefit of the Holders of the Notes pursuant to the preceding paragraph in respect of such triggering Lien.

Merger and Consolidation

(a) The Issuer will not consolidate with or merge with or into, or convey, transfer or lease, in one transaction or a series of related transactions, directly or indirectly, all or substantially all of the properties and assets of it and its Restricted Subsidiaries (determined on a consolidated basis) to, any other Person, unless:

(1) the resulting, surviving or transferee Person (the ''*Successor Company*'') shall be an entity organized and existing under the laws of the Cayman Islands, the United States of America, any State thereof or the District of Columbia (provided that if such entity is not a corporation, a co-obligor of the Notes is a corporation), the Successor Company (if not the Issuer) shall expressly assume, by an indenture supplemental thereto, executed and delivered to the Trustee, all the obligations of the Issuer under the Notes and the Indenture;

(2) immediately after giving *pro forma* effect to such transaction (and treating any Indebtedness which becomes an obligation of the Successor Company or any Subsidiary as a result of such transaction as having been Incurred by such Successor Company or such Subsidiary at the time of such transaction), no Default shall have occurred and be continuing;

(3) immediately after giving *pro forma* effect to such transaction, the Successor Company (a) would be able to Incur an additional $1.00 of Indebtedness pursuant to paragraph (a) of the covenant described under ''—Limitation on Indebtedness and Issuances of Preferred Stock'' or (b) would have a Consolidated Coverage Ratio that is greater than or equal to the Consolidated Coverage Ratio calculated immediately prior to such transaction; and

(4) the Issuer shall have delivered to the Trustee an Officer's Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer and such supplemental indenture (if any) comply with the Indenture.

Clauses (3) and (4) of this covenant will not apply to (a) any merger or consolidation of the Issuer with or into one of its Restricted Subsidiaries for any purpose or (b) the merger of the Issuer with or into an Affiliate solely for the purpose of reincorporating the Issuer in another jurisdiction or the conversion of the Issuer into a limited liability company (provided that a co-obligor of the Notes is a corporation) so long as the amount of Indebtedness of the Issuer and its Restricted Subsidiaries is not increased thereby. To the extent the Successor Company shall be an entity other than a corporation, the Issuer shall, prior to such consolidation, merger, conveyance, transfer or lease, deliver to the Trustee an Opinion of Counsel confirming that, subject to customary assumptions and exclusions, the Holders of the outstanding Notes will not recognize income, gain or loss for Federal income tax purposes with respect to their ownership of the Notes solely as a result of such consolidation, merger, conveyance, transfer or lease and will be subject to Federal income tax with respect to their ownership of the Notes on the same amounts, in the same manner and at the same times as would have been the case if such merger, conveyance, transfer or lease had not occurred.

For purposes of this covenant, the sale, lease, conveyance, assignment, transfer or other disposition of all or substantially all of the properties and assets of one or more Subsidiaries of the Issuer, which properties and assets, if held by the Issuer instead of such Subsidiaries, would constitute all or substantially all of the properties and assets of the Issuer on a consolidated basis, shall be deemed to be the transfer of all or substantially all of the properties and assets of the Issuer.

The Successor Company will be the successor to the Issuer and shall succeed to, and be substituted for, and may exercise every right and power of, the Issuer under the Indenture, and the predecessor company (and, to the extent the Successor Company is not a Restricted Subsidiary of the Issuer, the Issuer), except in the case of a lease, shall be released from its obligations under the Indenture Documents.

(b) The Issuer will not permit any Guarantor to consolidate with or merge with or into, or convey, transfer or lease, in one transaction or a series of related transactions, all or substantially all of its assets to any Person unless:

(1) except in the case of a Guarantor (x) that has been disposed of in its entirety to another Person (other than to the Issuer or a Subsidiary of the Issuer), whether through a merger, consolidation or sale of Capital Stock or assets (including as provided in the fourth paragraph under "—Guarantees") or (y) that, as a result of the disposition of all or a portion of its Capital Stock, ceases to be a Subsidiary, the resulting, surviving or transferee Person (if not such Subsidiary) shall be a Person organized and existing under the laws of the jurisdiction under which such Subsidiary was organized or under the laws of the United States of America, or any State thereof or the District of Columbia, and such Person (if not such Subsidiary) shall expressly assume, by a Guaranty Agreement, all the obligations of such Subsidiary, if any, under its Note Guarantee;

(2) immediately after giving effect to such transaction or transactions on a *pro forma* basis (and treating any Indebtedness which becomes an obligation of the resulting, surviving or transferee Person as a result of such transaction as having been Incurred by such Person at the time of such transaction), no Default shall have occurred and be continuing; and

(3) the Issuer delivers to the Trustee an Officer's Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer and such Guaranty Agreement, if any, complies with the Indenture.

Notwithstanding the foregoing, (1) a Guarantor may merge, amalgamate or consolidate with an Affiliate incorporated solely for the purpose of reincorporating such Guarantor in the Cayman Islands, the United States of America, or any State or territory thereof or the District of Columbia so long as the amount of Indebtedness and Preferred Stock of the Guarantor is not increased thereby and (2) a Guarantor may merge, amalgamate or consolidate with another Guarantor or the Issuer.

This covenant will not apply to any merger, consolidation, sale, assignment, transfer, conveyance, lease or other disposition of properties or assets among the Issuer or any of its Restricted Subsidiaries.

Future Guarantors

The Issuer will cause each Restricted Subsidiary that provides a Guarantee or otherwise becomes an obligor under the Credit Agreement or, if the Credit Agreement is no longer in effect, any Material Credit Facility, to execute and deliver to the Trustee a Guaranty Agreement pursuant to which such Restricted Subsidiary will Guarantee payment of the Notes on the same terms and conditions as those set forth in the Indenture within 10 Business Days of such Restricted Subsidiary providing a Guarantee or otherwise becoming an obligor under the Credit Agreement or Material Credit Facility, as applicable. If at any time, none of the Credit Agreement or any Material Credit Facility is in effect, the Issuer will cause each Significant Subsidiary, other than any Excluded Subsidiary, to execute and deliver to the Trustee a Guaranty Agreement pursuant to which such Significant Subsidiary will Guarantee payment of the Notes on the same terms and conditions as those set forth in the Indenture as promptly as practicable; *provided*, that if a Significant Subsidiary's execution and delivery of a Guaranty Agreement requires the consent of a third party, then this provision shall be deemed satisfied with respect to such Significant Subsidiary so long as the Issuer or such Significant Subsidiary has used or is using commercially reasonable efforts to obtain such consent, regardless of whether such consent has been obtained.

In addition, the Issuer will cause SDAIII to provide a Guarantee of the Notes within one year of the Issue Date by executing and delivering to the Trustee a Guaranty Agreement to the Trustee on or prior to such date.

Reports

Whether or not required by the rules and regulations of the SEC, so long as any Notes are outstanding, the Issuer will furnish to the Holders of the Notes and the Trustee within the time periods specified in the SEC's rules and regulations applicable to a registrant that is not an accelerated filer or a large accelerated filer:

(1) all quarterly and annual reports that would be required to be filed with the SEC on Forms 10-Q and 10-K (but only to the extent similar information is included in this offering memorandum, except that such limitation shall not apply to any unaudited quarterly or audited year-end, as the

case may be, consolidated financial statements of the Parent and its Subsidiaries or ''Management's Discussion and Analysis of Financial Condition and Results of Operations'' section which are to be included in such reports) if the Parent were required to file such reports and a presentation of EBITDA for (A) in the case of a quarterly report, the fiscal quarter with respect to which such quarterly report was prepared and (B) in the case of an annual report, the fourth fiscal quarter with respect to which such annual report was prepared as well as EBITDA for the immediately preceding three consecutive fiscal quarters; and

(2) all current reports that would be required to be filed with the SEC on Form 8-K if the Parent were required to file such reports, *provided, however*, that no such current report will be required to be furnished if the Parent determines in its good faith judgment that such event is not material to holders of Notes or the business, assets, operations, financial position or prospects of the Issuer and its Restricted Subsidiaries, taken as a whole;

provided, however, that:

(a) *Sarbanes-Oxley*. No certifications or attestations concerning the financial statements or disclosure controls and procedures or internal controls that would otherwise be required pursuant to the Sarbanes-Oxley Act of 2002 will be required (provided further, however, that nothing contained in the terms herein shall otherwise require the Issuer or Parent to comply with the terms of the Sarbanes-Oxley Act of 2002 at any time when it would not otherwise be subject to such statute);

(b) *Item 402 of Regulation S-K*. The information disclosed in such reports in respect of Item 402 of Regulation S-K under the Securities Act may be limited to the information identified in Item 402 that is included in this offering memorandum (which disclosure regarding such types of information shall be presented in a manner consistent in all material respects with the disclosure contained in this offering memorandum);

(c) *Non-GAAP Financial Measures*. Compliance with the requirements of Item 10(e) of Regulation S-K and Regulation G will not be required;

(d) *Exhibits*. No exhibits pursuant to Item 601 of Regulation S-K under the Securities Act (other than in respect of material agreements governing Indebtedness) will be required;

(e) *Subsidiary Financials*. No separate financial information for Guarantors or Subsidiaries whose securities may be pledged to secure the Notes contemplated by Rule 3-10 or Rule 3-16 of Regulation S-X under the Securities Act will be required; provided, that if the Issuer has designated any of its Subsidiaries as Unrestricted Subsidiaries, then the quarterly and annual financial information required by clause (1) above will include a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, and in ''Management's Discussion and Analysis of Financial Condition and Results of Operations,'' of the financial condition and results of operations of the Issuer and its Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries of the Issuer unless such Unrestricted Subsidiaries, individually or taken together, would not constitute a Significant Subsidiary;

(f) *Financial Statements of Acquired Entities*. The financial statements required of acquired businesses shall be limited to the financial statements (in whatever form) that the Issuer receives in connection with the acquisition, and whether or not audited;

(g) *Financial Statements of Unconsolidated Entities*. Subject to clause (k) below, no financial statements of unconsolidated entities shall be required;

(h) *Segment Reporting*. Financial statements shall not be required to be prepared in accordance with SFAS No. 131 or any successor thereto;

(i) *Supplemental Schedules*. The schedules identified in Section 5-04 of Regulation S-X under the Securities Act shall not be required;

(j) *Supplemental Information.* In addition to the foregoing, the Issuer will also include in such reports financial information and related explanations with respect to differences between the consolidated financial results of the Parent and the consolidated financial results of the Issuer, in a manner substantially consistent with the presentation set forth under "—Certain financial information of SDL and SDHL" in this offering memorandum; provided that no such supplemental financial information shall be required if financial statements are included in such report pursuant to (k) below; and

(k) *Non-SDHL Operations.* If the financial statements of the Parent include any activities or operations not conducted in, or any assets not owned by, the Issuer or any direct or indirect Subsidiary of the Issuer that in the aggregate would constitute a Significant Subsidiary of the Parent, then the reports required under clause (1) and (2) above shall also be provided for the Issuer.

The Issuer will post such information and reports on a website no later than the date the Issuer is required to provide those reports to the Holders of the Notes and maintain such posting for so long as any Notes remain outstanding; *provided, however*, that such website may be password protected so long as the Issuer makes reasonable efforts to notify the Holders of postings to the website (including through the information dissemination procedures of the depositary for the Notes) and to provide the Holders with access to such website. If access to such website is not available to the general public, the Issuer will provide such information and reports directly to the Trustee via physical delivery.

The posting or delivery, if any, of any such reports, information and documents to the Trustee is for informational purposes only, and the Trustee's receipt of such shall not constitute constructive notice of any information contained therein or determinable from information contained therein, including the Issuer's compliance with any of the covenants under the Indenture (as to which the Trustee is entitled to rely exclusively on an Officer's Certificate in accordance with the terms of the Indenture).

In the event that the Parent or any other direct or indirect parent company of the Issuer becomes a Guarantor of the Notes, the Indenture will permit the Issuer to satisfy its obligations in this covenant by furnishing financial information relating to such parent; provided that the same is accompanied by supplemental information substantially similar to the information described in clause (j) above that explains in reasonable detail the differences between the information relating to such parent, on the one hand, and the consolidated information relating to the Issuer and its Restricted Subsidiaries on a standalone basis, on the other hand.

In addition, the Issuer will, for so long as any Notes remain outstanding, use its commercially reasonable efforts to hold and participate in quarterly conference calls with the Holders of the Notes, beneficial owners of the Notes, bona fide prospective investors, securities analysts and market makers to discuss such financial information no later than ten business days after distribution of such financial information.

Furthermore, the Issuer agrees that, for so long as any Notes remain outstanding, it will furnish to the Holders of Notes, beneficial owners of the Notes, bona fide prospective investors, securities analysts and market makers, upon their request, the information and reports described above and any other information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

Effectiveness of Covenants

The covenants described under "—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock," "—Certain Covenants—Limitation on Restricted Payments," "—Certain Covenants—Limitation on Restrictions on Distributions from Restricted Subsidiaries", "—Certain Covenants—Limitation on Affiliate Transactions," "—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock," "—Certain Covenants—Limitation on Line of Business," and clause (3) of the first paragraph of "—Certain Covenants—Merger and Consolidation," (collectively, the "*Suspended Covenants*") will be suspended upon the Issuer attaining Investment Grade Status.

If at any time the Issuer is downgraded from Investment Grade Status, then the Suspended Covenants will thereafter be reinstated (the "*Reinstatement Date*") with respect to future events and be applicable pursuant to the terms of the Indenture, unless and until the Issuer subsequently attains Investment Grade Status and no Default or Event of Default is in existence (in which event the Suspended Covenants shall no longer be in effect for such time that the Issuer maintains Investment Grade Status); *provided, however*, that no Default, Event of Default or breach of any kind shall be deemed to exist or have occurred under the Indenture, the Notes or the Guarantees with respect to the Suspended Covenants based on, and none of the Issuer or any of its Subsidiaries shall bear any liability for, any actions taken or events occurring during the Suspension Period (as defined below), or any actions taken at any time pursuant to any contractual obligation arising prior to the Reinstatement Date, regardless of whether such actions or events would have been permitted if the applicable Suspended Covenants remained in effect during such period. The period of time between the date of suspension of the covenants and the Reinstatement Date is referred to as the ''*Suspension Period*''.

On the Reinstatement Date, all Indebtedness Incurred during the Suspension Period will be deemed to have been outstanding on the Issue Date, so that it is classified as permitted under clause (b)(4) of the ''Limitation on Indebtedness and Issuances of Preferred Stock'' covenant; provided that all Indebtedness outstanding on the Reinstatement Date under a Credit Facility shall be deemed Incurred under clause (b)(1) of the ''Limitation on Indebtedness and Issuances of Preferred Stock'' covenant. Calculations made after the Reinstatement Date of the amount available to be made as Restricted Payments under the ''Limitation on Restricted Payments'' covenant will be made as though the ''Limitation on Restricted Payments'' covenant had been in effect since the Issue Date and throughout the Suspension Period.

Accordingly, Restricted Payments made during the Suspension Period will reduce the amount available to be made as Restricted Payments under the ''Limitation on Restricted Payments'' covenant to the extent such Restricted Payments were not otherwise permitted to be made pursuant to clauses (1) through (16) of part (b) of the ''Limitation on Restricted Payments'' covenant; provided that the amount available to be made as Restricted Payments on the Reinstatement Date under the ''Limitation on Restricted Payments'' covenant shall not be reduced below zero solely as a result of such Restricted Payments made during the Suspension Period. The Issuer will provide the Trustee with written notice of the commencement of any Suspension Period or Reinstatement Date. Until the Trustee receives such notice, it shall be entitled to assume no such Suspension Period or Reinstatement Date, as applicable, has occurred and will have no obligation to notify any Holder thereof until it has received such notice. The Trustee shall have no duty to monitor the ratings of the Notes and shall not be deemed to have any knowledge of the ratings of the Notes.

During any period when the Suspended Covenants are suspended, the Board of Directors of the Issuer may not designate any of its Subsidiaries as Unrestricted Subsidiaries pursuant to the Indenture.

Defaults

Each of the following is an ''Event of Default'':

(1) a default in the payment of interest on the Notes when due, continued for 30 days;

(2) a default in the payment of principal of or premium, if any, on any Note when due at its Stated Maturity, upon optional redemption, upon required purchase or redemption, upon declaration of acceleration or otherwise;

(3) the failure by the Issuer to comply with its obligations in the covenants described above under ''—Certain Covenants—Merger and Consolidation;''

(4) the failure by the Issuer or any Guarantor to comply for 60 days after notice (as specified below) with its other agreements contained in any Indenture Document;

(5) Indebtedness of the Issuer or any Restricted Subsidiary is not paid within any applicable grace period after Stated Maturity or is accelerated by the holders thereof because of a default and the total amount of such Indebtedness unpaid or accelerated exceeds \$25.0 million or its foreign currency equivalent (the ''*cross acceleration provision*'');

(6) certain events of bankruptcy, insolvency or reorganization of the Issuer, any Significant Subsidiary or any group of Restricted Subsidiaries that, taken together (if applicable, as of the date of the most recent audited consolidated financial statements of the Issuer and its Restricted Subsidiaries), would constitute a Significant Subsidiary (the ''*bankruptcy provisions*'');

(7) any final judgment or decree entered by a court or courts of competent jurisdiction that is non-appealable for the payment of money in excess of \$25.0 million or its foreign currency equivalent (net of any amounts which are covered by enforceable insurance policies issued by solvent carriers that have not denied coverage) is entered against the Issuer, any Significant Subsidiary or any group of Restricted Subsidiaries that, taken together (if applicable, as of the date of the most recent audited consolidated financial statements of the Issuer and its Restricted

Subsidiaries), would constitute a Significant Subsidiary, remains outstanding for a period of 60 consecutive days following such judgment and is not discharged, waived or stayed (the "*judgment default provision*"); or

(8) any Note Guarantee of a Significant Subsidiary or group of Guarantors that, taken together (if applicable, as of the date of the most recent internally available consolidated financial statements of the Issuer and its Restricted Subsidiaries), would constitute a Significant Subsidiary ceases to be in full force and effect (except as contemplated by the terms of such Note Guarantee) or is declared null and void in a judicial proceeding or any Guarantor denies or disaffirms its obligations under its Note Guarantee.

However, a default under clause (4) will not constitute an Event of Default until the Trustee or the Holders of 25% in principal amount of the outstanding Notes notify the Issuer (with a copy to the Trustee if notified by the Holders) in writing of the default demanding that the default be remedied and stating that such notice is a "Default Notice" and the Issuer does not cure such default within the time specified in such clauses after receipt of such notice.

If an Event of Default (other than an Event of Default described in clause (6) above) occurs and is continuing, the Trustee or the Holders of at least 25% in principal amount of the outstanding Notes may declare the principal of and accrued but unpaid interest and premium, if any, on all the Notes to be due and payable by notice in writing to the Issuer (with a copy to the Trustee if notified by the Holders) specifying such Event of Default and stating that such notice is a "Default Notice of Acceleration"; provided, however, that such principal amount and premium due and payable will be equal to the redemption price set forth under the caption "Optional Redemption" as if the Notes were redeemed on the date such Default Notice of Acceleration was given. Upon such a declaration, such principal, interest and premium, if any, shall be due and payable immediately. If an Event of Default described in clause (6) above occurs and is continuing, the principal of and interest and premium, if any, on all the Notes will ipso facto become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holders of the Notes; provided, however, that such principal amount and premium due and payable will be equal to the redemption price set forth under the caption "Optional Redemption" as if the Notes were redeemed on the date such Event of Default occurred. Subject to certain exceptions, the Holders of at least a majority in principal amount of the outstanding Notes by written notice to the Issuer and to the Trustee, may waive all past defaults and rescind and annul a declaration of acceleration and its consequences if (x) all existing Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived, (y) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction and (z) all outstanding fees and expenses of the Trustee incurred in connection with such default have been paid. For information as to the waiver of defaults, see "—Amendments and Waivers."

In the event of any Event of Default specified in clause (5) of the first paragraph above, such Event of Default and all consequences thereof (excluding, however, any resulting payment default) will be annulled, waived and rescinded, automatically and without any action by the Trustee or the Holders of the Notes, if within 30 days after such Event of Default arose the Issuer delivers an Officer's Certificate to the Trustee stating that (x) the Indebtedness or guarantee that is the basis for such Event of Default has been discharged or (y) the holders thereof have rescinded or waived the acceleration, notice or action (as the case may be) giving rise to such Event of Default or (z) the default that is the basis for such Event of Default has been cured, it being understood that in no event shall an acceleration of the principal amount of the Notes as described above be annulled, waived or rescinded upon the happening of any such events.

In case an Event of Default occurs and is continuing, the Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any of the Holders of the Notes unless such Holders have offered to the Trustee indemnity or security satisfactory to it against any loss, liability or expense. Except to enforce the right to receive payment of principal, premium (if any) or interest when due, no Holder of a Note may pursue any remedy with respect to the Indenture or the Notes unless:

(1) such Holder has previously given the Trustee notice that an Event of Default is continuing;

(2) Holders of at least 25% in principal amount of the outstanding Notes have requested the Trustee to pursue the remedy;

(3) such Holders have offered the Trustee security or indemnity satisfactory to it against any loss, liability or expense;

(4) the Trustee has not complied with such request within 60 days after the receipt thereof and the offer of security or indemnity, and

(5) Holders of a majority in principal amount of the outstanding Notes have not given the Trustee a direction inconsistent with such request within such 60-day period.

Subject to certain restrictions, the Holders of a majority in principal amount of the outstanding Notes are given the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee. The Trustee, however, may refuse to follow any direction that conflicts with law or the Indenture or is unduly prejudicial to the rights of any other holder of a Note or that would involve the Trustee in personal liability.

If a Default occurs, is continuing and is actually known to a Trust Officer of the Trustee, the Trustee shall mail to each Holder of the Notes notice of the Default within 90 days after it is actually known to a Trust Officer of the Trustee. Except in the case of a Default in the payment of principal of, premium, if any, or interest on any Note, the Trustee may withhold notice if and so long as a committee of its Trust Officers in good faith determines that withholding notice is not opposed to the interest of the Holders of the Notes. In addition, we are required to deliver to the Trustee, within 120 days after the end of each fiscal year, an Officer's Certificate indicating whether the signers thereof know of any Default that occurred during the previous year. We are required to deliver to the Trustee, within 30 days after we become aware of any event that would constitute a Default, written notice of such event, its status and what action we are taking or propose to take in respect thereof.

Amendments and Waivers

Subject to certain exceptions, the Indenture Documents may be amended with the consent of the Holders of a majority in principal amount of the Notes then outstanding (including consents obtained in connection with a tender offer or exchange for the Notes) and any past default or compliance with any provisions may also be waived with the consent of the Holders of a majority in principal amount of the Notes then outstanding. However, without the consent of each holder of an outstanding Note affected thereby, an amendment or waiver may not, among other things:

(1) reduce the amount of Notes whose Holders must consent to an amendment;

(2) reduce the rate of or extend the time for payment of interest on any Note;

(3) reduce the principal of or change the Stated Maturity of any Note;

(4) reduce the premium payable upon redemption or change the time at which any Note may be redeemed as described under ''—Optional Redemption,'' *provided* that any amendment to the minimum notice requirement may be made with the consent of the Holders of a majority in aggregate principal amount of the Notes then outstanding;

(5) make any Note payable in money other than that stated in the Note;

(6) amend the contractual right expressly set forth in the Indenture or the Notes of any Holder of the Notes to receive payment of principal of and interest on such Holder's Notes on or after the due dates therefor or to institute suit for the enforcement of any payment on or with respect to such Holder's Notes;

(7) make any change in the amendment provisions which require each Holder's consent or in the waiver provisions;

(8) make the Notes subordinated in right of payment to any other Indebtedness;

(9) except as expressly permitted in the Indenture Documents, modify the terms of any Note Guarantee of a Significant Subsidiary or the Note Guarantees of one or more Restricted

Subsidiaries that, taken together (if applicable, as of the date of the most recent internally available consolidated financial statements of the Issuer and its Restricted Subsidiaries), would constitute a Significant Subsidiary, in any manner that would materially and adversely affect the Holders;

(10) waive a default or Event of Default in the payment of principal of, premium, if any, or interest on the Notes (except a rescission of acceleration of the Notes by the Holders of at least a majority in principal amount of the outstanding Notes and a waiver of the payment default that results from such acceleration); or

(11) make any change in the provisions described under ''—Additional Amounts'' that adversely affects the rights of any holder of a Note or beneficial owner thereof or amend the terms of any Note or the Indenture in a way that would result in the loss of an exemption from any of the Taxes described thereunder.

Notwithstanding the preceding, without the consent of any Holder of the Notes, the Issuer, the Guarantors and the Trustee may amend the Indenture Documents:

(1) to cure any ambiguity, omission, mistake, defect or inconsistency;

(2) to provide for the assumption by a Successor Company of the obligations of the Issuer or any Guarantor under the Indenture Documents;

(3) to provide for uncertificated Notes in addition to or in place of certificated Notes (provided that the uncertificated Notes are issued in registered form for purposes of Section 163(f) of the Code);

(4) to add Guarantees or collateral with respect to the Notes or to release Guarantees with respect to the Notes in accordance with the applicable provisions of the Indenture;

(5) to add to the covenants of the Issuer or any Restricted Subsidiary for the benefit of the Holders of the Notes or to surrender any right or power conferred upon the Issuer or any Restricted Subsidiary;

(6) to make any change that would provide additional rights or benefits to the Holders or that does not materially and adversely affect the legal rights of any Holder of the Notes;

(7) to make any amendment to the provisions of the Indenture relating to the form, authentication, transfer and legending of Notes or to otherwise comply with the rules of any applicable securities depositary; *provided, however*, that (a) compliance with the Indenture as so amended would not result in Notes being transferred in violation of the Securities Act or any other applicable securities law and (b) such amendment does not materially and adversely affect the rights of Holders to transfer Notes;

(8) to conform the text of any Indenture Document to any provision of this ''Description of Notes'' to the extent that such provision in this ''Description of Notes'' was intended to be a verbatim recitation of a provision of such Indenture Document (as evidenced by an Officer's Certificate);

(9) to provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;

(10) to secure the Notes or the Note Guarantees pursuant to the requirements of the covenant described above under the subheading ''—Certain Covenants—Liens'';

(11) to release Liens securing the Notes in accordance with the last paragraph of the covenant described above under the subheading ''Certain Covenants—Liens'' or to confirm and evidence such release or the termination or discharge of any such Lien; or

(12) to evidence and provide for acceptance and appointment under the Indenture of a successor Trustee thereunder pursuant to the requirements thereof.

The consent of the Holders of the Notes is not necessary under the Indenture to approve the particular form of any proposed amendment, waiver or consent. It is sufficient if such consent approves the substance of the proposed amendment, waiver or consent.

After an amendment under the Indenture becomes effective, we are required to mail or electronically transmit to Holders of the Notes a notice briefly describing such amendment. However, the failure to give such notice to all Holders of the Notes, or any defect therein, will not impair or affect the validity of the amendment.

The Issuer will not, and will not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any holder of Notes for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid and is paid to all Holders of the Notes that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement; *provided, however*, that this covenant will not be breached if a Noteholder refuses such payment.

Transfer and Exchange

A Holder may transfer or exchange Notes in accordance with the Indenture. The registrar, the Trustee and any paying or transfer agent may require a Holder to furnish appropriate endorsements and transfer documents in connection with a transfer of Notes and the Issuer may require a Holder to pay all taxes and fees due on transfer required by law or permitted by the Indenture. The Issuer is not required to transfer or exchange any Note selected for redemption. Also, the Issuer is not required to transfer or exchange any Note for a period of 15 days before a selection of Notes to be redeemed. No service charge will be made for any registration of transfer or exchange of the Notes, but the Issuer may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with the transfer or exchange.

Satisfaction and Discharge

When (1) we deliver to the Trustee all outstanding Notes for cancelation or (2) all outstanding Notes (A) have become due and payable, whether at maturity or otherwise, (B) will become due and payable at their Stated Maturity within one year or (C) if redeemable at the option of the Issuer, are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption by the Trustee in the name, and at the expense, of the Issuer, and, in the case of clause (2), we irrevocably deposit with the Trustee funds sufficient to pay at Stated Maturity or upon redemption all outstanding Notes, including interest thereon to Stated Maturity or such redemption date, and if in either case we pay all other sums payable under the Indenture by us, then the Indenture and the Note Guarantees shall, subject to certain exceptions, cease to be of further effect.

Defeasance

The Issuer may, at its option and at any time, elect to have all of its obligations discharged with respect to the Notes issued under the Indenture, and have each Guarantor's obligation discharged with respect to its Note Guarantee (''*Legal Defeasance*'') and cure all then existing Events of Default except for:

(1) the rights of Holders of outstanding Notes to receive payments in respect of the principal of, or interest or premium, if any, on such Notes when such payments are due from the trust referred to below;

(2) the Issuer's obligations with respect to the Notes concerning issuing temporary Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payment and money for security payments held in trust;

(3) the rights, powers, trusts, duties and immunities of the Trustee, and the Issuer's obligations in connection therewith; and

(4) the Legal Defeasance provisions of the Indenture.

In addition, the Issuer may, at its option and at any time, elect to have its obligations and those of each Guarantor released with respect to clause (3) of paragraph (a) under ''—Certain Covenants—Merger and Consolidation'' and all other covenants described herein under ''Certain Covenants'' (''Covenant Defeasance'') and thereafter any omission to comply with such obligations shall not constitute a Default or Event of Default with respect to the Notes. In the event Covenant Defeasance occurs, certain events (not including failure to pay or bankruptcy, receivership, rehabilitation and insolvency events pertaining to the Issuer) described under ''Defaults'' will no longer constitute an Event of Default with respect to the Notes.

We may exercise our Legal Defeasance option notwithstanding our prior exercise of our Covenant Defeasance option. If we exercise our Legal Defeasance option, payment of the Notes may not be accelerated because of an Event of Default with respect thereto. If we exercise our Covenant Defeasance option, payment of the Notes may not be accelerated because of an Event of Default specified in clause (4), (5), (6) (with respect only to Significant Subsidiaries), (7) or (8) under ‘‘—Defaults’’ above or because of the failure of the Issuer to comply with clause (3) of the first paragraph under ‘‘—Certain Covenants—Merger and Consolidation’’ above. If we exercise our Legal Defeasance option or our Covenant Defeasance option, each Guarantor will be released from all of their respective obligations with respect to the Note Guarantees.

In order to exercise either Legal Defeasance or Covenant Defeasance:

(1) the Issuer must irrevocably deposit with the Trustee, in trust, for the benefit of the Holders of the Notes, cash in U.S. dollars, U.S. Government Obligations, or a combination of cash in U.S. dollars and U.S. Government Obligations, in amounts as will be sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of, or interest and premium, if any, on the outstanding Notes on the Stated Maturity or on the applicable redemption date, as the case may be, and the Issuer must specify whether the Notes are being defeased to Stated Maturity or to a particular redemption date;

(2) in the case of Legal Defeasance, the Issuer has delivered to the Trustee an Opinion of Counsel confirming that, subject to customary assumptions and exclusions, (a) the Issuer has received from, or there has been published by, the Internal Revenue Service a ruling or (b) since the issuance of the Notes, there has been a change in the applicable Federal income tax law, in either case to the effect that, and based thereon such Opinion of Counsel will confirm that, subject to customary assumptions and exclusions, the Holders of the outstanding Notes will not recognize income, gain or loss for Federal income tax purposes with respect to their ownership of the Notes solely as a result of such Legal Defeasance and will be subject to Federal income tax with respect to their ownership of the Notes on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(3) in the case of Covenant Defeasance, the Issuer has delivered to the Trustee an Opinion of Counsel confirming that, subject to customary assumptions and exclusions, the Holders of the outstanding Notes will not recognize income, gain or loss for Federal income tax purposes with respect to their ownership of the Notes solely as a result of such Covenant Defeasance and will be subject to Federal income tax with respect to their ownership of the Notes on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(4) no Default or Event of Default has occurred and is continuing on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to make such deposit and the grant of any Lien securing such borrowing);

(5) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under any material agreement or instrument (other than the Indenture) to which the Issuer or any of its Subsidiaries is a party or by which the Issuer or any of its Subsidiaries is bound (other than resulting from the borrowing of funds to be applied to make such deposit and the grant of any Lien securing such borrowing);

(6) the Issuer must deliver to the Trustee an Officer’s Certificate stating that the deposit was not made by the Issuer with the intent of preferring the Holders of Notes over the other creditors of the Issuer with the intent of defeating, hindering, delaying or defrauding creditors of the Issuer or others; and

(7) the Issuer must deliver to the Trustee an Officer’s Certificate and an Opinion of Counsel, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

Concerning the Trustee

Wilmington Trust, National Association is to be the Trustee under the Indenture. We have appointed the Trustee as Registrar and Paying Agent with regard to the Notes.

The Indenture contains certain limitations on the rights of the Trustee, should it become a creditor of the Issuer, to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The Trustee will be permitted to engage in other transactions; *provided, however*, if it acquires any conflicting interest it must either eliminate such conflict within 90 days or resign.

The Holders of a majority in principal amount of the outstanding Notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. If an Event of Default occurs (and is not cured), the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. The Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any Holder of Notes, unless such Holder shall have offered to the Trustee security and indemnity satisfactory to it against any loss, liability or expense and then only to the extent required by the terms of the Indenture.

No Personal Liability of Directors, Officers, Employees and Stockholders

No director, officer, employee, incorporator or stockholder of the Issuer or any Guarantor will have any liability for any obligations of the Issuer or any Guarantor under the Notes, any Note Guarantee or the Indenture or for any claim based on, in respect of, or by reason of such obligations or their creation. Each Holder of the Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. Such waiver and release may not be effective to waive liabilities under the U.S. Federal securities laws, and it is the view of the SEC that such a waiver is against public policy.

Consent to Jurisdiction

The Indenture Documents will provide that each of the Issuer and the Guarantors will irrevocably submit to the jurisdiction of any New York State or United States Federal court sitting in the Borough of Manhattan of the City of New York over any suit, action or proceeding arising out of or relating to the Indenture or any other Indenture Document. Each of the Issuer and the Guarantors will irrevocably waive, to the fullest extent permitted by applicable law, any objection which it may now or hereafter have to the laying of venue of any such suit, action or proceeding brought in such courts and any claim that any such suit, action or proceeding brought in such courts, has been brought in an inconvenient forum and any right to which it may be entitled on account of place of residence or domicile. Each of the Issuer and the Guarantors will agree that final judgment in any such suit, action or proceeding brought in such a court shall be conclusive and binding on them and may be enforced in any court to the jurisdiction of which each of them is subject by a suit upon such judgment; *provided*, that service of process is effected upon the Issuer or such applicable Guarantor, as the case may be, in the manner specified in the following paragraph or as otherwise permitted by applicable law.

As long as any of the Notes remain outstanding, each of the Issuer and the Guarantors will at all times have an authorized agent in the City of New York, upon whom process may be served in any legal action or proceeding arising out of or relating to the Indenture or any other Indenture Document. Service of process upon such agent and written notice of such service mailed or delivered to the Issuer or the applicable Guarantor, as the case may be, shall to the extent permitted by applicable law be deemed in every respect effective service of process upon the Issuer or such Guarantor, as the case may be, in any such legal action or proceeding. Each of the Issuer and the Guarantors will appoint Corporation Service Company in New York, New York as its agent for such purpose, and covenants and agrees that service of process in any suit, action or proceeding may be made upon it at the office of such agent at 1180 Avenue of the Americas, Suite 210, New York, New York 10036-2721, USA (or at such other address or at the office of such other authorized agent, in each case, located in New York, New York as the Issuer or any Guarantor may designate by written notice to the Trustee).

No Immunity

The Indenture Documents will provide that to the extent that the Issuer or any Guarantor, as the case may be, may be entitled, in any jurisdiction in which judicial proceedings may at any time be commenced with respect to the Indenture or any other Indenture Document, to claim for itself or its revenues, assets or properties any immunity from suit, the jurisdiction of any court, attachment prior to judgment, attachment in aid of execution of judgment, set-off, execution of a judgment or any other legal process, and to the extent that in any such jurisdiction there may be attributed to such Person such an immunity (whether or not claimed), each of the Issuer and the Guarantors hereby irrevocably agrees not to claim and hereby irrevocably waives such immunity to the fullest extent permitted by the law of the applicable jurisdiction.

Judgment Currency

The Indenture Documents will provide that the transactions contemplated thereby are part of an international transaction in which the specification of United States dollars and payment in the United States of America is of the essence, and the obligations of each of the Issuer and the Guarantors under the Indenture and the other Indenture Documents to make payment to (or for the account of) each Holder of Notes in United States dollars shall not be discharged or satisfied by any tender or recovery pursuant to any judgment expressed in or converted into any other currency or in another place except to the extent that such tender or recovery results in the effective receipt by such Holder of Notes in the United States of America of the full amount of United States dollars payable to such Holder of Notes under the Indenture Documents to which such Holder of Notes is party or otherwise bound. If for the purpose of obtaining or enforcing judgment in any court it is necessary to convert a sum due under any Indenture Document in United States dollars into another currency (for the purposes of this ''Judgment Currency'' provision, hereinafter the ''*judgment currency*''), the rate of exchange which shall be applied shall be that at which in accordance with normal banking procedures such Holder of Notes could purchase such United States dollars in the United States of America with the judgment currency on the business day next preceding the day on which such judgment is rendered. The obligation of each of the Issuer and the Guarantors in respect of any such sum due from it to such Holder of Notes(in this ''Judgment Currency'' provision called an ''*Entitled Person*'') shall, notwithstanding the rate of exchange actually applied in rendering such judgment, be discharged only to the extent that on the business day following the receipt by such Entitled Person of any sum adjudged to be due hereunder in the judgment currency such Entitled Person may in accordance with normal banking procedures purchase and transfer United States dollars to the United States of America with the amount of the judgment currency so adjudged to be due; and each of the Issuer and the Guarantors hereby, as a separate obligation and notwithstanding any such judgment, agrees to indemnify such Entitled Person on demand, in United States dollars, for the amount (if any) by which the sum originally due to such Entitled Person in United States dollars hereunder exceeds the amount of the United States dollars so purchased and transferred.

English Language

The Indenture and all other Indenture Documents shall be in the English language, except as required by applicable law (in which event certified English translations thereof shall be provided by the Issuer to the Trustee). All documents, certificates, reports or notices to be delivered or communications to be given or made by any party thereto pursuant to the terms thereof or any other Indenture Document shall be in the English language or, if originally written in another language, shall be accompanied by an accurate English translation upon which any party to any Indenture Document shall have the right to rely for all purposes of the Indenture and the other Indenture Documents.

Governing Law

The Indenture Documents, including the Notes, will be governed by, and construed in accordance with, the laws of the State of New York.

Certain Definitions

''*Acquired Indebtedness*'' means, with respect to any specified Person,

(1) Indebtedness of any other Person existing at the time such other Person is merged with or into or became a Restricted Subsidiary of such specified Person, including, without limitation, Indebtedness incurred in connection with, or in contemplation of, such other Person merging with or into or becoming a Restricted Subsidiary of such specified Person, and

(2) Indebtedness secured by a Lien encumbering any asset acquired by such specified Person.

''*Affiliate*'' of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, ''control'' when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms ''controlling'' and ''controlled'' have meanings correlative to the foregoing.

"*Asset Disposition*" means any sale, lease, transfer or other disposition (or series of related sales, leases, transfers or dispositions) by the Issuer or any Restricted Subsidiary, including any disposition by means of a merger, consolidation or similar transaction or issuances of Capital Stock (each referred to for the purposes of this definition as a "disposition"), of:

(1) any shares of Capital Stock of a Restricted Subsidiary (other than directors' qualifying shares, shares required by applicable law to be held by a Person other than the Issuer or a Restricted Subsidiary or Preferred Stock of Restricted Subsidiaries issued in compliance with the covenant described under "—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock");

(2) all or substantially all the assets of any division or line of business of the Issuer or any Restricted Subsidiary; or

(3) any other assets of the Issuer or any Restricted Subsidiary outside of the ordinary course of business of the Issuer or such Restricted Subsidiary other than, in the case of clauses (1) and (2) above and this clause (3),

   (A) a disposition by a Subsidiary to the Issuer or by the Issuer or a Subsidiary to a Restricted Subsidiary;

   (B) for purposes of the covenant described under "—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock" only, (x) a disposition that constitutes a Permitted Investment, or that constitutes a Restricted Payment (or would constitute a Restricted Payment but for the exclusions from the definition thereof) that is not prohibited by the covenant described under "—Certain Covenants—Limitation on Restricted Payments" and (y) a disposition of all or substantially all the properties and assets of the Issuer and its Restricted Subsidiaries in accordance with the covenant described under "—Certain Covenants—Merger and Consolidation";

   (C) a disposition of assets with a Fair Market Value of less than $20.0 million;

   (D) a disposition of cash or Cash Equivalents;

   (E) the granting of Liens not prohibited by the covenant described above under the caption "—Certain Covenants—Limitation on Liens" or the granting of Liens by an Unrestricted Subsidiary or in the Capital Stock of an Unrestricted Subsidiary;

   (F) licensing or sublicensing of intellectual property or other general intangibles and licenses, leases or subleases of other property in the ordinary course of business that do not materially interfere with the business of the Issuer and the Restricted Subsidiaries;

   (G) dispositions (including without limitation surrenders and waivers) of accounts receivable or other contract rights in connection with the compromise, settlement or collection thereof;

   (H) any sale or disposition of any property or equipment that has become damaged, worn-out, no longer necessary or useful or obsolete or pursuant to a program for the maintenance or upgrading of such property or equipment;

   (I) any disposition of assets that constitutes a Change of Control to the extent the Issuer has complied with the provisions under "—Change of Control Offer;"

   (J) the unwinding of any Hedging Obligations;

   (K) the termination, surrender or sublease of leases (as lessee), licenses (as licensee), subleases (as sublessee) and sublicenses (as sublicensee) in the ordinary course of business;

   (L) any surrender or waiver of contract rights or the settlement, release, recovery on or surrender of contract, tort or other claims of any kind;

   (M) transfers of property that is the subject of a casualty event or eminent domain or condemnation proceeding;

(N) dispositions of Investments in joint ventures to the extent required by any buy/sell arrangement or similar binding arrangement; and

(O) to the extent allowable under Section 1031 of the Code, any exchange of like property (excluding any boot thereon) for use in a Related Business.

"*Attributable Debt*" in respect of a Sale and Leaseback Transaction means, at any date of determination,

(a) if such Sale and Leaseback Transaction is a Capital Lease Obligation, the amount of Indebtedness represented thereby according to the definition of "Capital Lease Obligations"; and

(b) in all other instances, the present value (discounted at the interest rate set forth or implicit in the transaction (as determined in good faith by the Issuer), compounded annually) of the total obligations of the lessee or charterer for rental payments during the remaining term of the lease or bareboat charter included in such Sale and Leaseback Transaction (including any period for which such lease has been extended).

"*Average Life*" means, as of the date of determination, with respect to any Indebtedness, the quotient obtained by dividing:

(1) the sum of the products of the numbers of years from the date of determination to the dates of each successive scheduled principal payment of or redemption or similar payment with respect to such Indebtedness multiplied by the amount of such payment by

(2) the sum of all such payments.

"*Bank Product Obligations*" means all Obligations with respect to facilities or services related to cash management, including treasury, depository, overdraft, credit or debit card, purchase card, electronic funds transfer, cash pooling and other cash management arrangements and commercial credit card and merchant card services.

"*Board of Directors*" means:

(1) with respect to a corporation, the board of directors of the corporation or any committee thereof duly authorized to act on behalf of such board;

(2) with respect to a partnership, the Board of Directors of the general partner of the partnership;

(3) with respect to a limited liability company, the managing member or members or any controlling committee of managing members thereof; and

(4) with respect to any other Person, the board or committee of such Person serving a similar function.

"*Business Day*" means each day which is not a Legal Holiday.

"*Capital Lease Obligation*" means, at the time the determination is to be made, an obligation that is required to be classified and accounted for as a capital lease for financial reporting purposes in accordance with GAAP, and the amount of Indebtedness represented by such obligation shall be the capitalized amount of such obligation determined in accordance with GAAP, in each case, as in effect on the Issue Date. The Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty. For purposes of the covenant described under "—Certain Covenants—Limitation on Liens," a Capital Lease Obligation will be deemed to be secured by a Lien on the property being leased.

"*Capital Stock*" of any Person means any and all shares, interests (including partnership interests or membership interests), rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock and any interest or participation that confers the right to receive a share of the profits and losses of, or distributions of property of, such Person, but excluding any debt securities convertible or exchangeable into such equity.

"*Cash-Collateralized Credit Support*" means letters of credit or bank guarantees issued under any Material Credit Facility so long as such letters of credit and bank guarantees have been cash collateralized at least at 100% of their aggregate stated amount.

"*Cash Equivalents*" means any of the following:

(1) U.S. dollars, pounds sterling, euros, or the national currency of any member state in the European Union;

(2) any investment in direct obligations of, or obligations guaranteed or insured by, the United States of America or any agency thereof or any country that is a member of the European Union or any agency or instrumentality thereof maturing within two years of the date of acquisition thereof;

(3) investments in demand and time deposit accounts, certificates of deposit and money market deposits and Eurodollar time deposits maturing within one year of the date of acquisition thereof issued by a bank or trust company which bank or trust company has capital, surplus and undivided profits aggregating in excess of $250.0 million and has outstanding debt which is rated "A" (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Section 3(a)(62) of the Exchange Act) or a reasonably equivalent rating of another internationally recognized ratings agency;

(4) repurchase obligations for underlying securities of the types described in clauses (2) and (3) above entered into with a financial institution meeting the qualifications described in clause (3) above;

(5) investments in commercial paper, maturing not more than one year after the date of acquisition, issued by a corporation (other than an Affiliate of the Issuer) organized and in existence under the laws of the United States of America or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of "P-1" (or higher) according to Moody's or "A-1" (or higher) according to S&P (or reasonably equivalent ratings of another internationally recognized ratings agency if both Moody's and S&P cease publishing ratings of investments);

(6) investments in securities with maturities of two years or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least "A" by S&P or "A" by Moody's (or reasonably equivalent ratings of another internationally recognized ratings agency if both Moody's and S&P cease publishing ratings of investments);

(7) Indebtedness issued by Persons (other than the Permitted Holders or any of their Affiliates) with a rating of "A" or higher from S&P or "A-2" or higher from Moody's (or reasonably equivalent ratings of another internationally recognized ratings agency if both Moody's and S&P cease publishing ratings of investments);

(8) investments in money market funds that invest substantially all their assets in securities of the types described in clauses (1) through (7) above; and

(9) instruments equivalent to those referred to in clauses (1) through (8) above denominated in euros or any other foreign currency comparable in credit quality and tenor to those referred to above and commonly used by corporations for cash management purposes in any jurisdiction outside the United States to the extent reasonably required in connection with any business conducted by any Restricted Subsidiary organized in such jurisdiction.

"*Change of Control*" means the occurrence of any one or more of the following:

(1) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger, amalgamation or consolidation), in one or a series of related transactions, of all or substantially all of the properties and assets of the Issuer and its Restricted Subsidiaries, taken as a whole, to any "person" or "group" (as each such term is used in Section 13(d) of the Exchange Act) other than to the Issuer, any of its Restricted Subsidiaries or one or more Permitted Holders;

(2) the adoption by holders of the Capital Stock of the Issuer of a plan for the liquidation or dissolution of the Issuer (other than a transaction that complies with the provisions described under the caption "—Certain Covenants—Merger and Consolidation"); or

(3) any ‘‘person’’ or ‘‘group’’ (each as defined in clause (1) above), other than one or more Permitted Holders, is or becomes the ‘‘beneficial owner’’ (as defined in Rules 13d-3 and 13d-5 under the Exchange Act, directly or indirectly, of more than 50% of the total voting power of the Voting Stock of the Issuer.

Notwithstanding the foregoing, a transaction will not be deemed to involve a Change of Control under clause (3) above if (i) the Issuer becomes a direct or indirect wholly-owned subsidiary of an ultimate parent holding company and (ii)(a) the direct or indirect holders of the Voting Stock of such ultimate parent holding company immediately following that transaction are substantially the same as the holders of the Issuer’s Voting Stock immediately prior to that transaction or (b) immediately following that transaction, no ‘‘person’’ or ‘‘group’’ (each as defined in clause (1) above), other than one or more Permitted Holders, is the ‘‘beneficial owner’’ (as defined in Rule 13d-3 and 13d-5 under the Exchange Act, directly or indirectly, of more than 50% of the total voting power of the Voting Stock of the ultimate parent holding company.

‘‘*Change of Control Repurchase Event*’’ means the occurrence of both a Change of Control and a Rating Event with respect to the Notes.

‘‘*Code*’’ means the Internal Revenue Code of 1986, as amended.

‘‘*Commodity Agreement*’’ means any swap, cap, collar, forward sale or other agreement or arrangement designed to protect against fluctuations in commodity prices.

‘‘*Consolidated Coverage Ratio*’’ as of any date of determination means the ratio of (x) the aggregate amount of EBITDA for the period of the most recently ended four full consecutive fiscal quarters for which internal financial statements are available prior to the date of such determination to (y) Consolidated Interest Expense for such four fiscal quarters; *provided, however*, that:

(1) if the Issuer or any Restricted Subsidiary has Incurred any Indebtedness since the beginning of such period that remains outstanding or if the transaction giving rise to the need to calculate the Consolidated Coverage Ratio is an Incurrence of Indebtedness, or both, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving effect on a *pro forma* basis to such Indebtedness as if such Indebtedness had been Incurred on the first day of such period, *provided*, however, that the *pro forma* calculation shall not give effect to any Indebtedness Incurred on such date of determination (or the proceeds thereof) pursuant to the provisions described in paragraph (b) of the covenant described above under the caption ‘‘—Limitation on Indebtedness and Issuances of Preferred Stock.’’

(2) if the Issuer or any Restricted Subsidiary has repaid, repurchased, defeased or otherwise discharged any Indebtedness since the beginning of such period or if any Indebtedness is to be repaid, repurchased, defeased or otherwise discharged (in each case other than (i) Indebtedness Incurred under any revolving credit facility unless such Indebtedness has been permanently repaid and has not been replaced or (ii) Indebtedness Incurred on such date of determination pursuant to the provisions described in paragraph (b) of the covenant described above under the caption ‘‘—Limitation on Indebtedness and Issuances of Preferred Stock’’) on the date of the transaction giving rise to the need to calculate the Consolidated Coverage Ratio, EBITDA and Consolidated Interest Expense for such period shall be calculated on a *pro forma* basis as if such repayment, repurchase, defeasance or other discharge had occurred on the first day of such period and as if the Issuer or such Restricted Subsidiary had not been required to pay or accrue the Consolidated Interest Expense during such period in respect of the Indebtedness being repaid, repurchased, defeased or otherwise discharged;

(3) if since the beginning of such period the Issuer or any Restricted Subsidiary shall have made any Asset Disposition, EBITDA for such period shall be reduced by an amount equal to EBITDA (if positive) directly attributable to the assets which are the subject of such Asset Disposition for such period, or increased by an amount equal to EBITDA (if negative), directly attributable thereto for such period and Consolidated Interest Expense for such period shall be reduced by an amount equal to the Consolidated Interest Expense directly attributable to any Indebtedness of the Issuer or any Restricted Subsidiary repaid, repurchased, defeased or otherwise discharged with respect to the Issuer and its continuing Restricted Subsidiaries in connection with such Asset Disposition for

such period (or, if the Capital Stock of any Restricted Subsidiary is sold, the Consolidated Interest Expense for such period directly attributable to the Indebtedness of such Restricted Subsidiary to the extent the Issuer and its continuing Restricted Subsidiaries are no longer liable for such Indebtedness after such sale);

(4) if since the beginning of such period the Issuer or any Restricted Subsidiary (by merger or otherwise) shall have made an Investment or an acquisition of assets, including any acquisition of assets occurring in connection with a transaction requiring a calculation to be made hereunder, which constitutes all or substantially all of an operating unit of a business, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving *pro forma* effect thereto (including the Incurrence of any Indebtedness) as if such Investment or acquisition had occurred on the first day of such period; and

(5) if since the beginning of such period any Person that subsequently became a Restricted Subsidiary or was merged with or into the Issuer or any Restricted Subsidiary since the beginning of such period shall have made any Asset Disposition, any Investment or acquisition of assets that would have required an adjustment pursuant to clause (3) or (4) above if made by the Issuer or a Restricted Subsidiary during such period, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving *pro forma* effect thereto as if such Asset Disposition, Investment or acquisition had occurred on the first day of such period.

For purposes of this definition, whenever *pro forma* effect is to be given to an acquisition of assets, the amount of income or earnings relating thereto and the amount of Consolidated Interest Expense associated with any Indebtedness Incurred in connection therewith, the *pro forma* calculations shall be determined in good faith by a responsible financial or accounting Officer of the Issuer. If any Indebtedness bears a floating rate of interest and is being given *pro forma* effect, the interest on such Indebtedness shall be calculated based upon the actual rates in effect during such period (taking into account any Interest Rate Agreement applicable to such Indebtedness). If any Indebtedness is incurred under a revolving credit facility and is being given *pro forma* effect, the interest on such Indebtedness shall be calculated based on the average daily balance of such Indebtedness for the four fiscal quarters subject to the *pro forma* calculation to the extent that such Indebtedness was incurred solely for working capital purposes.

Any *pro forma* calculations may include the reduction in costs for the applicable period resulting from, or in connection with, the acquisition of assets or other transaction or event which is being given *pro forma* effect that have been realized or for which the steps necessary for realization have been taken or will be taken within 12 months following such acquisition or other transaction or event (including *pro forma* cost reductions regardless of whether the cost savings could then be reflected in *pro forma* financial statements in accordance with Regulation S-X under the Securities Act); *provided, however*, that such adjustments must be made in good faith by a responsible financial or accounting officer of the Issuer.

"*Consolidated Interest Expense*" means, for any period, the total interest expense of the Issuer and its consolidated Restricted Subsidiaries, as determined in accordance with GAAP, (a) plus, to the extent not included in such total interest expense, and to the extent incurred by the Issuer or the Restricted Subsidiaries, without duplication:

(1) interest expense attributable to Capital Lease Obligations;

(2) amortization of original issue discount and bond premium;

(3) net payments and receipts (if any) pursuant to interest rate Hedging Obligations (*provided, however*, that if interest rate Hedging Obligations result in net benefits rather than costs, such benefits shall be credited to reduce Consolidated Interest Expense);

(4) non-cash interest expense (but excluding any non-cash interest expense attributable to the movement in the mark to market valuation of Hedging Obligations or other derivative instruments pursuant to GAAP); and

(5) all cash dividend payments in respect of all Disqualified Stock and all other Preferred Stock of the Issuer and its Restricted Subsidiaries, in each case, held by Persons other than the Issuer or a Wholly Owned Subsidiary (other than dividends payable solely in Capital Stock (other than Disqualified Stock) of the Issuer);

(b) minus

(1) interest income for such period; and

(2) amortization of deferred financing fees, debt issuance costs, commissions, fees and expenses and expensing of any financing fees.

"*Consolidated Net Income*" means, for any period, the net income of the Issuer and its consolidated Restricted Subsidiaries, as determined in accordance with GAAP; *provided, however*, that there shall not be included in such Consolidated Net Income:

(1) any net income of any Person (other than the Issuer) if such Person is not a Restricted Subsidiary, except that the Issuer's equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Issuer or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Restricted Subsidiary, to the limitations contained in clause (2) below);

(2) any net income of any Restricted Subsidiary (other than a Guarantor) if such Restricted Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to the Issuer, except that:

(A) the Issuer's equity in the net income of any such Restricted Subsidiary for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed (or, if greater, for purposes of the calculation of the Consolidated Coverage Ratio only, permitted at the date of determination to be distributed) by such Restricted Subsidiary during such period to the Issuer or another Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to another Restricted Subsidiary, to the limitation contained in this clause); and

(B) the Issuer's equity in a net loss of any such Restricted Subsidiary for such period shall be included in determining such Consolidated Net Income;

(3) any gain (or loss) from discontinued operations and any gain (or loss) realized upon the sale or other disposition of any assets of the Issuer, its consolidated Subsidiaries or any other Person (including pursuant to any sale-and-leaseback arrangement) which are not sold or otherwise disposed of in the ordinary course of business and any gain (or loss) realized upon the sale or other disposition of any Capital Stock of any Person;

(4) any after tax effect of extraordinary, non-recurring or unusual gains or losses (including relating to severance, relocation, one-time compensation and restructuring charges);

(5) the cumulative effect of a change in accounting principles;

(6) any unrealized non-cash gains or losses or charges in respect of Hedging Obligations (including those resulting from the application of FASB ASC 815); provided that Consolidated Net Income shall include realized gains or losses in respect of Hedging Obligations;

(7) any non-cash compensation charge arising from any grant of stock, stock options or other equity-based awards of the Issuer, any of its Subsidiaries or any direct or indirect parent of the Issuer;

(8) any fees, expenses or charges (other than depreciation, depletion or amortization expense) related to any equity offering, Permitted Investment, acquisition, disposition, recapitalization or the incurrence of Indebtedness permitted to be incurred by the Indenture (including a refinancing thereof) (whether or not successful), including such fees, expenses and charges relating to the issuance of the Notes;

(9) any non-cash goodwill or intangible asset impairment charges pursuant to FASB ASC 350;

(10) any increase or decrease in expenses resulting from the application of purchase accounting principles in connection with any acquisition, including any increase in expenses (including, but not limited to, depreciation, depletion or amortization expense) associated with any gain resulting from the impact of a bargain purchase in a business combination;

(11) mobilization and activation costs in respect of any Rig that is, or in the good faith judgment of the Issuer is reasonably expected to be, the subject of a drilling contract;

(12) legal and other related costs associated with lobbying and similar activities;

(13) an amount equal to the amount of tax distributions actually made to any direct or indirect parent of the Issuer in respect of such period in accordance with clause (b)(10) under "—Certain Covenants—Limitation on Restricted Payments" shall be included in the calculation of Consolidated Net Income as though such amounts had been paid as income taxes directly by the Issuer for such period; and

(14) an amount equal to the amount of income, business, personal property and franchise or similar taxes paid by a third party (other than any direct or indirect parent of the Issuer) for or on behalf of the Issuer or any of its consolidated Restricted Subsidiaries shall be included in the calculation of Consolidated Net Income as though such amounts had been paid as taxes directly by the Issuer or such consolidated Restricted Subsidiary to the extent such amounts did not already reduce Consolidated Net Income for the respective period.

Notwithstanding the foregoing, for the purposes of the covenant described under "—Certain Covenants—Limitation on Restricted Payments" only, there shall be excluded from Consolidated Net Income any repurchases, repayments or redemptions of Investments, proceeds realized on the sale of Investments or return of capital to the Issuer or a Restricted Subsidiary to the extent such repurchases, repayments, redemptions, proceeds or returns increase the amount of Restricted Payments permitted under such covenant pursuant to clause (a)(3)(d) thereof.

"*Credit Agreement*" means that certain Credit Agreement, dated as of February 24, 2014, by and among, the Issuer, the subsidiary guarantors from time to time party thereto, RBC Europe Limited (and its successors and assigns), as administrative agent and collateral agent, and the other agents, arrangers and lenders party thereto from time to time, including any guarantees, collateral documents, instruments and agreements executed in connection therewith, in each case as amended, extended, renewed, restated, supplemented, replaced (whether or not upon termination and whether with the original lenders, institutional investors or otherwise), refinanced (including through the issuance of debt securities), restructured or otherwise modified (in whole or in part, and without limitation as to amount, terms, conditions, covenants and other provisions) from time to time, and any agreement (and related document) governing Indebtedness incurred to refinance, in whole or in part, the borrowings, other extensions of credit and commitments then outstanding or permitted to be outstanding under such Credit Agreement or successor Credit Agreement, whether by the same or any other agent, lender or group of lenders or institutional investors.

"*Credit Facility*" means one or more debt facilities, including the Credit Agreement and any other senior secured debt facilities contemplated under the Credit Agreement or other financing arrangements designated by the Issuer from time to time (including commercial paper facilities or indentures) providing for revolving credit loans, term loans, letters of credit, bank guarantees or other long-term indebtedness, including any notes, Guarantees, collateral documents, instruments and agreements executed in connection therewith, and in each case, as amended, extended, renewed, restated, supplemented, replaced (whether or not upon termination and whether with the original lenders, institutional investors or otherwise), refinanced (including through the issuance of debt securities), restructured or otherwise modified (in whole or in part, and without limitation as to amount, terms, conditions, covenants and other provisions) from time to time, and any agreement (and related document) governing Indebtedness incurred to refinance, in whole or in part, the borrowings, other extensions of credit and commitments then outstanding or permitted to be outstanding under such Credit Facility or successor Credit Facility, whether by the same or any other agent, lender or group of lenders (or institutional investors) or whether with the same or any different borrower.

"*Currency Agreement*" means any foreign exchange contract, currency swap agreement or other similar agreement with respect to currency values.

"*Customary Recourse Exceptions*" means, with respect to any Non-Recourse Debt, exclusions from the exculpation provisions with respect to such Non-Recourse Debt for the voluntary bankruptcy of such Unrestricted Subsidiary, fraud, misapplication of cash, environmental claims, waste, willful destruction and other circumstances customarily excluded by lenders from exculpation provisions or included in separate indemnification agreements in non-recourse financings as determined in good faith by the Issuer.

"*Default*" means any event which is, or after notice or passage of time or both would be, an Event of Default.

"*Designated Noncash Consideration*" means the Fair Market Value of noncash consideration received by the Issuer or a Restricted Subsidiary in connection with an Asset Disposition that is so designated as Designated Noncash Consideration pursuant to an Officer's Certificate, setting forth the basis of such valuation, executed by an Officer of the Issuer, less the amount of cash or Cash Equivalents received in connection with a subsequent sale of such Designated Noncash Consideration.

"*Disqualified Stock*" means, with respect to any Person, any Capital Stock which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder) or upon the happening of any event:

(1) matures or is mandatorily redeemable (other than redeemable only for Capital Stock of such Person which is not itself Disqualified Stock) pursuant to a sinking fund obligation or otherwise;

(2) is convertible or exchangeable at the option of the holder for Indebtedness or Disqualified Stock; or

(3) is mandatorily redeemable or must be purchased upon the occurrence of certain events or otherwise, in whole or in part;

in each case on or prior to the date that is 91 days after the Stated Maturity of the Notes; *provided, however*, that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to purchase or redeem such Capital Stock upon the occurrence of an "asset sale" or "change of control" or similar provision occurring prior to the date that is 91 days after the Stated Maturity of the Notes shall not constitute Disqualified Stock if any such requirement only becomes operative after compliance with such terms applicable to the Notes, including the purchase of any Notes tendered pursuant thereto; provided, further, however, that if such Capital Stock is issued to any employee or to any plan for the benefit of employees of the Issuer, its Subsidiaries or any direct or indirect parent of the Issuer or by any such plan to such employees, such Capital Stock shall not constitute Disqualified Stock solely because it may be required to be repurchased by the Issuer or any direct or indirect parent of the Issuer in order to satisfy applicable statutory or regulatory obligations or as a result of such employee's termination, death or disability.

The amount of any Disqualified Stock that does not have a fixed redemption, repayment or repurchase price will be calculated in accordance with the terms of such Disqualified Stock as if such Disqualified Stock were redeemed, repaid or repurchased on any date on which the amount of such Disqualified Stock is to be determined pursuant to the Indenture; *provided, however*, that if such Disqualified Stock could not be required to be redeemed, repaid or repurchased at the time of such determination, the redemption, repayment or repurchase price will be the book value of such Disqualified Stock as reflected in the most recent financial statements of such Person.

"*EBITDA*" for any period means the sum of Consolidated Net Income, plus the following to the extent deducted in calculating such Consolidated Net Income, without duplication:

(1) (a) all income, business, personal property and franchise or similar taxes of the Issuer and its consolidated Restricted Subsidiaries, paid or accrued (including any such taxes paid by a third party (other than any direct or indirect parent of the Issuer) for or on behalf of the Issuer or any of its consolidated Restricted Subsidiaries) and (b) an amount equal to the amount of tax distributions actually made to any direct or indirect parent of the Issuer in respect of such period in accordance with clause (b)(9) under "—Certain Covenants—Limitation on Restricted Payments";

(2) Consolidated Interest Expense;

(3) depreciation and amortization expense of the Issuer and its consolidated Restricted Subsidiaries (excluding amortization expense attributable to a prepaid item that was paid in cash in a prior period);

(4) all other non-cash charges of the Issuer and its consolidated Restricted Subsidiaries (excluding any such non-cash charge to the extent that it represents an accrual of or reserve for cash expenditures in any future period) less all non-cash items of income of the Issuer and its consolidated Restricted Subsidiaries (other than accruals of revenue by the Issuer and its consolidated Restricted Subsidiaries in the ordinary course of business);

(5) the amount of management, monitoring, consulting and advisory fees and related expenses paid or accrued in such period to Equity Sponsors and their respective Affiliates pursuant to the terms of the Management Agreement to the extent deducted (and not added back) in such period in computing Consolidated Net Income;

(6) amortization of deferred financing fees, debt issuance costs, commissions, fees and expenses and expensing of any financing fees;

(7) the amount of any restructuring charge, integration costs or other business optimization expenses or reserve; and

(8) any fair value gains or losses (expressed as a negative number in the case of gains and a positive number in the case of losses) recorded in the income statement of the Issuer or its direct or indirect parent as a result of adjusting the earn-out liability in respect of the earn-out payments recorded on the opening balance sheet of the Issuer or its direct or indirect parent immediately after giving effect to any acquisition,

in each case for such period. Notwithstanding the foregoing, the provision for taxes based on the income or profits of, and the depreciation and amortization and non-cash charges of, a Restricted Subsidiary shall be added to Consolidated Net Income to compute EBITDA only to the extent (and in the same proportion, including by reason of minority interests) that the net income or loss of such Restricted Subsidiary was included in calculating Consolidated Net Income.

"*Equity Sponsors*" means collectively, Castle Harlan, Inc., CHAMP III Management Pty Ltd., CHAMP Private Equity Pte Ltd. and Lime Rock Partners VI, L.P.

"*Exchange Act*" means the U.S. Securities Exchange Act of 1934, as amended.

"*Excluded Subsidiary*" means (A) any Restricted Subsidiary that is prohibited by the laws or rules (including licensing requirements) of its jurisdiction of organization from Guaranteeing the Notes and (B) Shelf Drilling Offshore Services (India) Private Limited and any other Subsidiaries that are organized in India.

"*Existing Notes*" means, collectively, (i) the "Notes" as defined in that certain Indenture, dated as of October 24, 2012 (as amended, restated, modified or supplemented from time to time), by and among the Issuer, the Guarantors party thereto, and Wilmington Trust, National Association, as trustee and notes collateral agent, and (ii) the "Notes" as defined in that certain Indenture, dated as of January 12, 2017 (as amended, restated, modified or supplemented from time to time), by and among the Issuer, the Guarantors party thereto, and Wilmington Trust, National Association, as trustee and notes collateral agent.

"*Fair Market Value*" means, with respect to any asset or property, the price which could be negotiated in an arm's length, free market transaction, for cash, between a willing seller and a willing and able buyer, neither of whom is under undue pressure or compulsion to complete the transaction determined in good faith by the chief financial officer, chief accounting officer or controller of the Issuer or the Restricted Subsidiary with respect to valuations not in excess of $20.0 million or determined in good faith by the Board of Directors of the Issuer or the Restricted Subsidiary with respect to valuations equal to or in excess of $20.0 million, as applicable, which determination will be conclusive.

"*GAAP*" means generally accepted accounting principles in the United States of America as in effect from time to time.

"*Guarantee*" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person and any obligation, direct or indirect, contingent or otherwise, of such other Person:

(1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise); or

(2) entered into for the purpose of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to reimburse such obligee against loss in respect thereof (in whole or in part);

provided, however, that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning.

"*Guarantors*" means each Restricted Subsidiary of the Issuer that Guarantees the Notes in accordance with the terms of the Indenture.

"*Guaranty Agreement*" means a supplemental indenture, in the form specified in the Indenture, pursuant to which a Guarantor guarantees the Issuer's obligations with respect to the Notes on the terms provided for in the Indenture.

"*Hedging Obligations*" of any Person means the obligations of such Person pursuant to any Interest Rate Agreement, Commodity Agreement or Currency Agreement.

"*Heirs*" means, with respect to any individual, such individual's estate, spouse, lineal relatives (including adoptive descendants), administrator, committee or other personal representative or other estate planning vehicle and any custodian or trustee for the benefit of any spouse or lineal relatives (including adoptive descendants) of such individual.

"*Holder*" or "*Noteholder*" means the Person in whose name a Note is registered on the Registrar's books.

"*Incur*" means issue, assume, Guarantee, incur or otherwise become liable for; *provided, however*, that any Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such Person at the time it becomes a Restricted Subsidiary. The term "Incurrence" when used as a noun shall have a correlative meaning. Solely for purposes of determining compliance with "—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock":

(1) amortization of debt discount or the accretion of principal with respect to a non-interest bearing or other discount security;

(2) the payment of regularly scheduled interest in the form of additional Indebtedness of the same instrument or the payment of regularly scheduled dividends on Capital Stock in the form of additional Capital Stock of the same class and with the same terms;

(3) the obligation to pay a premium in respect of Indebtedness arising in connection with the issuance of a notice of redemption or the making of a mandatory offer to purchase such Indebtedness; and

(4) unrealized losses or changes in respect of Hedging Obligations (including those resulting from FASB ASC 815),

in each case, will not be deemed to be the Incurrence of Indebtedness.

"*Indebtedness*" means, with respect to any Person on any date of determination (without duplication):

(1) the principal in respect of (A) indebtedness of such Person for money borrowed and (B) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which such Person is responsible or liable, including, in each case, any premium on such indebtedness to the extent such premium has become due and payable;

(2) all Capital Lease Obligations of such Person and Attributable Debt of such Person;

(3) all obligations of such Person issued or assumed as the deferred purchase price of property due more than six months from the date the obligation is incurred, all conditional sale obligations of such Person and all obligations of such Person under any title retention agreement (but excluding any accounts payable (including royalty payments, licensing fees or other similar payments) or other liability to trade creditors arising in the ordinary course of business);

(4) all obligations of such Person for the reimbursement of any obligor on any letter of credit, bankers' acceptance or similar credit transaction;

(5) all Disqualified Stock issued by such Person with the amount of Indebtedness represented by such Disqualified Stock being equal to the maximum amount that such Person may become obligated to pay upon the maturity of, or pursuant to any mandatory redemption provisions of, such Disqualified Stock, exclusive of accrued dividends; and

(6) to the extent not otherwise included in this definition, Hedging Obligations of such Person,

if and to the extent any of the preceding items (other than letters of credit and Hedging Obligations) would appear as a liability upon a balance sheet (excluding the footnotes thereto) of the specified Person prepared in accordance with GAAP. In addition, the term ''Indebtedness'' includes, to the extent not otherwise included, all Indebtedness of others secured by a Lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person), *provided, however*, that the amount of such Indebtedness will be the lesser of (a) the Fair Market Value of such asset at such date of determination and (b) the amount of such Indebtedness of such other Person and, to the extent not otherwise included, the Guarantee by the specified Person of any indebtedness of any other Person.

Notwithstanding the foregoing, in connection with the purchase by the Issuer or any Restricted Subsidiary of any business or assets, the term ''Indebtedness'' will exclude post-closing earn outs and other payment adjustments to which the seller may become entitled to the extent such payment is determined by a final closing balance sheet or such payment depends on the performance of such business after the closing (including based upon the favorable settlement or resolution of claims or other similar parameters); *provided, however*, that, at the time of closing, the amount of any such payment is not determinable and, to the extent such payment thereafter becomes fixed and determined, the amount is paid within 90 days thereafter.

Notwithstanding the foregoing, Indebtedness shall also be deemed to exclude (a) contingent obligations incurred in the ordinary course of business (not in respect of borrowed money); (b) deferred or prepaid revenues or marketing fees; (c) purchase price holdbacks in respect of a portion of the purchase price of an asset to satisfy warranty or other unperformed obligations of the respective seller; and (d) obligations to make payments in respect of funds held under escrow arrangements in the ordinary course of business.

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above; *provided, however*, that in the case of Indebtedness sold at a discount, the amount of such Indebtedness at any time will be the accreted value thereof at such time.

Notwithstanding anything in the Indenture to the contrary, Indebtedness shall not include, and shall be calculated without giving effect to, the effects of FASB ASC 815 and related interpretations to the extent such effects would otherwise increase or decrease an amount of Indebtedness for any purpose under the Indenture as a result of accounting for any embedded derivatives created by the terms of such Indebtedness; and any such amounts that would have constituted Indebtedness under the Indenture but for the application of this sentence shall not be deemed an Incurrence of Indebtedness under the Indenture.

''*Indenture Documents*'' means, collectively, the Indenture, the Notes and the Note Guarantees.

''*Indenture Obligations*'' means all Obligations in respect of the Notes or arising under the Indenture Documents.

''*Independent Qualified Party*'' means an investment banking firm, accounting firm or appraisal firm of internationally recognized standing; *provided, however*, that such firm is not an Affiliate of the Issuer.

"*Insolvency Laws*" means the Bankruptcy Code of the United States, and all other insolvency, bankruptcy, receivership, liquidation, conservatorship, assignment for the benefit of creditors, moratorium, rearrangement, reorganization, or similar legal requirements of the United States or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally.

"*Interest Rate Agreement*" means any interest rate swap agreement, interest rate cap agreement or other financial agreement or arrangement with respect to exposure to interest rates.

"*Investment*" in any Person means any direct or indirect advance (other than advances to customers in the ordinary course of business), loan or other extensions of credit (including by way of Guarantee or similar arrangement) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition of Capital Stock, Indebtedness or other similar instruments issued by such Person and all other items that are or would be classified as investments on a balance sheet prepared in accordance with GAAP. The acquisition by the Issuer or any Restricted Subsidiary of a Person that holds an Investment in a third Person will be deemed to be an Investment by the Issuer or such Restricted Subsidiary in such third Person at such time. Except as otherwise provided for herein, the amount of an Investment shall be its Fair Market Value at the time the Investment is made, reduced by any return or repayment of capital received in cash by such Person in respect of such Investment and without giving effect to subsequent changes in value.

For purposes of the definition of "*Unrestricted Subsidiary*," the definition of "*Restricted Payment*" and the covenant described under "—Certain Covenants—Limitation on Restricted Payments":

(1) "*Investment*" shall include the portion (proportionate to the Issuer's equity interest in such Subsidiary) of the Fair Market Value of the net assets of any Subsidiary of the Issuer at the time that such Subsidiary is designated an Unrestricted Subsidiary; and

(2) any property transferred to or from an Unrestricted Subsidiary shall be valued at its Fair Market Value at the time of such transfer.

"*Investment Grade Status*" shall occur when the Notes receive a rating of "BBB-" or higher from S&P and a rating of "Baa3" or higher from Moody's, in each case with a stable or better outlook.

"*Issue Date*" means the first date on which Notes are issued under the Indenture.

"*Legal Holiday*" means a Saturday, a Sunday or a day on which banking institutions are not required to be open in the State of New York or any other place of payment.

"*Lien*" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof).

"*Management Agreement*" means that certain Management Agreement, dated as of November 30, 2012, by and among the Issuer (and/or one or more parents thereof) and Castle Harlan, Inc., CHAMP III Management Pty Ltd. and Lime Rock Management LP, as amended, modified, supplemented or restated in accordance with the terms hereof and thereof (so long as such amendment is not as a whole materially less favorable to the Noteholders than the original agreement as in effect on the date of execution).

"*Material Credit Facility*" means any Credit Facility of the Issuer or any Restricted Subsidiary with an aggregate principal amount (or aggregate revolving commitments) in excess of $100 million.

"*Moody's*" means Moody's Investors Service, Inc. and its successors.

"*Net Cash Proceeds*" means:

(a) with respect to any issuance or sale of Capital Stock or Indebtedness, means the cash proceeds of such issuance or sale net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees actually Incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof; and

(b) with respect to any Asset Disposition, payments of cash and Cash Equivalents received therefrom (including any cash received upon the sale or other disposition of any Designated Noncash Consideration received in any Asset Disposition, net of the direct costs relating to such Asset Disposition and the sale or disposition of such Designated Noncash Consideration, cash payments received by way of deferred payment of principal pursuant to a note or installment receivable, earn-out payment, deferred purchase price payment or otherwise and cash proceeds from the sale or other disposition of any securities received as consideration, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring Person of Indebtedness or other obligations relating to such properties or assets or received in any other non-cash form), in each case net of, without duplication: (i) all legal, title and recording tax expenses, commissions and other fees and expenses incurred, and all Federal, state, provincial, foreign and local taxes required to be accrued as a liability under GAAP, as a consequence of such Asset Disposition; (ii) all repayments of Indebtedness (other than Indebtedness Incurred under the Credit Agreement or, if the Credit Agreement is no longer in effect, a Material Credit Facility) that is secured by a Permitted Lien on the property or assets that are the subject of such Asset Disposition and is required to be repaid in connection with such Asset Disposition; (iii) all distributions and other payments required to be made to minority interest holders in Restricted Subsidiaries as a result of such Asset Disposition (or, in the case of an Asset Disposition by an Unrestricted Subsidiary, to minority interest holders of such Unrestricted Subsidiary); (iv) the deduction of appropriate amounts provided by the seller as a reserve, in accordance with GAAP, against any liabilities associated with the property or other assets disposed in such Asset Disposition and retained by the Issuer or any Restricted Subsidiary after such Asset Disposition; and (v) any portion of the purchase price from an Asset Disposition placed in escrow, whether as a reserve for adjustment of the purchase price or for satisfaction of indemnities in respect of such Asset Disposition in connection with that Asset Disposition; *provided, however*, that upon the termination of that escrow, Net Cash Proceeds will be increased by any portion of funds in the escrow that are released to the Issuer or any Restricted Subsidiary to the extent such funds are not used to satisfy an indemnity or other similar obligation.

"*Newbuild Sale and Leasebacks*" means, collectively, the Sale and Leaseback Transactions entered into by the Newbuild Subsidiaries and the Parent with respect to the Rigs chartered by Newbuild Subsidiaries on the Issue Date, in each case as in effect on the Issue Date.

"*Newbuild Subsidiaries*" means Shelf Drilling (Far East) Operations, Ltd., Shelf Drilling, (Southeast Asia) Limited, Shelf Drilling Asset I, Ltd., Shelf Drilling Asset II, Ltd., Shelf Drilling (Singapore) PTE. LTD., Shelf Drilling TBN I, Ltd. and Shelf Drilling TBN II, Ltd.

"*Non-Recourse Debt*" means Indebtedness as to which neither the Issuer nor any of its Restricted Subsidiaries (a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness), except for Customary Recourse Exceptions or (b) is directly or indirectly liable as a guarantor or otherwise, except, in the case of each of subclauses (a) and (b) for (i) Liens permitted pursuant to clause (24)(b) of the definition of "Permitted Liens" and (ii) any guarantee given solely to support such Liens, which guarantee is not recourse to the Issuer or any Restricted Subsidiary.

"*Note Guarantee*" means any Guarantee of payment of the Notes pursuant to the terms of the Indenture and any supplemental indenture thereto and, collectively, all such Note Guarantees. Each Note Guarantee shall be in the form prescribed in the Indenture.

"*Obligations*" means, with respect to any Indebtedness, all obligations for principal, premium, interest (including, without limitation, interest occurring after an insolvency, bankruptcy or similar proceeding, whether or not such interest is an allowed claim in any such proceeding), penalties, fees, indemnifications, reimbursements and other amounts payable pursuant to the documentation governing such Indebtedness.

"*Officer*" means the Chairman of the Board, the President, the Chief Executive Officer, the Chief Financial Officer, any Vice President, the Treasurer or the Secretary of the Issuer.

"*Officer's Certificate*" means a certificate signed by an Officer.

"*Opinion of Counsel*" means a written opinion of counsel, which is reasonably acceptable to the Trustee. The opinion must be from legal counsel who may be an employee of or counsel to the Issuer.

"*Parent*" means Shelf Drilling, Ltd., a Cayman Islands company.

"*Permitted Holders*" means (1) each Specified Equity Sponsor and any person controlling, controlled by, or under common control with, and any account controlled or managed by or under common control or management with such Specified Equity Sponsor, (2) each Equity Sponsor and any successor thereto and of its Subsidiaries, (3) one or more investment funds managed or controlled by any Equity Sponsor and any successor thereto or any of its Affiliates, (4) any employee, member of management or director of (including any of their Heirs) any of the foregoing entities and their respective Affiliates and (5) any group within the meaning of Section 13(d) of the Exchange Act of which a Person described in clauses (1) through (4) is a member and in which such Persons beneficially own or control a majority of the Voting Stock of the Issuer held by such group and which such group collectively beneficially owns or controls more Voting Stock of the Issuer than any other group of which any Equity Sponsor or any of its Affiliates is not a member. Except for a Permitted Holder specifically identified by name, in determining whether Voting Stock is owned by a Permitted Holder, only Voting Stock acquired by a Permitted Holder in its described capacity will be treated as ''beneficially owned'' by such Permitted Holder. Any Person or group whose acquisition of beneficial ownership constitutes a Change of Control in respect of which a Change of Control Offer is made in accordance with the requirements of the Indenture will thereafter, together with its Affiliates, constitute an additional Permitted Holder.

''*Permitted Investment*'' means an Investment by the Issuer or any Restricted Subsidiary in:

(1) the Issuer, a Guarantor or a Person that will, upon the making of such Investment, become a Guarantor; *provided, however*, that the primary business of such Guarantor is a Related Business;

(2) another Person, if as a result of such Investment, such other Person, in one transaction or a series of related transactions, is merged, consolidated or amalgamated with or into, or transfers or conveys all or substantially all of its assets to, or is liquidated into, the Issuer or a Guarantor; *provided, however*, that the primary business of such Guarantor is a Related Business;

(3) Investments of a Restricted Subsidiary acquired after the Issue Date or of an entity merged into the Issuer or merged into or consolidated with a Restricted Subsidiary after the Issue Date to the extent that such Investments were not made in contemplation of or in connection with such acquisition, merger or consolidation and were in existence on the date of such acquisition, merger or consolidation;

(4) cash and Cash Equivalents;

(5) receivables owing to the Issuer or any Restricted Subsidiary if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; *provided, however*, that such trade terms may include such concessionary trade terms as the Issuer or any such Restricted Subsidiary deems reasonable under the circumstances;

(6) payroll, travel, moving and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;

(7) loans or advances to directors, officers or employees made in the ordinary course of business of the Issuer or such Restricted Subsidiary in an amount not to exceed $5.0 million at any one time outstanding;

(8) stock, obligations or securities received in settlement of debts or other liabilities created in the ordinary course of business and owing to the Issuer or any Restricted Subsidiary or in satisfaction of judgments;

(9) any Person to the extent such Investment represents the non-cash portion of the consideration received for (i) an Asset Disposition as permitted pursuant to the covenant described under ''—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock'' or (ii) a disposition of assets not constituting an Asset Disposition;

(10) any Person where such Investment was acquired by the Issuer or any of the Restricted Subsidiaries (a) in exchange for any other Investment or accounts receivable held by the Issuer or any such Restricted Subsidiary in connection with or as a result of a bankruptcy, workout, reorganization or recapitalization of the issuer of such other Investment or accounts receivable or (b) as a result of a foreclosure by the Issuer or any of the Restricted Subsidiaries with respect to any secured Investment or other transfer of title with respect to any secured Investment in default;

(11) any Person to the extent such Investments consist of prepaid expenses, negotiable instruments held for collection and lease, utility and workers' compensation, performance and other similar deposits made in the ordinary course of business by the Issuer or any Restricted Subsidiary;

(12) any Person to the extent such Investments consist of Hedging Obligations otherwise permitted under the covenant described under ''—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock'';

(13) any Person to the extent such Investment exists on the Issue Date or is made pursuant to a binding commitment existing on the Issue Date, and any extension, modification or renewal of any such Investments, but only to the extent not involving additional advances, contributions or other Investments of cash or other assets or other increases thereof (other than as a result of the accrual or accretion of interest or original issue discount or the issuance of pay-in-kind securities, in each case, pursuant to the terms of such Investment as in effect on the Issue Date or the terms of any binding commitment existing on the Issue Date);

(14) Guarantees of performance on other obligations (other than Indebtedness) arising in the ordinary course of business;

(15) [Reserved]

(16) Permitted Joint Ventures and Investments in other Persons (including Unrestricted Subsidiaries) engaged in a Related Business to the extent such Investments, when taken together with all other Investments made pursuant to this clause (16) and outstanding on the date such Investment is made, do not exceed the greater of (x) $75.0 million and (y) 7.0% of the Total Assets of the Issuer; provided that, for purposes of determining availability under this clause (16), each outstanding Investment shall be valued at the Fair Market Value of such Investment at the time made without giving effect to subsequent changes in value;

(17) loans and advances by the Issuer or any of the Restricted Subsidiaries to directors or officers of the Issuer or any of the Restricted Subsidiaries to finance the purchase by such directors or officers of Capital Stock of the Issuer and/or the Restricted Subsidiaries or any direct or indirect parent of the Issuer, in an amount not to exceed $5.0 million at any one time outstanding; *provided, however*, that at the time of each such payment, no Default shall have occurred and be continuing (or result therefrom);

(18) repurchases of the Notes and the Existing Notes;

(19) Investments consisting of the licensing or contribution of intellectual property pursuant to joint marketing arrangements with other Persons;

(20) Investments consisting of purchases and acquisitions of inventory, supplies, materials, services and equipment or purchases of contract rights or licenses or leases of intellectual property, in each case in the ordinary course of business; and

(21) any Guarantee of Indebtedness permitted to be incurred pursuant to the covenant described under ''—Limitation on Indebtedness and Issuances of Preferred Stock'';

provided; that with respect to clauses (1) and (2) above, to the extent neither the Credit Agreement nor any Material Credit Facility requires any credit support of the Issuer or any Subsidiary thereof (except the direct obligor) or no such agreements are in effect, all Restricted Subsidiaries shall be deemed to be Guarantors solely for the purposes of such clauses.

''*Permitted Joint Venture*'' means any joint venture that the Issuer or any of its Restricted Subsidiaries is a party to that is engaged in a Related Business.

''*Permitted Liens*'' means, with respect to any Person:

(1) pledges or deposits by such Person under worker's compensation laws, unemployment insurance laws or similar legislation, or good faith deposits in connection with performance, bids, tenders, contracts (other than for the payment of Indebtedness) or leases to which such Person is a party, or

deposits to secure public or statutory obligations of such Person or deposits of cash or United States government bonds to secure surety or appeal bonds to which such Person is a party, or deposits as security for contested taxes or import duties or for the payment of rent, in each case Incurred in the ordinary course of business;

(2) Liens imposed by law, such as carriers', warehousemen's, repairmens' and mechanics' Liens, in each case for sums not yet overdue for a period of more than 30 days or being contested in good faith by appropriate proceedings or other Liens arising out of judgments or awards against such Person with respect to which such Person shall then be proceeding with an appeal or other proceedings for review and Liens arising solely by virtue of any statutory or common law or contractual provision relating to banker's Liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a creditor depository institution; *provided, however*, that (A) such deposit account is not a dedicated cash collateral account and is not subject to restrictions against access by the Issuer in excess of those set forth by regulations promulgated by the Federal Reserve Board and (B) such deposit account is not intended by the Issuer or any Restricted Subsidiary to provide collateral to the depository institution;

(3) Liens for taxes, assessments or governmental charges not yet subject to penalties for non-payment or which are being contested in good faith by appropriate proceedings;

(4) Liens in favor of issuers of performance, bid, environmental or surety bonds, or completion guarantees, or Liens securing reimbursement obligations with respect to commercial letters of credit or bank guarantees that encumber documents and other property relating to such letters of credit or bank guarantees and products and proceeds thereof, in each case, in the ordinary course of business;

(5) survey exceptions, encumbrances, easements or reservations of, or rights of others for, licenses, rights-of-way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real property or Liens incidental to the conduct of the business of such Person or to the ownership of its properties which were not Incurred in connection with Indebtedness and which do not in the aggregate materially adversely affect in any material respect the value of said properties or materially impair their use in the operation of the business of such Person;

(6) Liens to secure Indebtedness permitted under clause (b)(10) under ''—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock''; *provided, however*, that the Lien may not extend to any other property owned by such Person or any of the Restricted Subsidiaries at the time the Lien is Incurred (other than assets and property affixed or appurtenant thereto and the proceeds thereof);

(7) Liens securing Indebtedness and related Obligations Incurred pursuant to clause (b)(1) under ''—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock''; and any Hedging Obligations and Bank Product Obligations, in each case, described in clause (b)(6) under ''—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock'' and secured pursuant to one or more Credit Facilities;

(8) Liens existing on the Issue Date (other than Liens securing Credit Facilities Incurred or deemed to have been Incurred pursuant to clause (b)(1) of ''—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock''), including Liens securing the Existing Notes that are being released substantially simultaneously with the Issue Date;

(9) Liens on property or shares of Capital Stock of another Person at the time such other Person becomes a Subsidiary of such Person; *provided, however*, that (i) the Liens were not created in contemplation of or in connection with such Person becoming a Subsidiary and (ii) the Liens may not extend to any other property owned by such Person or any of the Restricted Subsidiaries (other than assets and property affixed or appurtenant thereto);

(10) Liens on property at the time such Person or any of its Subsidiaries acquires the property, including any acquisition by means of a merger or consolidation with or into such Person or a

Subsidiary of such Person; *provided, however*, that (i) the Liens were not created in contemplation of or in connection with such acquisition and (ii) the Liens may not extend to any other property owned by such Person or any of the Restricted Subsidiaries (other than assets and property affixed or appurtenant thereto);

(11) Liens securing Indebtedness or other obligations of a Subsidiary of such Person owing to such Person or a Restricted Subsidiary of such Person;

(12) Liens securing Hedging Obligations so long as such Hedging Obligations are permitted to be Incurred pursuant to clause (b)(6) of ''—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock'' and not secured pursuant to a Credit Facility;

(13) Liens to secure any Refinancing (or successive Refinancings) as a whole, or in part, of any Indebtedness secured by any Lien referred to in clause (6), (8), (9), (10) or (16) of this definition; *provided, however*, that:

(A) such new Lien shall be limited to all or part of the same property and assets that secured or, under the written agreements pursuant to which the original Lien arose, could secure the original Lien (plus improvements and accessions to, such property or proceeds or distributions thereof); and

(B) the Indebtedness secured by such Lien at such time is not increased to any amount greater than the sum of (x) the outstanding principal amount or, if greater, committed amount of the Indebtedness described under clause (6), (8), (9), (10) or (16) of this definition at the time the original Lien became a Permitted Lien and (y) an amount necessary to pay any fees and expenses, including premiums, related to such refinancing, refunding, extension, renewal or replacement;

(14) Liens arising by reason of any judgment, decree or order of any court not giving rise to an Event of Default;

(15) Liens upon specific items of inventory or other goods and proceeds from any Person securing such Person's obligations in respect of bankers' acceptances issued or created for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods;

(16) other Liens securing Indebtedness, including all Refinancing Indebtedness Incurred to refund, refinance or replace any Indebtedness secured by a Lien permitted pursuant to this clause (16), in an aggregate principal amount that does not exceed the greater of (x) $50.0 million and (y) 5.0% of the Total Assets of the Issuer at any one time outstanding;

(17) Liens in favor of an insurer or an Affiliate thereof (or other Persons financing the payment of insurance premiums) for the premiums payable in respect of insurance policies issued by such insurer; provided that such Liens are limited to such insurance policies, premium refunds and the proceeds of such insurance policies;

(18) Liens for salvage;

(19) licenses, sublicenses, leases or subleases granted to others in the normal course of business which do not materially interfere with the ordinary conduct of the business of the Issuer or any of the Restricted Subsidiaries;

(20) Liens arising from precautionary Uniform Commercial Code financing statements or consignments entered into in connection with any transaction otherwise permitted under the Indenture;

(21) customary restrictions on equipment of the Issuer or any Restricted Subsidiary granted in the ordinary course of business to the Issuer's or such Restricted Subsidiary's customer at which such equipment is located;

(22) Liens arising out of conditional sale, title retention, consignment or similar arrangements for the sale of goods entered into in the ordinary course of business;

(23) Liens arising by virtue of any statutory or common law provisions relating to banker's liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a depository or financial institution or as to purchase orders and other agreements entered into with customers in the ordinary course of business;

(24) (a) any encumbrance or restriction (including put and call arrangements) with respect to Capital Stock of any joint venture or similar arrangement pursuant to any joint venture or similar agreement and (b) any Liens on the Capital Stock of an Unrestricted Subsidiary to the extent securing Non-Recourse Debt;

(25) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods;

(26) customary restrictions on assets to be disposed of pursuant to merger agreements, stock or asset purchase agreements and similar agreements;

(27) Liens solely on any cash earnest money deposits made by the Issuer or any of its Restricted Subsidiaries in connection with any letter of intent or purchase agreement in respect of any Investment permitted hereunder;

(28) Liens on cash and cash equivalents securing Indebtedness permitted to be Incurred pursuant to clause (b)(20) of "—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock;" and

(29) Liens incurred in the ordinary course of business for drydocking, maintenance, repairs and improvements to Rigs, crews' wages and maritime Liens (other than in respect of Indebtedness).

For purposes of determining compliance with this definition, (A) Permitted Liens need not be incurred solely by reference to one category of Permitted Liens described above but are permitted to be incurred in part under any combination thereof and (B) in the event that a Lien (or any portion thereof) meets the criteria of one or more of the categories of Permitted Liens described above, the Issuer may, in its sole discretion, classify or reclassify such item of Permitted Liens (or any portion thereof) in any manner that complies with this definition and the Issuer may divide and classify a Lien in more than one of the types of Permitted Liens in one of the above clauses.

"*Person*" means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

"*Preferred Instrument*" means the Preferred Stock of Shelf Drilling, Ltd., a Cayman Islands exempted company, issued as preferred shares on October 12, 2012, as amended, restated, modified, supplemented or replaced from time to time.

"*Preferred Stock*," as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

"*Qualified Capital Stock*" means Capital Stock of such Person other than Disqualified Stock; *provided, however*, that such Capital Stock shall not be deemed Qualified Capital Stock to the extent sold to a Subsidiary of such Person or financed, directly or indirectly, using funds (1) borrowed from such Person or any Subsidiary of such Person or (2) contributed, extended, guaranteed or advanced by such Person or any Subsidiary of such Person (including, in respect of any employee stock ownership or benefit plan). Unless otherwise specified, Qualified Capital Stock refers to Qualified Capital Stock of the Issuer.

"*Qualified Equity Offering*" means any issuance and sale of Qualified Capital Stock by the Issuer or any direct or indirect parent of the Issuer; *provided, however*, that in the case of an issuance and sale of Qualified Capital Stock of any direct or indirect parent of the Issuer, cash proceeds therefrom are contributed to common equity of the Issuer. Notwithstanding the foregoing, the term "Qualified Equity Offering" shall not include:

(1) any issuance and sale with respect to the Issuer's or any direct or indirect parent's common stock registered on Form S-4 or Form S-8; or

(2) any issuance and sale of Qualified Capital Stock to any Subsidiary of the Issuer.

"*Rating Event*" means, with respect to the Notes, a decrease in the rating of the Notes by both Moody's and S&P by one or more gradations (including gradations within Rating Categories as well as between Rating Categories) (i) below the applicable ratings of the Notes on the Issue Date or (ii) during the period beginning from the date of the public notice of an arrangement that could result in a Change of Control until the end of the 90-day period following public notice of the occurrence of the Change of Control (which 90-day period shall be extended so long as the rating of the Notes is under publicly announced consideration for possible downgrade by either Moody's or S&P). In determining whether the rating of the Notes has decreased by one or more gradations, gradations within Rating Categories, namely + or – for S&P, and 1, 2, and 3 for Moody's, will be taken into account; for example, in the case of S&P, a rating decline either from BB+ to BB or BB– to B+ will constitute a decrease of one gradation.

"*Rating Category*" means:

(1) with respect to S&P, any of the following categories: AAA, AA, A, BBB, BB, B, CCC, CC, C and D (or equivalent successor categories); and

(2) with respect to Moody's, any of the following categories: Aaa, Aa, A, Baa, Ba, B, Caa, Ca, C and D (or equivalent successor categories).

"*Refinance*" means, in respect of any Indebtedness, to refinance, extend, renew, refund, repay, prepay, purchase, redeem, defease or retire, or to issue other Indebtedness in exchange or replacement for, such Indebtedness. "Refinanced" and "Refinancing" shall have correlative meanings.

"*Refinancing Indebtedness*" means Indebtedness or Preferred Stock that Refinances any Indebtedness or Preferred Stock of the Issuer or any Restricted Subsidiary (or, in respect of any restriction contained herein applicable to SDAIII or the Newbuild Subsidiaries, of such entity) existing on the Issue Date or Incurred or issued in compliance with the Indenture, including Indebtedness or Preferred Stock that Refinances Refinancing Indebtedness or Preferred Stock; *provided, however*, that:

(1) (a) if the Stated Maturity of the Indebtedness or Preferred Stock being Refinanced is earlier than the Stated Maturity of the Notes, the Refinancing Indebtedness or Preferred Stock has a Stated Maturity no earlier than the Stated Maturity of the Indebtedness or Preferred Stock being Refinanced or (b) if the Stated Maturity of the Indebtedness or Preferred Stock being Refinanced is later than the Stated Maturity of the Notes, the Refinancing Indebtedness or Preferred Stock has a Stated Maturity at least 91 days later than the Stated Maturity of the Notes;

(2) such Refinancing Indebtedness has an Average Life at the time such Refinancing Indebtedness is Incurred that is equal to or greater than the Average Life of the Indebtedness or Preferred Stock being Refinanced;

(3) such Refinancing Indebtedness has an aggregate principal amount (or if Incurred with original issue discount, an aggregate issue price) or Preferred Stock has a liquidation preference amount that is equal to or less than the aggregate principal amount (or if Incurred with original issue discount, the aggregate accreted value) then outstanding (plus fees and expenses, including any premium and defeasance costs, and accrued and unpaid interest) or liquidation preference amount under the Indebtedness or Preferred Stock being Refinanced; and

(4) if the Indebtedness being Refinanced is subordinated in right of payment to the Notes, such Refinancing Indebtedness is subordinated in right of payment to the Notes at least to the same extent as the Indebtedness being Refinanced;

provided further, however, that Refinancing Indebtedness shall not include Indebtedness of a non-Guarantor Subsidiary that refinances Indebtedness of the Issuer or a Guarantor.

For purposes of this definition, (i) any Refinancing Indebtedness in respect of Attributable Debt shall not be subject to clause (2) above and the "Stated Maturity" in respect of any Attributable Debt shall be the expiration or termination date of the applicable lease (without regard to any option for extension) and (ii) for purposes of clause (3), the principal amount with respect to Sale and Leaseback Transactions shall be the amount of Attributable Debt in respect thereof.

“*Related Business*” means any business in which the Issuer or any of the Restricted Subsidiaries was engaged on the Issue Date and any business related, ancillary, supplemental or complementary to such business, including, but not limited to, accommodation and fixed production units.

“*Restricted Payment*” with respect to any Person means:

(1) the declaration or payment of any dividends or any other distributions in respect of its Capital Stock (including any payment in connection with any merger or consolidation involving such Person) or similar payment to the direct or indirect holders of its Capital Stock (other than (A) dividends or distributions payable solely in its Capital Stock (other than Disqualified Stock), (B) dividends or distributions payable solely to the Issuer or a Restricted Subsidiary and (C) pro rata dividends or other distributions made by a Subsidiary that is not a Wholly Owned Subsidiary to minority stockholders (or owners of an equivalent interest in the case of a Subsidiary that is an entity other than a corporation));

(2) the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of any Capital Stock of the Issuer held by any Person (other than by a Restricted Subsidiary) or of any Capital Stock of a Restricted Subsidiary held by any Person (other than by the Issuer or a Restricted Subsidiary), including in connection with any merger or consolidation;

(3) the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment of any Subordinated Obligations of the Issuer or any Guarantor (other than (A) from the Issuer or a Restricted Subsidiary or (B) the purchase, repurchase, redemption, defeasance or other acquisition or retirement of Subordinated Obligations purchased in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case due within one year of the date of such purchase, repurchase, redemption, defeasance or other acquisition or retirement); or

(4) the making of any Investment (other than a Permitted Investment) in any Person.

“*Restricted Subsidiary*” means any Subsidiary of the Issuer that is not an Unrestricted Subsidiary.

“*Rigs*” means, collectively, offshore drilling rigs, including, without limitation, semisubmersibles, drillships, jack-ups, semisubmersible tender assist vessels and submersible rigs and barges, and, individually, any of such rigs or barges.

“*S&P*” means Standard & Poor’s Financial Services LLC, a division of The McGraw-Hill Companies, Inc., and its successors.

“*Sale and Leaseback Transaction*” means any direct or indirect arrangement relating to property now owned or hereafter acquired by the Issuer or a Restricted Subsidiary whereby the Issuer or such Restricted Subsidiary transfers such property to another Person (other than the Issuer, any of its Subsidiaries or any of their joint ventures) and the Issuer or a Restricted Subsidiary leases it from such Person.

“*SDA Credit Facility*” means, collectively, the $25,000,000 term loan facility and $50,000,000 uncommitted bank guarantee facility under that certain Senior Secured Term Loan and Guarantee Facility Agreement, dated as of December 21, 2017, by and among, SDAIII, as borrower and guarantee facility obligor, Shelf Drilling Services Limited, as guarantee facility obligor, Shelf Drilling Intermediate, Ltd, as guarantor, the banks and financial institutions referred to therein, ING Bank N.V., as agent, account bank and mandated lead arranger, and DNB Bank ASA, as issuing bank and mandated lead arranger.

“*SEC*” means the Securities and Exchange Commission.

“*Secured Indebtedness*” means any Indebtedness of the Issuer or any of its Restricted Subsidiaries secured by a Lien other than any such Indebtedness consisting of (i) unpaid drawings and unreimbursed payments in respect of letters of credit, letters of guaranty (including bank guarantees), bankers’ acceptances and similar credit transactions to the extent that such amounts are cash collateralized and (ii) Hedging Obligations.

“*Securities Act*” means the U.S. Securities Act of 1933, as amended.

"*Senior Indebtedness*" means with respect to any Person, Indebtedness of such Person, unless the instrument creating or evidencing such Indebtedness provides that such Indebtedness is subordinate in right of payment to the Notes or a Note Guarantee of such Person, as the case may be.

"*Significant Subsidiary*" means any Restricted Subsidiary that would be a "Significant Subsidiary" of the Issuer as defined in Article 1, Rule 1-02(w) of Regulation S-X, promulgated pursuant to the Securities Act, as such regulation is in effect on the Issue Date.

"*Specified Equity Sponsor*" means CHP V AIV POOL 1, LTD., CHP V AIV POOL 2, LTD., CHP V SD CO-INVEST, LP, CHAMP Buyout III GP Limited as general partner of CHAMP Buyout III L.P., CHAMP Shelf GP Limited as general partner of CHAMP Shelf L.P., P.T. Limited as trustee of the CHAMP Buyout III (WW) Trust, Perpetual Trustee Company Limited as Trustee for the CHAMP Buyout III Trust, Perpetual Corporate Trust Limited as Trustee for the CHAMP Buyout III (SWF) Trust, and LR-Shelf Drilling International, L.P.

"*Stated Maturity*" means, with respect to any security, the date specified in such security as the fixed date on which the final payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred).

"*Subordinated Obligation*" means, with respect to a Person, any Indebtedness of such Person (whether outstanding on the Issue Date or thereafter Incurred) which is subordinate or junior in right of payment to the Notes or a Note Guarantee of such Person, as the case may be, pursuant to a written agreement to that effect.

"*Subsidiary*" means, with respect to any Person, any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Voting Stock is at the time owned or held, directly or indirectly, by:

(1) such Person;

(2) such Person and one or more Subsidiaries of such Person; or

(3) one or more Subsidiaries of such Person.

"*Total Assets*" means, with respect to any Person for any date of determination, the consolidated total assets of such Person and its Restricted Subsidiaries as shown on the consolidated balance sheets of such Person and its Restricted Subsidiaries as of the end of the most recently ended fiscal quarter for which internal consolidated financial statements of such Person are available prior to the date of such determination.

"*Trustee*" means Wilmington Trust, National Association, until a successor replaces it and, thereafter, means the successor.

"*Trust Indenture Act*" means the Trust Indenture Act of 1939 (15 U.S.C. §§ 77aaa-77bbbb) as in effect on the Issue Date.

"*Trust Officer*" means any officer within the corporate trust department of the Trustee, including any vice president, assistant secretary, senior associate, associate, trust officer or any other officer of the Trustee who customarily performs functions similar to those performed by the Persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred because of such person's knowledge of and familiarity with the particular subject and who, in each case, shall have direct responsibility for the administration of the Indenture.

"*Unrestricted Subsidiary*" means:

(1) any Subsidiary of the Issuer that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors or the chief executive officer or chief financial officer of the Issuer in the manner provided below;

(2) any Subsidiary of an Unrestricted Subsidiary; and

(3) as of the Issue Date, includes Shelf Drilling (Far East Operations), Ltd., Shelf Drilling Asset I, Ltd., Shelf Drilling Asset II, Ltd., SDAIII, Shelf Drilling TBN I, Ltd., Shelf Drilling TBN II, Ltd., Shelf Drilling Asset III Holdings, Ltd., Shelf Drilling (Far East II), Ltd., Shelf Drilling (Singapore) Pte. Ltd. and Shelf Drilling (Southeast Asia) Limited.

The Board of Directors, chief executive officer or chief financial officer of the Issuer may designate any Subsidiary of the Issuer (including any newly acquired or newly formed Subsidiary) to be an Unrestricted Subsidiary only to the extent that:

(a) such Subsidiary or any of its Subsidiaries does not own any Capital Stock or Indebtedness of, or hold any Lien on any property of, the Issuer or any other Subsidiary of the Issuer that is not a Subsidiary of the Subsidiary to be so designated;

(b) such Subsidiary has no Indebtedness other than Non-Recourse Debt, except, solely in respect of SDAIII, the Guarantee by Shelf Drilling Services Limited, in respect of Indebtedness under the SDA Credit Facility, as in effect on the Issue Date;

(c) such Subsidiary has not guaranteed or otherwise directly or indirectly provided credit support for any Indebtedness of the Issuer or any of its Restricted Subsidiaries, except, in the case of SDAIII, under the SDA Credit Facility, as in effect on the Issue Date;

(d) the Investment by the Issuer or another Restricted Subsidiary in such Subsidiary is treated as an Investment and such Investment must be permitted under the covenant described in ''Certain Covenants—Restricted Payments'' or a Permitted Investment at the time such Investment is made; and

(e) each Subsidiary to be so designated and its Subsidiaries, immediately after giving effect to the designation hereunder and any other contemporaneous designation under any other document, is not a ''restricted subsidiary'' under the Credit Agreement.

If, at any time, any Unrestricted Subsidiary would fail to meet the requirements of this definition of Unrestricted Subsidiary, it will 60 days thereafter (unless it shall meet the requirements of this definition prior to such date) cease to be an Unrestricted Subsidiary and any Indebtedness of such Subsidiary will be deemed to be incurred by a Restricted Subsidiary of the Issuer as of such date and, if such Indebtedness is not permitted to be incurred as of such date under ''—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock'', the Issuer will be in default of such covenant.

The Board of Directors, chief executive officer or chief financial officer of the Issuer may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided, however*, that such designation shall only be permitted if, immediately after giving effect to such designation (A) any Indebtedness of such Subsidiary, after being deemed to be incurred by a Restricted Subsidiary of the Issuer as of such date of designation and, would be permitted to be Incurred as of such date under ''—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock'' and (B) no Default shall have occurred and be continuing. Any such designation of a Subsidiary as an Unrestricted Subsidiary or Restricted Subsidiary by the Board of Directors or an Officer's Certificate of the chief executive officer or chief financial officer of the Issuer shall be evidenced to the Trustee by promptly filing with the Trustee a copy of the resolution of the Board of Directors, chief executive officer or chief financial officer of the Issuer giving effect to such designation and an Officer's Certificate certifying that such designation complied with the foregoing provisions.

Notwithstanding anything to the contrary herein, once designated as a Restricted Subsidiary, SDAIII shall not be permitted to be redesignated as an Unrestricted Subsidiary.

''*U.S. Dollar Equivalent*'' means with respect to any monetary amount in a currency other than U.S. dollars, at any time for determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the spot rate for the purchase of U.S. dollars with the applicable foreign currency as published in The Wall Street Journal in the ''Exchange Rates'' column under the heading ''Currency Trading'' on the date two Business Days prior to such determination.

Except as described under ''—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock,'' whenever it is necessary to determine whether the Issuer has complied with any covenant in the Indenture or a Default has occurred and an amount is expressed in a currency other than U.S. dollars, such amount will be treated as the U.S. Dollar Equivalent determined as of the date such amount is initially determined in such currency.

"*U.S. Government Obligations*" means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and which are not callable at the issuer's option.

"*Voting Stock*" of a Person means all classes of Capital Stock of such Person then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

"*Wholly Owned Subsidiary*" means a Restricted Subsidiary all the Capital Stock of which (other than directors' qualifying shares and other shares which are required under the laws of its jurisdiction of organization to be held by one or more of the citizens thereof) is owned by the Issuer or one or more other Wholly Owned Subsidiaries.

TRANSFER RESTRICTIONS

Because of the following restrictions, you are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the notes offered hereby.

The notes and related guarantees have not been and will not be registered under the Securities Act or the securities laws of any other jurisdiction and, unless so registered, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S except to (a) ''qualified institutional buyers'' in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (b) non-U.S. persons in offshore transactions (''non-U.S. purchasers, which term shall include dealers or other professional fiduciaries in the United States acting on a discretionary basis for non-U.S. beneficial owners (other than an estate or trust)) in reliance on Regulation S.

Each purchaser of notes will be deemed to have represented and agreed as follows (terms used in this section entitled ''Transfer Restrictions'' that are defined in Rule 144A or Regulation S are used herein as defined therein):

(a) The purchaser (A) (i) is a ''qualified institutional buyer,'' (ii) is aware that the sale to it is being made in reliance on Rule 144A and (iii) is acquiring such notes for its own account or for the account of a qualified institutional buyer or (B) is a non-U.S. purchaser and is purchasing such notes in an offshore transaction pursuant to Regulation S, and is not a U.S. person as defined in Regulation S.

(b) The purchaser understands that the notes and the guarantees are being offered in a transaction not involving any public offering in the United States within the meaning of the Securities Act, that such notes have not been and will not be registered under the Securities Act and that (A) if in the future it decides to offer, resell, pledge or otherwise transfer any of the notes, such notes may be offered, resold, pledged or otherwise transferred only (i) in the United States to a person whom the seller reasonably believes is a ''qualified institutional buyer'' in a transaction meeting the requirements of Rule 144A, (ii) outside the United States in a transaction complying with the provisions of Rule 904 under the Securities Act, (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 (if available), or (iv) pursuant to an effective registration statement under the Securities Act, in each of cases (i) through (iv) in accordance with any applicable securities laws of any State of the United States, and that (B) the purchaser will, and each subsequent holder is required to, notify any subsequent purchaser of the notes from it of the resale restrictions referred to in (A) above.

(c) The purchaser understands that the notes will, until the expiration of the applicable holding period with respect to the notes set forth in Rule 144(d)(1) of the Securities Act, unless otherwise agreed by the Company and the holder thereof, bear a legend substantially to the following effect (the ''Restricted Notes Legend''):

THIS NOTE WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE ''SECURITIES ACT''), AND THIS NOTE OR ANY INTEREST OR PARTICIPATION HEREIN MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS NOTE IS HEREBY NOTIFIED THAT THE SELLER OF THIS NOTE MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER. BY ITS ACQUISITION HEREOF, THE HOLDER OF THIS NOTE REPRESENTS THAT (A) IT IS A ''QUALIFIED INSTITUTIONAL BUYER'' (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) OR (B) IT IS NOT A U.S. PERSON (WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT) AND IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT.

THE HOLDER OF THIS NOTE AGREES FOR THE BENEFIT OF THE ISSUER THAT (A) THIS NOTE MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (I) IN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (II) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904

UNDER THE SECURITIES ACT, (III) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (IV) PURSUANT TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH OF CASES THE (I) THROUGH (IV) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE.

FURTHER, BY ITS ACQUISITION OF THIS NOTE, THE HOLDER THEREOF WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED THAT EITHER (1) NO PORTION OF THE ASSETS USED BY SUCH HOLDER TO ACQUIRE OR HOLD THIS NOTE (OR ANY INTEREST IN THIS NOTE) CONSTITUTES THE ASSETS OF AN EMPLOYEE BENEFIT PLAN THAT IS SUBJECT TO TITLE I OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (''ERISA''), A PLAN, INDIVIDUAL RETIREMENT ACCOUNT OR OTHER ARRANGEMENT THAT IS SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE ''CODE''), OR ANY OTHER FEDERAL, STATE, LOCAL, NON-U.S. OR OTHER LAWS OR REGULATIONS THAT ARE SIMILAR TO SUCH PROVISIONS OF ERISA OR THE CODE (''SIMILAR LAWS''), OR AN ENTITY WHOSE UNDERLYING ASSETS ARE CONSIDERED TO INCLUDE ''PLAN ASSETS'' OF SUCH PLAN, ACCOUNT OR ARRANGEMENT, OR (2) THE ACQUISITION, HOLDING AND SUBSEQUENT DISPOSITION OF THIS NOTE (OR ANY INTEREST IN THIS NOTE) WILL NOT CONSTITUTE A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR A SIMILAR VIOLATION UNDER ANY APPLICABLE SIMILAR LAWS.

IN ADDITION, WITHOUT LIMITING THE FOREGOING, BY ACQUIRING A NOTE (INCLUDING ANY INTEREST IN A NOTE) EACH PURCHASER AND TRANSFEREE OF A NOTE (OR INTEREST IN A NOTE) THAT IS A PLAN SUBJECT TO ERISA OR SECTION 4975 OF THE CODE (AN ″ERISA PLAN″), INCLUDING ANY SUCH PLAN'S FIDUCIARY, WILL BE DEEMED TO REPRESENT AND WARRANT, AND ACKNOWLEDGE (AS APPLICABLE) AS LONG AS IT HOLDS SUCH INVESTMENT THAT: (1) THE DECISION TO INVEST IN SUCH NOTE HAS BEEN MADE BY THE PLAN FIDUCIARY; (2) NONE OF THE COMPANY, AN INITIAL PURCHASER OR ANY OF THEIR RESPECTIVE AFFILIATES (''TRANSACTION PARTIES'') HAVE PROVIDED NOR WILL PROVIDE ADVICE WITH RESPECT TO THE ACQUISITION OF AND INVESTMENT IN THE NOTES BY THE ERISA PLAN; (3) THE PLAN FIDUCIARY IS EITHER (A) A BANK AS DEFINED IN SECTION 202 OF THE INVESTMENT ADVISERS ACT OF 1940 (THE ''ADVISERS ACT''), OR SIMILAR INSTITUTION THAT IS REGULATED AND SUPERVISED AND SUBJECT TO PERIODIC EXAMINATION BY A U.S. STATE OR U.S. FEDERAL AGENCY, (B) AN INSURANCE CARRIER WHICH IS QUALIFIED UNDER THE LAWS OF MORE THAN ONE U.S. STATE TO PERFORM THE SERVICES OF MANAGING, ACQUIRING OR DISPOSING OF ASSETS OF AN ERISA PLAN; (C) AN INVESTMENT ADVISER REGISTERED UNDER THE ADVISERS ACT, OR, IF NOT REGISTERED AS AN INVESTMENT ADVISER UNDER THE ADVISERS ACT BY REASON OF PARAGRAPH (1) OF SECTION 203A OF THE ADVISERS ACT, IS REGISTERED AS AN INVESTMENT ADVISER UNDER THE LAWS OF THE U.S. STATE IN WHICH IT MAINTAINS ITS PRINCIPAL OFFICE AND PLACE OF BUSINESS; (D) A BROKER-DEALER REGISTERED UNDER THE U.S. SECURITIES EXCHANGE ACT OF 1934, AS AMENDED; OR (E) AN INDEPENDENT FIDUCIARY THAT HOLDS, OR HAS UNDER ITS MANAGEMENT OR CONTROL, TOTAL ASSETS OF AT LEAST $50 MILLION (*PROVIDED* THAT THIS CLAUSE (E) SHALL NOT BE SATISFIED IF THE PLAN FIDUCIARY IS AN INDIVIDUAL DIRECTING HIS OR HER OWN INDIVIDUAL RETIREMENT ACCOUNT OR A RELATIVE OF SUCH INDIVIDUAL); (3) THE PLAN FIDUCIARY IS CAPABLE OF EVALUATING INVESTMENT RISKS INDEPENDENTLY, BOTH IN GENERAL AND WITH RESPECT TO PARTICULAR TRANSACTIONS AND INVESTMENT STRATEGIES, INCLUDING THE ACQUISITION BY THE ERISA PLAN OF THE NOTES; (4) THE PLAN FIDUCIARY IS A ''FIDUCIARY'' WITH RESPECT TO THE ERISA PLAN WITHIN THE MEANING OF SECTION 3(21) OF ERISA OR SECTION 4975 OF THE CODE, OR BOTH, AND IS RESPONSIBLE FOR EXERCISING INDEPENDENT JUDGMENT IN

EVALUATING THE ERISA PLAN'S ACQUISITION OF THE NOTES; (5) NONE OF THE TRANSACTION PARTIES HAS EXERCISED ANY AUTHORITY TO CAUSE THE ERISA PLAN TO INVEST IN THE NOTES OR TO NEGOTIATE THE TERMS OF THE ERISA PLAN'S INVESTMENT IN THE NOTES; AND (6) THE PLAN FIDUCIARY HAS BEEN INFORMED BY THE TRANSACTION PARTIES (A) THAT NONE OF THE TRANSACTION PARTIES ARE UNDERTAKING TO PROVIDE IMPARTIAL INVESTMENT ADVICE OR TO GIVE ADVICE IN A FIDUCIARY CAPACITY, AND THAT NO SUCH PARTY HAS GIVEN INVESTMENT ADVICE OR OTHERWISE MADE A RECOMMENDATION, IN CONNECTION WITH THE ERISA PLAN'S INVESTMENT IN THE NOTES; AND (B) OF THE EXISTENCE AND NATURE OF THE TRANSACTION PARTIES FINANCIAL INTERESTS WITH RESPECT TO THE SALE OF THE NOTES (PURSUANT TO THE OFFERING MEMORANDUM). THE ABOVE REPRESENTATIONS IN THIS PARAGRAPH ARE INTENDED TO COMPLY WITH THE DEPARTMENT OF LABOR'S REGULATION SECTIONS 29 C.F.R. 2510.3-21(a) AND (C)(1) AS PROMULGATED ON APRIL 8, 2016 (81 FED. REG. 20,997). IF THESE REGULATIONS ARE REVOKED, REPEALED OR NO LONGER EFFECTIVE, THESE REPRESENTATIONS SHALL BE DEEMED TO BE NO LONGER IN EFFECT.

Each purchaser of notes offered in reliance on Regulation S will be deemed to have represented and agreed that it is not a U.S. person and is purchasing such notes in an offshore transaction (as such terms are defined in Regulation S) pursuant to Regulation S and understands that such notes will, unless otherwise agreed by the Company and the holder thereof, bear a legend substantially to the following effect (the ''Regulation S Legend''):

THIS NOTE WAS ORIGINALLY ISSUED IN A TRANSACTION ORIGINALLY EXEMPT FROM REGISTRATION UNDER THE US SECURITIES ACT OF 1933 (THE ''SECURITIES ACT''), AND MAY NOT BE TRANSFERRED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY US PERSON EXCEPT PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ALL APPLICABLE STATE SECURITIES LAWS. TERMS USED ABOVE HAVE THE MEANINGS GIVEN TO THEM IN REGULATION S UNDER THE SECURITIES ACT.

FURTHER, BY ITS ACQUISITION OF THIS NOTE, THE HOLDER THEREOF WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED THAT EITHER (1) NO PORTION OF THE ASSETS USED BY SUCH HOLDER TO ACQUIRE OR HOLD THIS NOTE (OR ANY INTEREST IN THIS NOTE) CONSTITUTES THE ASSETS OF AN EMPLOYEE BENEFIT PLAN THAT IS SUBJECT TO TITLE I OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (''ERISA''), A PLAN, INDIVIDUAL RETIREMENT ACCOUNT OR OTHER ARRANGEMENT THAT IS SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE ''CODE''), OR ANY OTHER FEDERAL, STATE, LOCAL, NON-U.S. OR OTHER LAWS OR REGULATIONS THAT ARE SIMILAR TO SUCH PROVISIONS OF ERISA OR THE CODE (''SIMILAR LAWS''), OR AN ENTITY WHOSE UNDERLYING ASSETS ARE CONSIDERED TO INCLUDE ''PLAN ASSETS'' OF SUCH PLAN, ACCOUNT OR ARRANGEMENT, OR (2) THE ACQUISITION, HOLDING AND SUBSEQUENT DISPOSITION OF THIS NOTE (OR ANY INTEREST IN THIS NOTE) WILL NOT CONSTITUTE A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR A SIMILAR VIOLATION UNDER ANY APPLICABLE SIMILAR LAWS.

IN ADDITION, WITHOUT LIMITING THE FOREGOING, BY ACQUIRING A NOTE (INCLUDING ANY INTEREST IN A NOTE) EACH PURCHASER AND TRANSFEREE OF A NOTE (OR INTEREST IN A NOTE) THAT IS A PLAN SUBJECT TO ERISA OR SECTION 4975 OF THE CODE (AN ″ERISA PLAN″), INCLUDING ANY SUCH PLAN'S FIDUCIARY, WILL BE DEEMED TO REPRESENT AND WARRANT, AND ACKNOWLEDGE (AS APPLICABLE) AS LONG AS IT HOLDS SUCH INVESTMENT THAT: (1) THE DECISION TO INVEST IN SUCH NOTE HAS BEEN MADE BY THE PLAN FIDUCIARY; (2) NONE OF THE COMPANY, AN INITIAL PURCHASER OR ANY OF THEIR RESPECTIVE AFFILIATES (''TRANSACTION PARTIES'') HAVE PROVIDED NOR WILL PROVIDE ADVICE WITH RESPECT TO THE ACQUISITION OF AND INVESTMENT IN THE NOTES BY THE ERISA PLAN; (3) THE PLAN FIDUCIARY IS

EITHER (A) A BANK AS DEFINED IN SECTION 202 OF THE INVESTMENT ADVISERS ACT OF 1940 (THE "ADVISERS ACT"), OR SIMILAR INSTITUTION THAT IS REGULATED AND SUPERVISED AND SUBJECT TO PERIODIC EXAMINATION BY A U.S. STATE OR U.S. FEDERAL AGENCY, (B) AN INSURANCE CARRIER WHICH IS QUALIFIED UNDER THE LAWS OF MORE THAN ONE U.S. STATE TO PERFORM THE SERVICES OF MANAGING, ACQUIRING OR DISPOSING OF ASSETS OF AN ERISA PLAN; (C) AN INVESTMENT ADVISER REGISTERED UNDER THE ADVISERS ACT, OR, IF NOT REGISTERED AS AN INVESTMENT ADVISER UNDER THE ADVISERS ACT BY REASON OF PARAGRAPH (1) OF SECTION 203A OF THE ADVISERS ACT, IS REGISTERED AS AN INVESTMENT ADVISER UNDER THE LAWS OF THE U.S. STATE IN WHICH IT MAINTAINS ITS PRINCIPAL OFFICE AND PLACE OF BUSINESS; (D) A BROKER-DEALER REGISTERED UNDER THE U.S. SECURITIES EXCHANGE ACT OF 1934, AS AMENDED; OR (E) AN INDEPENDENT FIDUCIARY THAT HOLDS, OR HAS UNDER ITS MANAGEMENT OR CONTROL, TOTAL ASSETS OF AT LEAST $50 MILLION (*PROVIDED* THAT THIS CLAUSE (E) SHALL NOT BE SATISFIED IF THE PLAN FIDUCIARY IS AN INDIVIDUAL DIRECTING HIS OR HER OWN INDIVIDUAL RETIREMENT ACCOUNT OR A RELATIVE OF SUCH INDIVIDUAL); (3) THE PLAN FIDUCIARY IS CAPABLE OF EVALUATING INVESTMENT RISKS INDEPENDENTLY, BOTH IN GENERAL AND WITH RESPECT TO PARTICULAR TRANSACTIONS AND INVESTMENT STRATEGIES, INCLUDING THE ACQUISITION BY THE ERISA PLAN OF THE NOTES; (4) THE PLAN FIDUCIARY IS A "FIDUCIARY" WITH RESPECT TO THE ERISA PLAN WITHIN THE MEANING OF SECTION 3(21) OF ERISA OR SECTION 4975 OF THE CODE, OR BOTH, AND IS RESPONSIBLE FOR EXERCISING INDEPENDENT JUDGMENT IN EVALUATING THE ERISA PLAN'S ACQUISITION OF THE NOTES; (5) NONE OF THE TRANSACTION PARTIES HAS EXERCISED ANY AUTHORITY TO CAUSE THE ERISA PLAN TO INVEST IN THE NOTES OR TO NEGOTIATE THE TERMS OF THE ERISA PLAN'S INVESTMENT IN THE NOTES; AND (6) THE PLAN FIDUCIARY HAS BEEN INFORMED BY THE TRANSACTION PARTIES (A) THAT NONE OF THE TRANSACTION PARTIES ARE UNDERTAKING TO PROVIDE IMPARTIAL INVESTMENT ADVICE OR TO GIVE ADVICE IN A FIDUCIARY CAPACITY, AND THAT NO SUCH PARTY HAS GIVEN INVESTMENT ADVICE OR OTHERWISE MADE A RECOMMENDATION, IN CONNECTION WITH THE ERISA PLAN'S INVESTMENT IN THE NOTES; AND (B) OF THE EXISTENCE AND NATURE OF THE TRANSACTION PARTIES FINANCIAL INTERESTS WITH RESPECT TO THE SALE OF THE NOTES (PURSUANT TO THE OFFERING MEMORANDUM). THE ABOVE REPRESENTATIONS IN THIS PARAGRAPH ARE INTENDED TO COMPLY WITH THE DEPARTMENT OF LABOR'S REGULATION SECTIONS 29 C.F.R. 2510.3-21(a) AND (C)(1) AS PROMULGATED ON APRIL 8, 2016 (81 FED. REG. 20,997). IF THESE REGULATIONS ARE REVOKED, REPEALED OR NO LONGER EFFECTIVE, THESE REPRESENTATIONS SHALL BE DEEMED TO BE NO LONGER IN EFFECT.

Notes may be exchanged for notes not bearing the Restricted Notes Legend but bearing the Regulation S Legend upon certification by the transferor in the form set forth in the indenture governing the notes that the transfer of any such notes has been made in accordance with Rule 904 under the Securities Act. The Company understands that under current market practices settlement of the transfer of any such notes may be effected through the facilities of DTC, but that prior to the 40th day after the latest of the commencement of this offering and the last original issue date of the notes, any such transfer may only occur through the facilities of Euroclear and/or Clearstream, Luxembourg. See "Book-entry; delivery and form."

(d) Either: (A) the purchaser is not a Plan (which term includes (i) employee benefit plans that are subject to the Employee Retirement Income Security Act of 1974, as amended ("ERISA"), (ii) plans, individual retirement accounts and other arrangements that are subject to Section 4975 of the Internal Revenue Code of 1986, as amended (the "Code"), or to provisions under applicable U.S. Federal, state, local, non-U.S. or other laws or regulations that are similar to such provisions of ERISA or the Code ("Similar Laws") and (iii) entities the underlying assets of which are considered to include "plan assets" of such plans, accounts and arrangements) and it is not purchasing the notes on behalf of, or with the "plan assets" of, any Plan; or (B) the purchaser's purchase, holding and subsequent disposition of the notes either (i) are not a prohibited transaction under ERISA or the Code and are otherwise permissible under all applicable Similar Laws or (ii) are entitled to exemptive relief from the prohibited transaction provisions of ERISA and the Code in accordance with one or more available statutory, class or individual prohibited transaction exemptions and are otherwise permissible under all applicable Similar Laws.

(e) In addition, without limiting the foregoing, by acquiring a note (including any interest in a note) each purchaser and transferee of a note (or interest in a note) that is a Plan subject to ERISA or Section 4975 of the Code (an ″ERISA Plan″), including any such Plan's Fiduciary, will be deemed to represent and warrant, and acknowledge (as applicable) as long as it holds such investment that: (1) the decision to invest in such note has been made by the Plan Fiduciary; (2) none of the Company, an initial purchaser or any of their respective affiliates (''Transaction Parties'') have provided nor will provide advice with respect to the acquisition of and investment in the notes by the ERISA Plan; (3) the Plan Fiduciary is either (a) a bank as defined in Section 202 of the Investment Advisers Act of 1940 (the ''Advisers Act''), or similar institution that is regulated and supervised and subject to periodic examination by a U.S. state or U.S. federal agency, (b) an insurance carrier which is qualified under the laws of more than one U.S. state to perform the services of managing, acquiring or disposing of assets of an ERISA Plan; (c) an investment adviser registered under the Advisers Act, or, if not registered as an investment adviser under the Advisers Act by reason of paragraph (1) of Section 203A of the Advisers Act, is registered as an investment adviser under the laws of the U.S. state in which it maintains its principal office and place of business; (d) a broker-dealer registered under the Exchange Act, as amended; or (e) an independent fiduciary that holds, or has under its management or control, total assets of at least $50 million (*provided* that this clause (e) shall not be satisfied if the Plan Fiduciary is an individual directing his or her own individual retirement account or a relative of such individual); (3) the Plan Fiduciary is capable of evaluating investment risks independently, both in general and with respect to particular transactions and investment strategies, including the acquisition by the ERISA Plan of the notes; (4) the Plan Fiduciary is a ''fiduciary'' with respect to the ERISA Plan within the meaning of Section 3(21) of ERISA or Section 4975 of the Code, or both, and is responsible for exercising independent judgment in evaluating the ERISA Plan's acquisition of the notes; (5) none of the Transaction Parties has exercised any authority to cause the ERISA Plan to invest in the notes or to negotiate the terms of the ERISA Plan's investment in the notes; and (6) the Plan Fiduciary has been informed by the Transaction Parties (A) that none of the Transaction Parties are undertaking to provide impartial investment advice or to give advice in a fiduciary capacity, and that no such party has given investment advice or otherwise made a recommendation, in connection with the ERISA Plan's investment in the notes; and (B) of the existence and nature of the Transaction Parties financial interests with respect to the sale of the notes (pursuant to the offering memorandum). The above representations in this paragraph are intended to comply with the Department of Labor's regulation Sections 29 C.F.R. 2510.3-21(a) and (c)(1) as promulgated on April 8, 2016 (81 Fed. Reg. 20,997). If these regulations are revoked, repealed or no longer effective, these representations shall be deemed to be no longer in effect.

(f) The purchaser will not transfer the notes to any person or entity, unless such person or entity could itself truthfully make the foregoing representations and covenants. Prior to any proposed transfer of any note in certificated form or of beneficial interests in a note in global form (in each case other than pursuant to an effective registration statement), as applicable, the holder of the notes or the holder of beneficial interests in a note in global form, as the case may be, may be required to provide certifications and other documentation relating to the manner of such transfer and submit such certifications and other documentation as provided in the indenture governing the notes.

(g) The trustee will not be required to accept for registration of transfer any notes acquired by the purchaser, except upon presentation of evidence satisfactory to the Company and the trustee that the restrictions set forth herein have been complied with.

(h) The purchaser acknowledges that the Company, the initial purchasers and others will rely upon the truth and accuracy of the foregoing representations and agreements and agrees that if any of the representations or agreements deemed to have been made by its purchase of the notes is no longer accurate, it shall promptly notify us and the initial purchasers. If it is acquiring the notes as a fiduciary or agent for one or more qualified investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing representations and agreements on behalf of each account.

PLAN OF DISTRIBUTION

Under the terms and subject to the conditions contained in a purchase agreement dated January 31, 2018, the Issuer has agreed to sell to the initial purchasers, for whom Credit Suisse Securities (USA) LLC is acting as representative, and the initial purchasers have severally agreed to purchase, the following respective principal amount of notes.

Initial Purchasers	Principal Amount
Credit Suisse Securities (USA) LLC	$198,000,000
RBC Capital Markets, LLC.	99,000,000
HSBC Bank plc	99,000,000
J.P. Morgan Securities LLC.	99,000,000
Arctic Securities AS.	21,000,000
Clarksons Platou Securities AS	21,000,000
DNB Markets, Inc.	21,000,000
ING Bank N.V., London Branch	21,000,000
UBS Securities LLC	21,000,000
Total	$600,000,000

The purchase agreement provides that the initial purchasers are obligated to purchase all of the notes if any are purchased. The purchase agreement also provides that if an initial purchaser defaults the purchase commitments of non-defaulting initial purchasers may be increased or the offering may be terminated.

The initial purchasers propose to offer the notes initially at the offering price on the cover page of this offering memorandum and may also offer the notes to selling group members at the offering price less a selling concession. After the initial offering, the offering price may be changed.

Certain initial purchasers are not broker-dealers registered with the SEC. To the extent that such initial purchasers intend to effect sales of the notes in the United States, they will do so only through one or more U.S. registered broker-dealers or otherwise as permitted by applicable U.S. law.

The offer and sale of the notes have not been and will not be registered under the Securities Act, and the notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except to persons reasonably believed to be qualified institutional buyers in reliance on Rule 144A and to persons in offshore transactions in reliance on Regulation S. Each of the initial purchasers has agreed that, except as permitted by the purchase agreement, it will not offer, sell or deliver the notes as part of its distribution at any time within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S. Resales of the notes are restricted as described under ''Transfer Restrictions.''

For a period of 60 days after the date hereof, we will not, without the prior written consent of Credit Suisse Securities (USA) LLC, directly or indirectly, take any of the following actions with respect to any United States dollar-denominated debt securities issued or guaranteed by us and having a maturity of more than one year from the date of issue or any securities convertible into or exchangeable or exercisable for any of the notes (''Lock-Up Securities''): (i) offer, sell, issue, contract to sell, pledge or otherwise dispose of Lock-Up Securities, (ii) offer, sell, issue, contract to sell, contract to purchase or grant any option, right or warrant to purchase Lock-Up Securities, (iii) enter into any swap, hedge or any other agreement that transfers, in whole or in part, the economic consequences of ownership of Lock-Up Securities, (iv) establish or increase a put-equivalent position or liquidate or decrease a call-equivalent position in Lock-Up Securities within the meaning of Section 16 of the Exchange Act or (v) file with the SEC a registration statement under the Securities Act relating to Lock-Up Securities or publicly disclose the intention to take any such action. We will not at any time directly or indirectly, take any action referred to in clauses (i) through (v) above with respect to any securities under circumstances where such offer, sale, pledge, contract or disposition would cause the exemption afforded by Section 4(a)(2) of the Securities Act or the safe harbor of Regulation S thereunder to cease to be applicable to the offer and sale of the notes.

In addition, until 40 days after the commencement of the offering, an offer or sale of notes within the United States by a broker/dealer (whether or not it is participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A.

We have agreed to indemnify the initial purchasers against liabilities or to contribute to payments which they may be required to make in that respect.

The notes are a new issue of securities for which there currently is no market. Certain of the initial purchasers have advised us that they intend to make a market in the notes as permitted by applicable law. They are not obligated, however, to make a market in the notes and any market-making may be discontinued at any time at their sole discretion. Accordingly, no assurance can be given as to the development or liquidity of any market for the notes.

The initial purchasers may engage in over-allotment, stabilizing transactions, covering transactions and penalty bids in accordance with Regulation M under the Exchange Act.

- Over-allotment involves sales in excess of the offering size, which creates a short position for the initial purchasers.
- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.
- Covering transactions involve purchases of the notes in the open market after the distribution has been completed in order to cover short positions.
- Penalty bids permit the initial purchasers to reclaim a selling concession from a broker/dealer when the notes originally sold by such broker/dealer are purchased in a stabilizing or covering transaction to cover short positions.

These stabilizing transactions, covering transactions and penalty bids may cause the price of the notes to be higher than it would otherwise be in the absence of these transactions. These transactions, if commenced, may be discontinued at any time.

It is expected that the delivery of the notes will be made on or about the closing date specified on the cover page of this offering memorandum, which will be the fifth business day following the date of the pricing of the notes (this settlement cycle being referred to as ''T+5''). Under Rule 15c6-1 under the Securities Exchange Act of 1934, trades in the secondary market generally are required to settle in two business days, unless the parties to such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the notes on the date hereof or the next two succeeding business days will be required, by virtue of the fact that the notes initially will settle in T+5, to specify alternate settlement arrangements at the time of any such trade to prevent a failed settlement and should consult their own advisor.

The initial purchasers and their respective affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, principal investment, hedging, financing and brokerage activities. Certain of the initial purchasers and their respective affiliates have, from time to time, engaged in, and may in the future engage in, various investment banking, financial advisory services and other commercial dealings in the ordinary course of business with us. The initial purchasers have received or will receive customary fees and commissions for these transactions.

The initial purchasers and certain of their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. The initial purchasers and certain of their affiliates have, from time to time, performed, and may in the future perform, various commercial and investment banking and financial advisory services for us and our affiliates, for which they received or may in the future receive customary fees and expenses. In addition, certain of the initial purchasers or their affiliates may own a portion of the 8.625% Notes or the 9.500% Notes that are subject to the Tender Offers and accordingly may receive a portion of the net proceeds from this offering.

Selling Restrictions

The notes are offered for sale in those jurisdictions where it is lawful to make such offers.

Each of the initial purchasers has represented and agreed that it has not offered, sold or delivered and will not offer, sell or deliver any of the notes directly or indirectly, or distribute this offering memorandum or any other offering material relating to the notes, in or from any jurisdiction except under circumstances that will result in compliance with the applicable laws and regulations thereof and that will not impose any obligations on us except as set forth in the purchase agreement.

European Economic Area

The notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (''EEA''). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, ''MiFID II''); or (ii) a customer within the meaning of Directive 2002/92/EC, as amended, where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in the Prospectus Directive. Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the ''PRIIPs Regulation'') for offering or selling the notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation. This Offering Memorandum has been prepared on the basis that any offer of notes in any Member State of the EEA will be made pursuant to an exemption under the Prospectus Directive from the requirement to publish a prospectus for offers of the notes. This Offering Memorandum is not a prospectus for purposes of the Prospectus Directive. For the purposes of this provision, the expression ''Prospectus Directive'' means Directive 2003/71/EC (as amended) and includes any relevant implementing measure in each Member State.

The above selling restriction is in addition to any other selling restrictions set out below.

Notice to Investors in the United Kingdom

Each of the initial purchasers severally represents, warrants and agrees as follows:

(i) it has only communicated or caused to be communicated and will only communicate or cause to be communicated an invitation or inducement to engage in investment activity (within the meaning of section 21 of FSMA) to persons who have professional experience in matters relating to investments falling with Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 or in circumstances in which section 21 of FSMA does not apply to the company; and

(ii) it has complied with, and will comply with all applicable provisions of FSMA with respect to anything done by it in relation to the notes in, from or otherwise involving the United Kingdom.

Notice to Residents of Canada

The notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this offering memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the initial purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Hong Kong

WARNING

The contents of this document have not been reviewed by any regulatory authority in Hong Kong. Potential investors in Hong Kong are advised to exercise caution in relation to any offer of an investment. If potential investors are in any doubt about any of the contents of this document, they should obtain independent professional advice.

This offering of our notes is not being made in Hong Kong, by means of any document other than (1) to ''professional investors'' within the meaning of the Securities and Futures Ordinance (Cap. 571) of Hong Kong (the ''SFO'') and any rules made under the SFO; or (2) in other circumstances which do not result in the document being a ''Prospectus'' as defined in the Companies Ordinance (CAP. 32) of Hong Kong (the ''CO'') or which do not constitute an offer to the public within the meaning of the CO.

No action has been taken in Hong Kong or elsewhere, to permit the distribution of this document to the public of Hong Kong or in a manner in which this document may be accessed or read by the public of Hong Kong (except if permitted to do so under the securities laws of Hong Kong). Unless permitted to do so by the securities laws of Hong Kong, no person may issue or cause to be issued this offering memorandum or any advertisement, invitation or document relating to the notes, whether in Hong Kong or elsewhere, which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong or only to ''professional investors'' within the meaning of the SFO and any rules made thereunder.

This document is distributed on a confidential basis. No note will be issued to any person other than the person to whom this document has been sent. No person in Hong Kong other than the person to whom a copy of this document has been addressed may treat the same as constituting an invitation to him to invest. This document may not be reproduced in any form or transmitted to any person other than the person to whom it is addressed. The adviser and its connected persons may share any fees they receive with intermediaries, agents or other person introducing investors or remunerate such persons out of their own resources.

Singapore

This offering memorandum or any other offering material relating to our notes has not been and will not be registered as a prospectus with the Monetary Authority of Singapore, and the notes will not be offered in Singapore pursuant to exemptions under Section 274 and Section 275 of the Securities and Futures Act, Chapter 289 of Singapore, or the Securities and Futures Act. Accordingly our notes may not be offered or sold, or be the subject of an invitation for subscription or purchase, nor may this offering memorandum or any other offering material relating to our notes be circulated or distributed, whether directly or indirectly, to the public or any member of the public in Singapore other than (i) to an Institutional Investor under Section 274 of the Securities and Futures Act, Chapter 289 of Singapore (''SFA''), (ii) to a Relevant Person pursuant to Section 275(1), or person pursuant to Section 275 (1A), and in accordance with the conditions specified in Section 275 of the SFA, or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA.

Where interests are subscribed or purchased under Section 275 of the SFA by a Relevant Person which is:

(i) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or

(ii) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investment and each beneficiary of the trust is an individual who is an accredited investor, then securities (as defined in Section 239(1) of the SFA) of that corporation or the beneficiaries' rights and interest (howsoever described) in that trust shall not be transferred within 6 months after that corporation or that trust has acquired the interests pursuant to an offer made under Section 275 except:

  (a) to an Institutional Investor (for corporations, under Section 274 of the SFA) or to a Relevant Person defined in Section 275 (2) of the SFA, or to any person pursuant to an offer that is made on terms that such shares, debentures and units of shares and debentures of that corporation or such rights and interests in that trust are acquired at a consideration of not less than S

$200,000 (or its equivalent in a foreign currency) for each transaction, whether such amount is to be paid for in cash or by exchange of securities or other assets, and further for corporations, in accordance with the conditions specified in Section 275 of the SFA;

(b) no consideration is or will be given for the transfer;

(c) where the transfer is by operation of law; or

(d) as specified in Section 276(7) of the SFA.

Japan

The notes have not been and will not be registered under the Financial Instrument and Exchange Act of Japan. We will not offer or sell any of our notes directly or indirectly in Japan or to, or for the benefit of, any Japanese person or to others for re-offering or re-sale directly or indirectly in Japan or to any Japanese person, except in each case pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Securities and Exchange Law of Japan and any other applicable laws and regulations of Japan. For purposes of this paragraph, "Japanese person" means any person resident in Japan, including any corporation or other entity organized under the laws of Japan.

Notice to Prospective Investors in the Dubai International Financial Centre, or the DIFC

This document relates to an Exempt Offer in accordance with the Markets Rules 2012 of the Dubai Financial Services Authority, or the DFSA. This document is intended for distribution only to persons of a type specified in the Markets Rules 2012 of the DFSA. It must not be delivered to, or relied on by, any other person. The DFSA has no responsibility for reviewing or verifying any documents in connection with Exempt Offers. The DFSA has not approved this offering memorandum nor taken steps to verify the information set forth herein and has no responsibility for this document. The securities to which this document relates may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the securities offered should conduct their own due diligence on the securities. If you do not understand the contents of this document you should consult an authorized financial advisor.

In relation to its use in the DIFC, this document is strictly private and confidential and is being distributed to a limited number of investors and must not be provided to any person other than the original recipient, and may not be reproduced or used for any other purpose. The interests in the securities may not be offered or sold directly or indirectly to the public in the DIFC.

Notice to Prospective Investors in the UAE

The notes have not been, and are not being, publicly offered, sold, promoted or advertised in the UAE (including the Dubai International Financial Centre) other than in compliance with the laws of the UAE (and the Dubai International Financial Centre) governing the issue, offering and sale of securities. Further, this offering memorandum does not constitute a public offer of securities in the UAE (including the Dubai International Financial Centre) and is not intended to be a public offer. This offering memorandum has not been approved by or filed with the Central Bank of the UAE, the Securities and Commodities Authority or the Dubai Financial Services Authority.

CERTAIN TAX CONSIDERATIONS

The following is a summary of certain Cayman Islands and U.S. federal income tax consequences of holding and disposing of the notes.

This summary does not address all the tax considerations that may be relevant to a decision to purchase the notes and is not applicable to all categories of investors, some of which may be subject to special rules. It does not specifically address all of the Cayman Islands and U.S. federal income tax consequences applicable to any particular holder (or beneficial owner). It is based upon the tax laws of Cayman Islands and the United States as in effect on the date of this information memorandum, all of which are subject to change, possibly with retroactive effect, and to differing interpretations. You are urged to consult your independent tax advisor about the particular Cayman Islands and U.S. federal income tax consequences to you of the ownership and disposition of the notes.

Cayman Islands Tax Considerations

Under existing Cayman Islands laws:

- The Cayman Islands currently have no income tax or taxation in the nature of a withholding tax, corporation or capital gains tax and no estate duty, inheritance tax or gift tax. Thus, payments of interest and principal on the notes will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal to any holder of the notes, nor will gains derived from the disposal of the notes be subject to Cayman Islands income or corporation tax.
- No stamp duty will be payable in respect of the issue or redemption of the notes. However, holders whose notes are brought into the Cayman Islands may in certain circumstances be liable to pay stamp duty imposed under the laws of the Cayman Islands in respect of the notes and an instrument transferring title to a security which is in registered form would, if brought into or executed in the Cayman Islands, be subject to Cayman Islands stamp duty. Cayman Islands stamp duty of a nominal amount would also be payable in the event that documentation relating to the guarantee was brought into or executed in the Cayman Islands.

Certain U.S. Federal Income Tax Considerations

General

The following is a summary of certain U.S. federal income tax consequences of the ownership and disposition of the notes by a U.S. Holder (as defined below). This summary is based on current U.S. federal income tax law that is subject to change, possibly with retroactive effect. This summary applies only to U.S. Holders that purchase notes in the initial offering at their issue price and hold the notes as capital assets for U.S. federal income tax purposes. This summary does not address all of the tax consequences that may be relevant to a particular U.S. Holder due to its specific circumstances or because it is subject to special treatment under U.S. federal income tax laws, such as a bank or other financial institution; an entity that is treated as a partnership for U.S. federal income tax purposes; a tax-exempt entity; an insurance company; a regulated investment company; a dealer in securities or currencies; or a person that will hold notes as a hedge against currency risk or as part of a straddle, synthetic security, conversion transaction or other integrated investment comprised of notes and one or more other investments.

If a partnership (including any entity treated as a partnership for U.S. federal income tax purposes) holds notes, the tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. A partnership holding notes and any partner in such partnership should consult its tax advisor regarding the tax consequences of the ownership and disposition of the notes.

This summary does not address any other U.S. federal tax consequences (e.g., estate or gift tax) or the effect of any applicable foreign, state or local laws. This summary does not set forth, or provide a complete analysis of, all potential tax considerations.

For purposes of this discussion, the term ''U.S. Holder'' means a beneficial owner of a note that is, for U.S. federal income tax purposes, (i) a citizen or resident of the United States, (ii) a corporation or other entity subject to tax as a corporation for U.S. federal income tax purposes that is formed or organized in or under the laws of the United States or any state or political subdivision thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax regardless of source or (iv) a trust if (A) a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have authority to control all of its substantial decisions of such trust or (B) the trust has in effect a valid election under applicable Treasury Regulations to be treated as a U.S. person. This discussion does not address the tax consequences to any person that is not a U.S. Holder, as defined above.

This discussion is not intended to be tax advice. A holder should consult its tax advisor as to the particular U.S. tax consequences to it of the ownership and disposition of the notes, as well as the effects of other U.S. federal tax laws or state, local and foreign tax laws.

Issuer of the Notes for U.S. Federal Income Tax Purposes

Because we are treated, for U.S. federal income tax purposes, as disregarded as separate from our owner and indirect parent, Shelf Drilling Midco, Ltd., the notes should be treated, for U.S. federal income tax purposes, as issued by Shelf Drilling Midco, Ltd.

Interest Income

Generally, payments of stated interest on the notes, without reduction for any foreign tax withheld from such payments and including any Additional Payments with respect thereto, will be taxable to a U.S. Holder as ordinary interest income (in accordance with the holder's regular method of tax accounting) at the time such payments are accrued or received. Interest income on the notes generally will be considered foreign source income and will generally constitute "passive category income." A U.S. Holder may be entitled to deduct or credit foreign taxes withheld from interest payments in determining its U.S. federal income tax liability, subject to certain limitations (including that the election to deduct or credit foreign taxes applies to all of such U.S. Holder's foreign taxes for a particular tax year). The rules governing the calculation and timing of foreign tax credits and the deduction of foreign taxes are complex and depend upon a U.S. Holder's particular circumstances. Each U.S. Holder should consult its tax advisor regarding the application of these rules in its particular circumstances.

Sale, Exchange, Redemption or Other Taxable Disposition

Upon the sale, exchange, redemption or other taxable disposition of a note, a U.S. Holder generally will recognize taxable gain or loss in an amount equal to the difference between (1) the sum of cash and the fair market value of all other property received on such disposition (other than any amount attributable to accrued and unpaid interest, which will be taxable as ordinary income to the extent not previously included in income) and (2) such U.S. Holder's adjusted tax basis in the note. A U.S. Holder's adjusted tax basis in a note generally will equal the issue price of the note decreased by any payments received on the note other than qualified stated interest. Such gain or loss will generally be treated as U.S. source gain or loss. Any gain or loss recognized on the disposition will be capital gain or loss and will be long-term capital gain or loss if, at the time of the disposition, the U.S. Holder has held the note for more than one year. The deductibility of capital losses is subject to limitations.

Foreign Asset Reporting

Each U.S. Holder that is an individual that holds, or that is a corporation, partnership, or trust formed or availed for the purpose of holding, "specified foreign financial assets" with an aggregate value in excess of $50,000 on the last day of the tax year or more than $75,000 at any time during the tax year (or such larger values as specified in the applicable Treasury regulations), generally is required to file an information report with respect to such assets with its tax returns. A U.S. Holder is urged to consult its tax advisors regarding its information reporting obligations, if any, with respect to its ownership and disposition of the notes.

CERTAIN ERISA CONSIDERATIONS

The following is a summary of certain considerations associated with the purchase and holding of the notes by (i) employee benefit plans that are subject to Title I of ERISA, (ii) plans, individual retirement accounts and other arrangements that are subject to Section 4975 of the Code or provisions under any other federal, state, local, non-U.S. or other laws or regulations that are similar to such provisions of ERISA or the Code (collectively, ''Similar Laws''), and (iii) entities which are deemed to hold the assets of any of the foregoing types of plans, accounts or arrangements (each of the foregoing described in clauses (i), (ii), and (iii) being referred to herein as a ''Plan''). This summary is based on the provisions of ERISA and the Code, and the related regulations and administrative and judicial interpretations, as of the date hereof. This summary does not purport to be complete, and no assurance can be given that future legislation, court decisions or administrative regulations, rulings or pronouncements will not significantly modify the requirements summarized herein. Any such changes may be retroactive and thereby apply to transactions entered into before the date of their enactment or release.

General fiduciary matters

ERISA and the Code impose certain duties on persons who are fiduciaries of a Plan subject to Title I of ERISA or Section 4975 of the Code (an ''ERISA Plan'') and prohibit certain transactions involving the assets of an ERISA Plan and its fiduciaries or other interested parties. Under ERISA and the Code, any person who exercises any discretionary authority or control over the administration of such an ERISA Plan or the management or disposition of the assets of such an ERISA Plan, or who renders investment advice for a fee or other compensation to such an ERISA Plan, is generally considered to be a fiduciary of the ERISA Plan.

In considering an investment in the notes of a portion of the assets of any Plan, a fiduciary should determine whether the investment is in accordance with the documents and instruments governing the Plan and the applicable provisions of ERISA, the Code or any Similar Law relating to a fiduciary's duties to the Plan including, without limitation, the prudence, diversification, delegation of control and prohibited transaction provisions of ERISA, the Code and any other applicable Similar Laws.

Each Plan should consider the fact that none of the Transaction Parties (as defined herein) will act as a fiduciary to any Plan with respect to the decision to acquire notes and is not undertaking to provide impartial investment advice, or to give advice in a fiduciary capacity, with respect to such decision. The decision to acquire notes must be made by each prospective Plan purchaser on an arm's length basis. In addition, each ERISA Plan acquiring notes must generally be represented by a fiduciary independent of the Transaction Parties (which may not be an owner of or a relative of an owner of an IRA in the case of an investor that is an IRA) that (i) is capable of evaluating investment risks independently, both in general and with regard to the prospective investment in the notes, (ii) has exercised independent judgment in evaluating whether to invest the assets of such ERISA Plan in the notes and (iii) is a bank, an insurance carrier, a registered investment adviser, a registered broker-dealer or an independent fiduciary with at least $50 million of assets under management or control.

Prohibited transaction issues

Section 406 of ERISA and Section 4975 of the Code prohibit ERISA Plans from engaging in specified transactions involving plan assets with persons or entities who are ''parties in interest,'' within the meaning of ERISA, or ''disqualified persons,'' within the meaning of Section 4975 of the Code, unless an exemption is available. A party in interest or disqualified person who engaged in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code. In addition, the fiduciary of the ERISA Plan that engaged in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA and the Code.

In this regard, the U.S. Department of Labor has issued prohibited transaction class exemptions (each, a ''PTCE'') that may apply to the acquisition and holding of the notes (or interest therein). These class exemptions include, without limitation, PTCE 84-14 respecting transactions determined by independent qualified professional asset managers, PTCE 90-1 respecting insurance company pooled separate accounts, PTCE 91-38 respecting bank collective investment funds, PTCE 95-60 respecting life insurance company general accounts and PTCE 96-23 respecting transactions determined by in-house asset managers. In addition, the statutory exemption under Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provides relief from certain prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code for certain transactions between an ERISA Plan and a person who is a party in interest or disqualified person solely as a result of providing services to such ERISA Plan or a relationship to such a service provider, *provided* that neither the person transacting with the ERISA Plan nor any of its affiliates has or exercises any discretionary authority or control or renders any investment advice with respect to the assets of the ERISA Plan involved in the transaction and *provided*, *further*, that the ERISA Plan pays no more than, and receives no less than, adequate consideration in connection with the transaction. Each of the above-noted exemptions contains conditions and limitations on its application. Fiduciaries of ERISA Plans considering acquiring and/or holding the notes (or interest therein) in reliance on these or any other exemption should carefully review the exemption to ensure it is applicable. There can be no assurance that all of the conditions of any of the foregoing exemptions will be satisfied.

Governmental plans, foreign plans and certain church plans, while not subject to the fiduciary responsibility provisions of Title I of ERISA or the prohibited transaction provisions of Section 406 of ERISA or Section 4975 of the Code, may nevertheless be subject to Similar Laws. Fiduciaries of such plans should consult with their counsel before acquiring notes or any interest in a note.

Because of the foregoing, the notes may not be purchased or held by any person investing assets of any Plan, unless such purchase and holding will not constitute or result in a non-exempt prohibited transaction under ERISA or Section 4975 of the Code or a similar violation of any applicable Similar Laws.

Representation

Accordingly, by its acceptance of a note (including any interest in a note), each purchaser and subsequent transferee will be deemed to have represented and warranted that either (i) no portion of the assets used by such purchaser or transferee to acquire or hold the notes (or any interest therein) constitutes assets of any Plan or (ii) the acquisition and holding of the notes (or any interest therein) by such purchaser or transferee will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a similar violation under any applicable Similar Laws.

In addition, without limiting the foregoing, by acquiring a note (including any interest in a note) each purchaser and transferee of a note (or interest in a note) that is an ERISA Plan, including any Plan Fiduciary, will be deemed to represent and warrant, and acknowledge (as applicable) as long as it holds such investment that: (1) the decision to invest in such note has been made by the Plan Fiduciary; (2) none of the Transaction Parties have provided nor will provide advice with respect to the acquisition of and investment in the notes by the ERISA Plan; (3) the Plan Fiduciary is either (a) a bank as defined in Section 202 of the Investment Advisers Act of 1940 (the ''Advisers Act''), or similar institution that is regulated and supervised and subject to periodic examination by a U.S. state or U.S. federal agency, (b) an insurance carrier which is qualified under the laws of more than one U.S. state to perform the services of managing, acquiring or disposing of assets of an ERISA Plan; (c) an investment adviser registered under the Advisers Act, or, if not registered as an investment adviser under the Advisers Act by reason of paragraph (1) of Section 203A of the Advisers Act, is registered as an investment adviser under the laws of the U.S. state in which it maintains its principal office and place of business; (d) a broker-dealer registered under the U.S. Securities Exchange Act of 1934, as amended; or (e) an independent fiduciary that holds, or has under its management or control, total assets of at least $50 million (*provided* that this clause (e) shall not be satisfied if the Plan Fiduciary is an individual directing his or her own individual retirement account or a relative of such individual); (3) the Plan Fiduciary is capable of evaluating investment risks independently, both in general and with respect to particular transactions and investment strategies, including the acquisition by the ERISA Plan of the notes; (4) the Plan Fiduciary is a ''fiduciary'' with respect to the ERISA Plan within the meaning of Section 3(21) of ERISA or Section 4975 of the Code, or both, and is responsible for exercising independent judgment in evaluating the ERISA Plan's acquisition of the notes; (5) none of the Transaction Parties has exercised any authority to cause the ERISA Plan to invest in the notes or to negotiate the terms of the ERISA Plan's investment in the notes; and (6) the Plan Fiduciary has been informed by the Transaction Parties (A) that none of the Transaction Parties are undertaking to provide impartial investment advice or to give advice in a fiduciary capacity, and that no such party has given investment advice or otherwise made a recommendation, in connection with the ERISA Plan's investment in the notes; and (B) of the existence and nature of the Transaction Parties financial interests with respect to the sale of the notes (pursuant to the offering memorandum). The above representations in this paragraph are intended to comply with the Department of Labor's regulation Sections 29 C.F.R. 2510.3-21(a) and (c)(1) as promulgated on April 8, 2016 (81 Fed. Reg. 20,997). If these regulations are revoked, repealed or no longer effective, these representations shall be deemed to be no longer in effect.

The foregoing discussion is general in nature and is not intended to be all-inclusive. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries or other persons considering purchasing the notes on behalf of, or with the assets of, any Plan, consult with their counsel regarding the potential applicability of ERISA, Section 4975 of the Code or any Similar Law and whether an exemption would be applicable.

LEGAL MATTERS

Certain legal matters with regard to the notes will be passed upon for us by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York. Certain legal matters relating to the offering will be passed upon for the initial purchasers by Baker Botts L.L.P., Houston, Texas.

INDEPENDENT ACCOUNTANTS

The financial statements of SDL as of and for the years ended December 31, 2016 and 2015, included in this offering memorandum, have been audited and so included in reliance on the report of PricewaterhouseCoopers – Dubai branch, an independent registered public accounting firm, given on the authority of said firm as experts in auditing and accounting. The address of PricewaterhouseCoopers – Dubai branch is Building 4, Level 8, Emaar Square, Dubai, United Arab Emirates.

EXPERTS

Certain information appearing in this offering memorandum as attributed to Rystad Energy and the additional information based on such information has been reviewed by Rystad Energy, which has confirmed to us that such information and such additional information accurately describe the offshore exploration, development and production industry and the contract drilling services industry, including ours and other companies' relative performance and position in the contract drilling services industry. The address of Rystad Energy is Fjordalléen 16, 0250 Oslo, Norway.

ENFORCEABILITY OF CIVIL LIABILITIES

SDHL is an exempted company limited by shares and incorporated under the laws of the Cayman Islands. SDHL was incorporated in the Cayman Islands in order to run the business and enjoy certain benefits, such as political and economic stability, an effective judicial system, a favorable tax system, the absence of exchange control or currency restrictions, and the availability of professional and support services. However, certain disadvantages accompany incorporation in the Cayman Islands. These disadvantages include a less developed body of Cayman Islands securities laws that provide significantly less protection to investors as compared to the laws of other jurisdictions, such as the United States or any state, and the potential lack of standing by Cayman Islands companies to sue before the federal courts of the United States.

A substantial portion of our assets, as well as our management and directors, are located outside the United States. As a result, it may be difficult for investors to effect service of process in United States proceedings upon us, recognize or enforce judgments of United States courts outside the United States, including judgments predicated upon the civil liability provisions of the federal securities laws of the United States or any state of the United States. We have appointed Corporation Service Company, 1180 Avenue of the Americas, Suite 210, New York, NY 10036, as our agent upon whom process may be served in any action brought against us under the laws of the United States.

We have been advised by our Cayman Islands legal counsel that the courts of the Cayman Islands are unlikely (i) to recognize or enforce against us judgments of courts of the United States predicated upon the civil liability provisions of the federal securities laws of the United States or any state; and (ii) in original actions brought in the Cayman Islands, to impose liabilities against us predicated upon the civil liability provisions of the federal securities laws of the United States or any state, so far as the liabilities imposed by those provisions are penal in nature. In those circumstances, although there is no statutory enforcement in the Cayman Islands of judgments obtained in the United States, the courts of the Cayman Islands will recognize and enforce a foreign money judgment of a foreign court of competent jurisdiction without retrial on the merits based on the principle that a judgment of a competent foreign court imposes upon the judgment debtor an obligation to pay the sum for which judgment has been given provided certain conditions are met. For a foreign judgment to be enforced in the Cayman Islands, such judgment must be final and conclusive and for a liquidated sum, and must not be in respect of taxes or a fine or penalty, inconsistent with a Cayman Islands judgment in respect of the same matter, impeachable on the grounds of fraud or obtained in a manner, or be of a kind the enforcement of which is, contrary to natural justice or the public policy of the Cayman Islands (awards of punitive or multiple damages may well be held to be contrary to public policy). A Cayman Islands court may stay enforcement proceedings if concurrent proceedings are being brought elsewhere.

WHERE YOU CAN FIND MORE INFORMATION

We are not currently subject to the information requirements of Section 13(g) or 15(d) of the Exchange Act, and will not be subject to these requirements as a result of this offering. We have agreed, so long as we are not subject to these information requirements, to make available to holders and beneficial owners the information required to be delivered pursuant to the indenture governing the notes offered hereby and Rule 144A(d)(4) under the Securities Act in order to permit compliance with Rule 144A in connection with resales of such notes.

This offering memorandum contains summaries of certain agreements that we and/or the Issuer have entered into or expect to enter into in connection with this offering such as the indenture and other agreements described in this offering memorandum. The descriptions contained in this offering memorandum of these agreements are not purported to be complete and are subject to, or qualified in their entirety by reference to, the definitive agreements. Copies of such documents are available at your request, without charge, from Shelf Drilling, Ltd. at One JLT, Floor 12, Jumeirah Lakes Towers, P.O. Box 212201, Dubai, United Arab Emirates. Our telephone number at that address is +971 4 567 3400.

Index to consolidated financial statements

SHELF DRILLING, LTD.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS
(In thousands, except share data)
(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	269,048
Depreciation	20,743	17,869	58,853	53,446
Amortization of deferred costs	15,412	27,543	48,740	72,034
General and administrative	8,074	4,184	31,251	28,501
Loss on impairment of assets	—	—	34,802	—
Loss on disposal of assets	47	1,929	362	3,710
	118,879	131,383	390,240	426,739
Operating income	18,896	47,277	36,628	101,502
Other (expense) / income, net				
Interest income	417	128	821	284
Interest expense and financing charges	(18,723)	(20,314)	(65,316)	(58,681)
Other, net	(1,140)	(827)	(1,928)	(1,457)
	(19,446)	(21,013)	(66,423)	(59,854)
(Loss) / income before income taxes	(550)	26,264	(29,795)	41,648
Income tax expense	5,178	6,940	8,919	16,976
Net (loss) / income	$ (5,728)	$ 19,324	$ (38,714)	$ 24,672
Net (loss) / income attributable to ordinary shares*	$ (10,103)	$ 19,324	$ (51,302)	$ 24,672
(Loss) / earnings per share:*				
Basic - Common shares	$ (0.12)	$ —	$ (0.57)	$ —
Diluted - Common shares	$ (0.12)	$ —	$ (0.57)	$ —
Basic and Diluted - Class A shares	$ —	$ 43.42	$ (10.79)	$ 55.37
Basic and Diluted - Class B shares	$ —	$ —	$ —	$ —
Basic and Diluted - Class C shares	$ —	$ —	$ —	$ —
Basic and Diluted - Class D shares	$ —	$ —	$ —	$ —
Weighted average shares outstanding:				
Basic - Common shares	81,565,133	—	81,562,606	—
Diluted - Common shares	81,565,133	—	81,562,606	—
Basic and Diluted - Class A shares	—	445,016	444,594	445,622
Basic - Class B shares	—	17,246	18,485	17,534
Diluted - Class B shares	—	21,367	18,485	21,092
Basic - Class C shares	—	5,115	5,110	5,122
Diluted - Class C shares	—	5,646	5,110	5,480
Basic - Class D shares	—	—	—	—
Diluted - Class D shares	—	—	—	—

* The (loss)/earnings per share are calculated based on information for four months ended April 30, 2017 for the ordinary Class A, B, C and D shares and based on information for five months ended September 30, 2017 for the common shares. See Note 17 – (Loss) / Earnings Per Share.

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

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	**2016**	**2017**	**2016**
Net (loss) / income	$(5,728)	$19,324	$(38,714)	$24,672
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	$(5,748)	$19,551	$(38,673)	$24,946

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

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

	September 30, 2017	December 31, 2016
Assets		
Cash and cash equivalents	$ 106,577	$ 213,139
Accounts and other receivables, net	144,300	125,312
Asset held for sale	1,386	—
Other current assets	91,072	95,235
Total current assets	343,335	433,686
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	$1,703,913	$1,585,940
Liabilities and equity		
Accounts payable	$ 57,980	$ 70,605
Interest payable	20,997	15,773
Obligations under sale and leaseback	35,115	15,977
Short-term debt	1,715	—
Other current liabilities	38,978	32,665
Total current liabilities	154,785	135,020
Long-term debt	526,117	809,016
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	1,071,466
Mezzanine equity, net of issuance costs	165,978	—
Commitments and contingencies (Note 10)		
Common shares of $0.01 par value; 200,000,000 and 5,000,000 shares authorized at September 30, 2017 and December 31, 2016, respectively; issued and outstanding as follows:		
Common shares: 83,125,000 and nil at September 30, 2017 and December 31, 2016, respectively	831	—
Class A shares: nil and 444,594 at September 30, 2017 and December 31, 2016, respectively	—	5
Class B shares: nil and 25,099 at September 30, 2017 and December 31, 2016, respectively	—	—
Class C shares: nil and 6,075 at September 30, 2017 and December 31, 2016, respectively	—	—
Shares held in trust for share-based compensation of $0.01 par value; 2,274,764 and 15,844 shares at September 30, 2017 and December 31, 2016, respectively	(23)	—
Additional paid-in capital	667,358	462,914
Accumulated other comprehensive income	41	—
Accumulated losses	(122,179)	(83,465)
Total equity	546,028	379,454
Total liabilities and equity	$1,703,913	$1,585,940

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

SHELF DRILLING, 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	
Common shares				
Balance, beginning of period	475,768	477,326	$ 5	$ 5
Shares issued to trust	1,629	1,494	—	—
Repurchase and retirement of ordinary shares	(477,397)	(4,067)	(5)	—
Recapitalization	55,000,000	—	550	—
Issuance of common shares - Private Placement	28,125,000	—	281	—
Balance, end of period	83,125,000	474,753	$ 831	$ 5
Shares held in trust for share-based compensation				
Balance, beginning of period	15,844	15,487	$ —	$ —
Shares issued to trust	1,629	1,494	—	—
Retirement of ordinary shares	(17,473)	(2,402)	—	—
Replaced for common shares	2,274,764	—	(23)	—
Balance, end of period	2,274,764	14,579	$ (23)	$ —
Additional paid-in capital				
Balance, beginning of period			$ 462,914	$464,403
Issuance of common shares - Private Placement			216,920	—
Recapitalization adjustment			(522)	
Preferred shares dividend			(12,588)	—
Share-based compensation expense, net of forfeitures			634	23
Repurchase and retirement of shares			—	(1,495)
Balance, end of period			$ 667,358	$462,931
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				
Balance, beginning of period			$ (83,465)	$ (53,629)
Net (loss) / income			(38,714)	24,672
Balance, end of period			$(122,179)	$ (28,957)
Total equity				
Balance, beginning of period			$ 379,454	$410,779
Issuance of common shares - Private Placement			217,201	—
Share-based compensation expense, net of forfeitures			634	23
Preferred shares dividend			(12,588)	—
Repurchase and retirement of ordinary shares			—	(1,495)
Total comprehensive (loss) / income			(38,673)	24,946
Balance, end of period			$ 546,028	$434,253

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

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

	Nine months ended September 30, 2017	2016
Cash flows from operating activities		
Net (loss) / income	$ (38,714)	$ 24,672
Adjustments to reconcile net 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)
Share-based compensation expense, net of forfeitures	634	23
Non-cash portion of loss on debt extinguishment	4,371	—
Payment of original issue discount	(10,500)	—
Amortization of debt issue costs and discounts	2,797	5,203
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	(2,576)	5,982
Net cash provided by operating activities	51,120	98,363
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 issuance of common shares - Private Placement	225,000	—
Payments for common and preferred shares issuance costs	(8,487)	—
Payments for redemption of ordinary shares	—	(1,495)
Payments for obligations under sale and leaseback	(15,978)	—
Payments to retire long-term debt	(103,750)	—
Payments of debt issuance costs	(10,351)	—
Preferred shares dividend paid	(9,635)	—
Net cash provided by / (used in) financing activities	78,514	(1,495)
Net (decrease) / increase in cash and cash equivalents	(106,562)	58,250
Cash and cash equivalents at beginning of period	213,139	115,685
Cash and cash equivalents at end of period	$ 106,577	$173,935

* See Note 16 – 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.

Note 1 — Nature of Business

Business

Shelf Drilling, Ltd. (''SDL'') was incorporated on August 14, 2012 as a private corporation in the Cayman Islands and is a holding company with no significant operations or assets other than owned interests in its direct and indirect subsidiaries. SDL and its majority owned subsidiaries (together, the ''Company'') provide shallow-water drilling services to the oil and natural gas industry. On September 9, 2012, the Company entered into a definitive agreement to acquire 37 jackup rigs and one swamp barge (the ''Acquisition'') from Transocean Inc. (the ''Seller''). The Acquisition closed on November 30, 2012. The Company's corporate offices are in Dubai, United Arab Emirates (''UAE''), geographically close to its operations in the Middle East, South East Asia, India, West Africa and the Mediterranean. The principal investors in the Company are affiliates of Castle Harlan, Inc., CHAMP Private Equity and Lime Rock Partners (together, the ''Sponsors'').

SDL, through its majority and wholly owned subsidiaries, provides safe and reliable fit-for-purpose independent cantilever jackup drilling services. The Company is primarily engaged in development and workover activity on producing assets in shallow water of up to 400 feet in water depth. As of September 30, 2017, the Company owns 39 independent cantilever jackup 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, through its wholly owned indirect subsidiary Shelf Drilling Holdings Ltd (''SDHL''), is the primary beneficiary of four variable interest entities (''VIEs'') which are Shelf Drilling Ventures Malaysia Sdn. Bhd. (''SDVM''), PT Hitek Nusantara Offshore Drilling (''PT Hitek''), Shelf Drilling Nigeria Ltd. (''SDNL'') and Shelf Drilling Offshore Services Limited (''SDOSL''), which are included in these condensed consolidated interim financial statements. These VIEs are incorporated in jurisdictions where majority or significant foreign ownership of domestic companies is restricted or alternatively, commercially incompatible with local contents requirements. To comply with such foreign ownership and/or local contents restrictions, the Company and the relevant third parties have contractual arrangements to convey decision-making and economic rights to the Company. These VIEs provide drilling and other services.

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

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

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

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

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

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

	Shelf Drilling Ventures (Malaysia) Sdn. Bhd	PT Hitek Nusantara Offshore Drilling	Shelf Drilling (Nigeria) Ltd.	Shelf Drilling Offshore Services Limited	Total
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 jackup drilling rigs from a third party for $75.4 million each using the net proceeds from the Private Placement – See Note 13 – Shareholders' Equity. 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 — SDL is exempt from all income taxation in the Cayman Islands.

The provision for income taxes is based on the tax laws and rates applicable in the jurisdictions in which the Company operates and earns income or is considered resident for income tax purposes. The relationship between the provision for or benefit from income taxes and the income or loss before income taxes can vary significantly from period to period considering, among other factors, (a) the overall level of income before income taxes, (b) changes in the blend of income that is taxed based on gross revenues rather than income before taxes, (c) rig movements between taxing jurisdictions; and (d) changes in rig operating structures which may alter the basis on which the Company is taxed in a particular jurisdiction.

The effective income tax rate for the Company's continuing operations was (29.9%) and 40.8 % 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 (benefit) / expense for the three and nine months ended September 30, 2017 is calculated using a discrete approach whereby income tax (benefit) / 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
Term Loan Facility, due October 8, 2018 (see note (iv) below)	—	342,159
Revolving Credit Facility, due April 30, 2020 (see note (v) below)	—	—
	$526,117	$809,016

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
Term Loan Facility, due October 8, 2018	350,000	(7,841)	342,159
Total	$825,000	$(15,984)	$809,016

The effective interest rates on the 9.5% Senior Secured Notes due November 2, 2020, 8.625% Senior Secured Notes due November 1, 2018 and Term Loan Facility due October 8, 2018 are 10.02%, 9.79% and 10.79%, respectively.

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

On January 12, 2017, SDHL completed the issuance and sale of $502.835 million aggregate principal amount of 9.5% Senior Secured Notes (the ‘‘9.5% Senior Secured Notes’’). The 9.5% Senior Secured Notes were sold in exchange and cancellation of $444.585 million aggregate principal amount of 8.625% Senior Secured Notes (the ‘‘8.625% Senior Secured Notes’’) (of which $28.5 million was a principal payment in cash), and $86.75 million in exchange for partial settlement of the $350 million term loan entered into on October 8, 2013 (the ‘‘Midco Term Loan’’). As a result of this transaction, SDHL has incurred $8.1 million of debt issuance cost as a direct deduction from the carrying value of the debt and is amortized over the term using the effective interest rate. Interest on these notes accrues from January 12, 2017 at a rate of 9.5% per year and is payable semi-annually on May 1 and November 1 of each year, beginning May 1, 2017.

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

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

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

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

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

On January 12, 2017, the Company cancelled $444.585 million aggregate principal amount of 8.625% Senior Secured Notes in exchange for $416.09 million aggregate principal amount of 9.5% Senior Secured Notes and principal payment of $28.5 million in cash. The Company recognized a loss of $13.7 million associated with this debt extinguishment which includes the $7.5 million write off of the original unamortized debt issuance cost, incentive fee of $5.7 million paid to the lenders and legal fees of $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) Term Loan Facility, due October 2018

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

The Company recognized a total loss on debt extinguishment of $2.0 million, of which $0.5 million was recorded during the first quarter of 2017 under ''interest expense and financing charges''. This includes $5.1 million for legal fees (of which $1.5 million was incurred in December 2016), $4.3 million for the write-off of the unamortized original issue discount and $3.4 million for the write-off of the unamortized debt issuance cost, partly offset by the $10.8 million settlement gain.

(v) Revolving Credit Facility, due April 2020

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

On January 12, 2017, the Company successfully amended the SDHL Revolver to extend the maturity date from April 30, 2018 to April 30, 2020 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 SDL, Shelf Drilling TBN I, Ltd and Shelf Drilling TBN II, Ltd (collectively, the "Lessee"), whose assets consisted solely of the two under construction fit-for-purpose new build jackup rigs entered into a combined minimum of $296.2 million and maximum of $330.0 million ("Purchase Price") sale and leaseback financing transactions (the "Sale and Leaseback Transactions") with Hai Jiao 1502 Limited and Hai Jiao 1503 Limited (collectively, the "Lessor"), both wholly owned subsidiaries of Industrial and Commercial Bank of China Limited. In connection with these transactions, the Lessee executed memorandum of agreements and bareboat charter agreements (the "Bareboat Charter Agreements") to sell the rigs and bareboat charter the rigs back from the Lessor upon expected delivery date for a period of 5 years and 90 days. See Note 4 – Property and Equipment.

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

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

The first and second Newbuild commenced five-year contracts with Chevron after completion of the final customer acceptance requirements on December 1, 2016 and June 1, 2017, respectively. The Company accounted for these Sale and Leaseback Transactions as capital leases and transferred $228.6 million for the first Newbuild rig and $226.7 million for the second Newbuild rig from construction in progress to drilling rigs and equipment in property and equipment, respectively. See Note 4 – Property and Equipment. The capital lease contracts have an estimated average interest rate of 5.99% 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
Term Loan Facility, due October 8, 2018	—	—	342,159	258,620
Total debt	$526,117	$538,218	$809,016	$657,620

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

Derivative financial instrument was measured at fair value on a recurring basis using Level 2 inputs. See Note 15 – Derivative Financial Instrument.

Note 12 — Mezzanine Equity

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

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

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

The preferred shares are entitled to a dividend rate equal to LIBOR plus 9% per annum paid semi-annually on January 31 and July 31. If the preferred dividend is not paid in cash on each due date, the dividend amount is added to the Liquidation Preference of the preferred shares at a rate of LIBOR plus 9.75% per annum. The total accrued dividend for the nine months ended September 30, 2017 was $12.6 million, of which $9.6 million was paid in cash on the due date and $3.0 million will be paid in the next semi-annual payment.

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

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

The Company incurred $0.7 million of incremental direct costs to issue the preferred shares. These costs were netted against the issue value of the preferred shares.

Note 13 — Shareholders' Equity

During the first quarter of 2017, a new ordinary share class (Class D) was approved with an authorized share capital of 1,020 shares. Class D shares had no dividend rights. The Company also amended its Articles of Association (the ''Articles'') to increase the authorized capital to 5,001,020 ordinary shares with a par value of $0.01 per share for a total amount of $50 thousand.

During the first quarter of 2017 and April 2017, the Company granted 1,629 ordinary shares (554 Class B shares, 55 Class C shares and 1,020 Class D shares) under the time-based and performance-based share compensation plan to members of the Company's management. These shares were issued to a Voting Trust, managed under the voting trust agreement by one of the Sponsors, for further issuance to the employees upon fulfilling the vesting conditions. See Note 14 – Share-based Compensation.

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

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

Recapitalization and Common Share Issuance

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

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

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

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

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

Private Placement

On April 28, 2017, the Company successfully completed an offering of 28,125,000 new common shares at a price of $8.00 per share for total gross proceeds of $225.0 million (the ‘‘Private Placement’’). The incremental direct costs of the Private Placement were $7.8 million, resulting in approximately $217.2 million of net proceeds.

On May 5, 2017, the new common shares issued in the Private Placement began trading on the Norwegian over-the-counter (OTC) market under the symbol SHLF.

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

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

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

	Nine months ended September 30, 2016			
	Number of ordinary shares issued and outstanding			
	Class A	Class B	Class C	Total
Balance, beginning of period	446,445	24,789	6,092	477,326
Shares issued to trust for share-based compensation	—	1,401	93	1,494
Repurchase and retirement of ordinary shares	(1,609)	(2,279)	(179)	(4,067)
Balance, end of period	444,836	23,911	6,006	474,753

	Nine months ended September 30, 2016			
	Amount of ordinary shares issued and outstanding (at par value)			
	Class A	Class B	Class C	Total
Balance, beginning of period	$ 5	$—	$—	$ 5
Shares issued to trust for share-based compensation	—	—	—	—
Repurchase and retirement of ordinary shares	—	—	—	—
Balance, end of period	$ 5	$—	$—	$ 5

All common shares have pari passu rights to participate in any common share dividends declared and represent the residual claim on the Company's assets. The Company did not pay any ordinary or common dividend during the nine months ended September 30, 2017 and 2016. The Company is restricted in declaring and paying dividends to its new common shareholders until the preferred shares are fully redeemed. See Note 12 – Mezzanine Equity.

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

Note 14 — Share-based Compensation

The Company has a share-based compensation plan under which it had issued time-based Class B and performance-based Class C and Class D restricted shares prior to the Recapitalization (See Note 13 – Shareholder's Equity). These Class B, C and D shares were awarded to certain members of the Company's management as remuneration for future services of employment and were held in a voting trust on the employees' behalf.

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

Performance-based restricted Class C shares had rights to dividends or distributions while Class D shares had none of these rights. Upon an exit event or IPO, Class C and Class D shares would vest immediately.

Class C and Class D shares were subject to the same transferability restrictions as described above regarding Class B shares upon an IPO. Compensation expense related to the grant date fair value of the performance-based shares were to be recognized upon vesting.

During the three months ended March 31, 2017, the Company had granted 243 additional ordinary shares (228 Class B shares and 15 Class C shares) to members of the Company's management. The Company had also granted 326 Class B shares, 40 Class C shares and 1,020 Class D shares to members of the Company's management during April 2017. There were no new grants for the period from May 1, 2017 until September 30, 2017 and during the third quarter of 2016.

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

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

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

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

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

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

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

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

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

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

Effects of Recapitalization

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

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

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

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

The Company has recorded a share-based compensation expense related to the share-based compensation plan of $0.2 million and $0.6 million during the three and nine months ended September 30, 2017, respectively, and a share-based compensation expense of $0.2 million and $23 thousand for the three and nine months ended September 30, 2016, respectively. No income tax benefit was recognized for these plans.

The following table summarizes the total unrecognized compensation expense and the expected weighted average period for the shares to be recognized:

	Nine months ended September 30,			
	2017		2016	
	Time based restricted shares	Performance based shares	Time based restricted shares	Performance based shares
	New common shares		Class B	Class C
Total unrecognized compensation expense (in thousands)	$2,459	$9,085	$2,060	$5,076
Weighted-average period unvested compensation expense	2.89 years	N/A	2.80 years	N/A

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

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

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

	Number of shares		Weighted average grant date fair value per share	
	Time based restricted shares	Performance based shares	Time based restricted shares	Performance based shares
Non-vested ordinary shares at April 28, 2017	6,113	2,040	$ 442.80	$ 7,281.50
Replaced for new common shares	451,240	1,135,648	6.67	8.00
Vested	(38,904)	—	14.19	—
Surrender of ordinary shares	(6,113)	(2,040)	(442.80)	(7,281.50)
Non-vested common shares at September 30, 2017	412,336	1,135,648	$ 5.96	$ 8.00

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

	Time based restricted shares	Performance based shares	Weighted average grant date fair value per share	
	Class B	Class C	Class B	Class C
Non-vested ordinary shares at January 1, 2016	9,041	961	$236.68	$5,728.39
Granted	1,401	93	372.00	3,140.00
Vested	(2,503)	—	245.62	—
Forfeited	(1,428)	(161)	193.06	4,460.94
Non-vested ordinary shares at September 30, 2016	6,511	893	$316.33	$5,691.27

The total grant date fair value of the time based restricted vested ordinary shares was $0.4 million and $0.6 million during the three and nine months ended September 30, 2017, respectively, and $0.4 million and $0.6 million during the three and nine months ended September 30, 2016, respectively.

Note 15 — 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 16 — 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.

In relation to the refinancing of the Company's debt, $166.67 million of preferred shares were issued to certain equity Sponsors and $86.75 million 9.5% Senior Secured Notes were issued for the full settlement of the Midco Term Loan, and $416.09 million 8.625% Senior Secured Notes were cancelled in exchange for 9.5% Senior Secured Notes. These non-cash transactions were not reflected on the condensed consolidated interim statements of cash flows for the 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 17 — (Loss) / Earnings Per Share

The net (loss) / income is allocated to the three classes of common stock under the provisions of the Waterfall distribution set forth in the Articles until Recapitalization date. See Note 13 – Shareholders' Equity. The Company presented the (loss) / earnings per share information into pre and post Recapitalization periods for the three and nine months ended September 30, 2017.

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

	For the three months ended September 30, 2017
	Common Shares
Numerator for loss per share	
Net loss	$ (5,728)
Less: Preferred shares dividend	4,375
Net loss attributable to ordinary shares	$ (10,103)
Denominator for loss per share	
Weighted average shares:	
Basic outstanding per Class	81,565,133
Effect of stock options and other share-based awards	—
Diluted per Class	81,565,133
Basic loss per share per Class	$ (0.12)
Diluted loss per share per Class	$ (0.12)

	For the nine months ended September 30, 2017				
	Four months ended April 30, 2017				Five months ended September 30, 2017
	Class A	Class B	Class C	Class D	Common Shares
Numerator for loss per share					
Net income / (loss	$ 458	$ —	$ —	$—	$ (39,172)
Less: Preferred shares dividend	5,255	—	—	—	7,333
Net loss attributable to ordinary shares	$ (4,797)	$ —	$ —	$—	$ (46,505)
Denominator for loss per share					
Weighted average shares:					
Basic outstanding per Class	444,594	18,485	5,110	—	81,562,606
Effect of stock options and other share-based awards	—	—	—	—	—
Diluted per Class	444,594	18,485	5,110	—	81,562,606
Basic loss per share per Class	$ (10.79)	$ —	$ —	$—	$ (0.57)
Diluted loss per share per Class	$ (10.79)	$ —	$ —	$—	$ (0.57)

	Three months ended September 30, 2016			Nine months ended September 30, 2016		
	Class A	Class B	Class C	Class A	Class B	Class C
Numerator for earnings per share						
Net income	$ 19,324	$ —	$ —	$ 24,672	$ —	$ —
Less: Preferred shares dividend	—	—	—	—	—	—
Net income attributable to ordinary shares	$ 19,324	$ —	$ —	$ 24,672	$ —	$ —
Denominator for earnings per share						
Weighted average shares:						
Basic outstanding per Class	445,016	17,246	5,115	445,622	17,534	5,122
Effect of stock options and other share-based awards	—	4,121	531	—	3,558	358
Diluted per Class	445,016	21,367	5,646	445,622	21,092	5,480
Basic earnings per share per Class	$ 43.32	$ —	$ —	$ 55.37	$ —	$ —
Diluted earnings per share per Class	$ 43.42	$ —	$ —	$ 55.37	$ —	$ —

For the three and nine months ended September 30, 2017, there were 109,226 and 82,073 dilutive class B, class C shares and common shares which were not included in the computation of diluted loss per share as the effect of including these shares in the calculation would have been anti-dilutive.

Note 18 — Segment and Related Information

The Company has one reportable segment, contract drilling services, which reflects how the Company manages its business, and the fact that all the drilling fleet is dependent upon the worldwide oil industry. The Company evaluates the performance of the operating segment based on revenues from external customers.

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

	Three months ended September 30,		Nine months ended September 30,	
	2017	2016	2017	2016
Saudi Arabia	$ 39,780	$ 44,654	$125,859	$119,864
Thailand	29,970	12,468	62,870	50,011
India	21,364	49,473	91,658	143,165
Nigeria	16,413	26,583	59,308	58,023
United Arab Emirates	12,188	20,977	36,145	66,017
Egypt	9,871	9,280	28,203	39,364
Other countries	8,189	15,225	22,825	51,797
As Reported Revenue	$137,775	$178,660	$426,868	$528,241

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

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

	September 30, 2017	December 31, 2016
Thailand	$ 446,661	$ 227,400
United Arab Emirates	311,124	233,967
Saudi Arabia	211,325	228,331
India	106,375	140,180
Nigeria	87,117	55,660
Others	236,686	308,211
Total long-lived assets	$1,399,288	$1,193,749

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

Note 19 — Related Parties

In connection with the Company's operations of a foreign subsidiary, a related party provided goods and services to drilling rigs owned by one of the Company's foreign subsidiaries. These goods and services 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' 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 20 — 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 21 — Subsequent Events

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

SHELF DRILLING, LTD.
REPORT OF INDEPENDENT AUDITORS

To the Board of Directors of Shelf Drilling, Ltd.

We have audited the accompanying consolidated financial statements of Shelf Drilling, Ltd. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and December 31, 2015, and the related consolidated statements of operations, comprehensive income, equity, and cash flows for the years ended December 31, 2016 and 2015.

Management's Responsibility for the Consolidated Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Shelf Drilling, Ltd. and its subsidiaries at December 31, 2016 and December 31, 2015, and the results of their operations and their cash flows for the years ended December 31, 2016 and 2015 in accordance with accounting principles generally accepted in the United States of America.

/s/ PricewaterhouseCoopers

PricewaterhouseCoopers
Dubai, United Arab Emirates
July 31, 2017

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

	Years ended December 31, 2016	Years ended December 31, 2015
Revenues		
Operating revenues	$668,649	$1,012,757
Other revenue	15,668	18,541
	684,317	1,031,298
Operating costs and expenses		
Operating and maintenance	353,802	534,156
Depreciation.	71,780	87,421
Amortization of deferred costs	91,763	80,984
General and administrative	46,889	139,722
Loss on impairment of assets	47,094	271,469
Loss on disposal of assets	4,826	11,299
Gain on insurance recovery	—	(25,432)
	616,154	1,099,619
Operating income / (loss)	68,163	(68,321)
Other (expense) / income, net		
Interest income	356	102
Interest expense and financing charges	(80,120)	(80,537)
Other, net	1,522	(873)
	(78,242)	(81,308)
Loss before income taxes	(10,079)	(149,629)
Income tax expense	19,757	30,373
Net loss	$ (29,836)	$ (180,002)
Loss per share:		
Basic and Diluted - Class A shares	$ (66.99)	$ (403.12)
Basic and Diluted - Class B shares	$ —	$ —
Basic and Diluted - Class C shares	$ —	$ —
Weighted average shares outstanding:		
Basic and Diluted - Class A shares	445,386	446,525
Basic - Class B shares	17,500	15,142
Diluted - Class B shares	20,954	23,297
Basic - Class C shares	5,119	5,133
Diluted - Class C shares	5,119	5,774

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

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

	Years ended December 31, 2016	Years ended December 31, 2015
Net loss	$(29,836)	$(180,002)
Other comprehensive income, net of tax		
Foreign currency forward exchange contracts		
Changes in unrealized gains	427	—
Reclassification of net gain from other comprehensive income to net income	(427)	—
	$ —	$ —
Total comprehensive loss	$(29,836)	$(180,002)

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

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

	December 31, 2016	December 31, 2015
Assets		
Cash and cash equivalents	$ 213,139	$ 115,685
Accounts and other receivables, net	125,312	166,109
Other current assets	95,235	118,500
Total current assets	433,686	400,294
Property and equipment	1,326,361	1,175,054
Less accumulated depreciation.	295,685	230,421
Property and equipment, net	1,030,676	944,633
Deferred tax assets	3,137	3,697
Other assets	118,441	135,259
Total assets	$1,585,940	$1,483,883
Liabilities and equity		
Accounts payable	$ 70,605	$ 89,968
Accrued income taxes	—	546
Interest payable	15,773	15,773
Obligations under sale and leaseback.	15,977	
Other current liabilities	32,665	46,672
Total current liabilities	135,020	152,959
Long-term debt	809,016	803,053
Obligations under sale and leaseback.	228,728	74,703
Deferred tax liabilities	8,525	8,788
Other long-term liabilities	25,197	33,601
Total long-term liabilities	1,071,466	920,145
Commitments and contingencies (Note 13)		
Ordinary shares of $0.01 par value; 5,000,000 shares authorized at December 31, 2016 and 2015; issued and outstanding as follows:		
Class A shares: 444,594 and 446,445 at December 31, 2016 and 2015, respectively	5	5
Class B shares: 25,099 and 24,789 at December 31, 2016 and 2015, respectively	—	—
Class C shares: 6,075 and 6,092 at December 31, 2016 and 2015, respectively	—	—
Shares held in trust of $0.01 par value; 15,844 and 15,487 shares at December 31, 2016 and 2015, respectively	—	—
Additional paid-in capital	462,914	464,403
Accumulated losses	(83,465)	(53,629)
Total equity	379,454	410,779
Total liabilities and equity	$1,585,940	$1,483,883

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

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

	Years ended December 31,		Years ended December 31,	
	2016	2015	2016	2015
	Shares		Amount	
Ordinary shares				
Balance, beginning of year	477,326	477,717	$ 5	$ 5
Shares issued to trust	2,835	—	—	—
Repurchase and retirement of shares	(4,393)	(391)	—	—
Balance, end of year	475,768	477,326	$ 5	$ 5
Shares held in trust				
Balance, beginning of year	15,487	15,678	$ —	$ —
Shares issued to trust	2,835	—	—	—
Retirement of shares	(2,478)	(191)	—	—
Balance, end of year	15,844	15,487	$ —	$ —
Additional paid-in capital				
Balance, beginning of year			$464,403	$ 464,005
Share-based compensation expense, net of forfeitures			179	638
Repurchase and retirement of shares			(1,668)	(240)
Balance, end of year			$462,914	$ 464,403
(Accumulated losses) / retained earnings				
Balance, beginning of year			$ (53,629)	$ 126,443
Repurchase and retirement of shares			—	(70)
Net loss			(29,836)	(180,002)
Balance, end of year			$ (83,465)	$ (53,629)
Total equity				
Balance, beginning of year			$410,779	$ 590,453
Share-based compensation expense, net of forfeitures			179	638
Repurchase and retirement of shares			(1,668)	(310)
Total comprehensive loss			(29,836)	(180,002)
Balance, end of year			$379,454	$ 410,779

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

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

	Years ended December 31,	
	2016	**2015**
Cash flows from operating activities		
Net loss	$ (29,836)	$(180,002)
Adjustments to reconcile net loss to net cash provided by operating activities		
Depreciation	71,780	87,421
Loss on impairment of assets	47,094	271,469
Gain on foreign currency forward exchange contracts	(427)	—
Gain on insurance recovery	—	(25,432)
Amortization of deferred revenue	(23,511)	(41,026)
(Reversal of) / provision for doubtful accounts, net	(401)	87,431
Amortization of drilling contract intangibles	—	(983)
Share-based compensation expense, net of forfeitures	179	638
Amortization of debt issue costs and discounts	7,663	9,232
Loss on disposal of assets	4,826	11,299
Deferred tax expense	297	1,292
Proceeds from settlement of foreign currency forward exchange contracts	427	—
Changes in deferred costs, net *	37,218	(70,353)
Changes in operating assets and liabilities	21,223	(17,973)
Net cash provided by operating activities	136,532	133,013
Cash flows from investing activities		
Additions to property and equipment *	(53,541)	(157,193)
Proceeds from disposal of property and equipment	1,490	547
Proceeds from sale and leaseback.	16,880	18,515
Payments of transaction costs for sale and leaseback.	—	(7,555)
Proceeds from insurance recovery	—	45,000
Change in restricted cash.	(421)	(6,827)
Net cash used in investing activities	(35,592)	(107,513)
Cash flows from financing activities		
Payments for redemption of ordinary shares	(1,668)	(310)
Payments for obligations under sale and leaseback.	(1,818)	—
Payments of debt issuance costs	—	(551)
Net cash used in financing activities	(3,486)	(861)
Net increase in cash and cash equivalents	97,454	24,639
Cash and cash equivalents at beginning of year	115,685	91,046
Cash and cash equivalents at end of year	$213,139	$ 115,685

* See Note 20 – 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 consolidated financial statements.

Note 1 — Nature of Business

Business

Shelf Drilling, Ltd (''SDL'') was incorporated on August 14, 2012 (''inception'') as a private corporation in the Cayman Islands and is a holding company with no significant operations or assets other than owned interests in its direct and indirect subsidiaries. SDL and its majority owned subsidiaries (together, the ''Company'') provide shallow-water drilling services to the oil and natural gas industry. On September 9, 2012, the company entered into a definitive agreement to acquire 37 jackup rigs and one swamp barge (the ''Acquisition'') from Transocean Inc. (the ''Seller''). The Acquisition closed on November 30, 2012. The Company's corporate offices are in Dubai, United Arab Emirates (''UAE''), geographically close to its operations in the Middle East, South East Asia, India, West Africa and the Mediterranean. The principal investors in the Company are affiliates of Castle Harlan, Inc., CHAMP Private Equity and Lime Rock Partners (together, the ''Sponsors'').

SDL, through its majority and wholly owned subsidiaries, provides safe and reliable fit-for-purpose independent cantilever jackup drilling services. The Company is primarily engaged in development and workover activity on producing assets in shallow water of up to 400 feet in water depth. The Company owns 35 independent cantilever jackup rigs, one swamp barge and one new build jackup under construction.

In May 2014, the Company signed a contract with Lamprell Energy Limited (the ''Builder'') to construct two new build high specification jackup rigs (the ''Newbuilds''). On September 29, 2016, the Company took delivery of the first Newbuild from the Builder and, on December 1, 2016, the rig commenced a five-year contract with Chevron Thailand Exploration and Production, Ltd (''Chevron''). The second rig was delivered on April 6, 2017 and commenced a five-year contract with Chevron on June 1, 2017. See Note 7 – Property and Equipment, Note 10 – Sale and Leaseback and Note 24 – Subsequent Events.

Note 2 — Significant Accounting Policies

Basis of Presentation — The Company has prepared its consolidated financial statements in accordance with generally accepted accounting principles in the United States of America (''U.S. GAAP''). The consolidated financial statements include the Company's accounts, those of the Company's wholly-owned subsidiaries and entities in which the Company holds a controlling financial interest. Entities that meet the criteria for variable interest entities for which the Company is deemed to be the primary beneficiary for accounting purposes are consolidated. As of December 31, 2016, the Company's consolidated financial statements include four joint ventures that meet the definition of variable interest entities. See Note 4 – Variable Interest Entities. Intercompany transactions and accounts are eliminated in consolidation. The Company applies the equity method of accounting for investments in which it has the ability to exercise significant influence but for which; (i) the entity does not meet the variable interest entity criteria, or; (ii) the entity meets the variable interest entity criteria but the Company is not deemed the primary beneficiary. As of December 31, 2016, none of the Company's investments meet the criteria established for application of the equity method of accounting. Certain amounts in prior periods have been reclassified to conform to the current year presentation. Specifically, reclassifications presented in the consolidated statements of cash flows relating to additions to deferred costs which have been previously reported as ''cash flows from investing activities'' and are now presented as ''cash flows from operating activities'' for the years ended December 31, 2016 and 2015 in the amounts of $55.8 million and $161.6 million, respectively.

Accounting Estimates — The preparation of consolidated financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and the disclosures of contingent assets and liabilities. As of the date of the Acquisition, the Company used an independent third party expert to estimate the fair market value of the acquired rigs including inventory and drilling contract intangibles.

On an ongoing basis, these estimates and assumptions are evaluated, including those related to allowance for doubtful accounts, property and equipment, income taxes, other post-retirement benefits and contingencies. The Company bases its estimates and assumptions on various factors that management believes are reasonable, the results of which form the basis for making judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. While management believes current estimates are appropriate and reasonable, actual results could materially differ from those estimates.

Fair Value Measurements — Fair value is estimated at a price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market for the asset or liability. Fair value measurements are based on a hierarchy which prioritizes valuation technique inputs into three levels. The fair value hierarchy is composed of: (i) Level 1 measurements, which are fair value measurements using quoted unadjusted market prices in active markets for identical assets or liabilities; (ii) Level 2 measurements, which are fair value measurements using inputs, other than Level 1 inputs, which are directly or indirectly observable for the asset or liability and; (iii) Level 3 measurements, which are fair value measurements which use unobservable inputs. The fair value hierarchy gives the highest priority to Level 1 measurements and the lowest priority to Level 3 measurements.

Revenue Recognition — Revenues generated from drilling service contract dayrates are recognized as services are performed. In connection with such drilling service contracts, the Company may receive up-front lump-sum fees or similar compensation for the mobilization of equipment, contract preparation and capital upgrades prior to the commencement of drilling services. These fees are deferred and recognized on a straight-line basis over the firm contract period and are included in operating revenues.

Upon completion of a drilling service contract, any demobilization fee received is recognized as operating revenue upon contract completion. If certain drilling contracts are terminated by the customer prior to the end of the contractual term, there may be contractual termination fees due from the customer. These fees are recognized as revenue when services have been completed under the terms of the contract, when they can be reasonably measured and with a collectability reasonably assured.

Other revenue consists of revenue from lease rentals, amortization of drilling contract intangibles and amounts billed for goods and services such as personnel and catering costs which are generally billed to customers at a margin. These revenues are recognized when the goods have been delivered and services have been rendered and when the entity has substantially accomplished what it must do to be entitled to the benefits represented by the revenues.

Operating and Deferred Costs — Operating costs are recognized when incurred. Mobilization and demobilization costs of relocating drilling units without contracts are expensed as incurred.

Periodic survey and inspection in lieu of drydock costs incurred in connection with obtaining regulatory certifications to operate the rigs are deferred and amortized on a straight-line basis over the period until the next survey or inspection - generally for periods of between 30 to 60 months. Contract preparation and mobilization expenditures incurred specifically for a rig entering a drilling services contract are deferred and amortized on a straight-line basis over the primary period of the contract to which the costs relate. Periodic major overhauls of equipment are deferred and amortized on a straight-line basis over a period of five years.

Foreign Currency — The Company's functional currency is the U.S. dollar. As is customary in the oil and gas industry, the majority of the Company's revenues and expenditures are denominated in U.S. dollar. As such, the Company's exposure to non U.S. dollar denominated currency exchange rate fluctuations is limited. Certain revenues and expenditures incurred by certain subsidiaries are denominated in currencies other than the U.S. dollar. Non U.S. dollar revenues and costs are recorded in U.S. dollars at the prevailing exchange rate as of the date of recognition. Cash receipts and payments made in other currencies are recorded in U.S. dollars at the prevailing exchange rate as of the transaction date. Transaction gains or losses are recorded in net income and include, where applicable, unrealized gains and losses to record the carrying value of foreign currency forward exchange (''forex'') contracts not designated as accounting hedges, as well as realized gains and losses from the settlement of such contracts. Monetary assets and liabilities denominated in foreign currency are re-measured to U.S. dollars at the rate of exchange in effect at the end of each month and unrealized exchange gains or losses are recognized in the consolidated statements of operations.

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

Accounts Receivable and Allowance for Doubtful Accounts — Receivables, including accounts receivable, are recorded in the consolidated balance sheets at their nominal amounts less allowance for doubtful accounts. 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.

Drilling Contract Intangibles — In connection with the Acquisition, the Company acquired certain existing drilling contracts for future contract drilling services. The terms of these contracts include fixed dayrates that were above or below the market dayrates that were estimated to be available for similar contracts as of the date of the Acquisition. Drilling contract intangibles were recorded as current and non-current assets and liabilities and amortized on a straight-line basis over the respective contract periods.

Property and Equipment — Property and equipment was stated at fair market value as of the date of the Acquisition. Inventory acquired with the business was capitalized as part of the rigs and is maintained at a level to support the operations of the rig. Costs incurred that substantially enhance, improve or increase the useful lives of existing assets are capitalized. Routine expenditures for repairs and maintenance are expensed as incurred.

Construction in progress is stated at cost. Cost consists of direct costs of construction, interest capitalized during the period of rig construction and other direct costs necessary to bring the asset to the condition and location necessary for its intended use. When the asset is ready, it is transferred from construction in progress to the appropriate category under property and equipment. Depreciation commences upon capitalization.

Land is not depreciated.

Depreciation on other items of property and equipment is computed using the straight-line method, after allowing for salvage value where applicable, over the estimated useful lives of the assets.

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

	Years
Drilling rigs	30
Drilling equipment and Spares	9-13
Building	30
Other	3-5

The remaining estimated average useful life of existing drilling rigs in the Company's fleet at December 31, 2016 and 2015 is 10 and 11 years, respectively.

The Company evaluates property and equipment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. An impairment loss on property and equipment exists when the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. Any actual impairment loss recognized represents the excess of the asset's carrying value over the estimated fair value. The Company estimates the fair values of property and equipment by applying a combination of income and market approaches, using projected discounted cash flows and estimates of the exchange price that would be received for the assets in the principal or most advantageous market for the assets in an orderly transaction between market participants as of the measurement date.

When assets are sold, retired or otherwise disposed of, the cost and related accumulated depreciation are written off, net of any proceeds received, and any gain or loss is reflected in the consolidated statements of operations.

Capitalization of Interest — The Company capitalizes interest costs in connection with major construction programs, including the Newbuilds. Capitalized interest is recorded as part of the asset to which it relates and is subsequently depreciated over the asset's useful life.

Goodwill — Impairment testing for goodwill, if any, is performed annually in the fourth quarter, or when an event occurs or circumstances change that may indicate a reduction in the fair value of a reporting unit below its carrying value. A reporting unit constitutes a business for which financial information is available and is regularly reviewed by management.

Testing for goodwill impairment is a multi-step process. The Company first assesses for potential impairment on a qualitative basis, and if there is an indication of possible impairment, the following two steps must be completed to measure the amount of impairment loss, if any. The Company assesses qualitative factors to determine whether the existence of events or circumstances leads to the determination that it is more likely than not that the fair value of the reporting unit is less than its carrying amount. If, as the result of the qualitative assessment, the Company determines that the next step of impairment test is required, or alternatively, elects to forgo the qualitative assessment, the Company tests goodwill for impairment by comparing the carrying amount of the reporting unit to the estimated fair value of the reporting unit to determine that it is more likely than not that the goodwill is impaired. The fair value is estimated using projected discounted future cash flows, publicly traded company multiples and / or acquisition multiples. If the estimated fair value of the Company's goodwill is less than the carrying value, the Company considers goodwill impaired and performs a second step to measure the amount of the impairment loss, if any.

Sale and Leaseback — Leases that transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between interest expense and reduction of the lease liability. Interest cost is disclosed as part of interest expense and financing charges in the consolidated statements of operations.

Leased capital assets are depreciated over the useful lives of the assets. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful lives of the assets and the lease term.

Any loss arising on sale and leaseback transaction as a result of sale price lower than fair value is recognized immediately in the consolidated statements of operations. In situations where loss on sale of asset under sale and leaseback is compensated for by future lease payments at below market price, it is deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used.

Where the sale price is above fair value, the excess over fair value is deferred and amortized over the period for which the asset is expected to be used. In the case of profits arising on sale and leaseback transactions resulting in capital leases, the excess of sale proceeds over the carrying amount is deferred and amortized over the lease term.

When the Company determines that a sale and leaseback transaction is a financing activity, no gain or loss is recognized.

Lease classification is changed only if, at any time during the lease, the parties to the lease agreement agree to change the provisions of the lease (without renewing it) in a way that it would have been classified differently at inception had the changed terms been in effect at that time. The revised agreement is considered as a new agreement and accounted for prospectively over the remaining term of the lease.

Operating Lease — Operating leases are recognized as an operating expense in the consolidated statements of operations on a straight-line basis over the lease term.

Income Taxes — Income taxes are provided for based on relevant tax laws and rates in effect in the countries in which the Company operates and earns income or in which the Company is considered resident for income tax purposes. The current income tax expense reflects an estimate of the Company's income tax liability for the current year, including changes in prior year tax estimates as returns are filed, and any tax audit adjustments. Deferred income tax assets and liabilities, including net operating loss carry-forwards which the

Company anticipates utilizing at the subsidiary level, reflect anticipated future tax effects of differences between the financial statement basis and tax basis of assets and liabilities based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. When necessary, valuation allowances are established to reduce deferred income tax assets to the amount expected to be realized. Reserves are recorded to offset tax benefits related to tax positions that have been taken that are more likely than not to ultimately be denied upon examination or audit by tax authorities. Any interest and penalties related to such reserves are included as a component of the income tax expense.

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

Contingencies — Assessments of contingencies are performed on an ongoing basis to evaluate the appropriateness of liabilities and disclosures for such contingencies. Liabilities are established for estimated loss contingencies when a loss is believed to be probable and the amount can be reasonably estimated. Corresponding assets are recognized for those loss contingencies that are assessed as probable of being recovered through insurance. Once established, the carrying amount of a contingent liability is adjusted upon the occurrence of a recognizable event when facts and circumstances change which alter previous assumptions with respect to the likelihood or amount of loss. Legal costs are expensed as incurred in the consolidated statements of operations.

Share-based Compensation — Share-based compensation is recognized in the consolidated statements of operations based on its fair value and the estimated number of shares or units that are ultimately expected to vest. For awards which vest based on service conditions, the value of the portion of the award that is ultimately expected to vest is recognized as an expense over a five year vesting period. For awards which vest only after an exit event or Initial Public Offering (''IPO''), compensation expense is recognized upon the occurrence of the event.

Employee Benefits — Statutory requirements of certain countries in which the Company operates mandate the payment of various benefits to employees who terminate employment and who have met certain minimum service requirements. The Company recognizes period costs associated with these benefits and accrues a liability for their ultimate payment. Actuarial assumptions based on employee census and historical data are incorporated into the calculation of these benefits costs. These end of service liabilities are not funded and are included in other current and other long-term liabilities in the consolidated balance sheets.

Certain employees are covered under a plan which is accounted for as a defined benefit plan. Elements of benefit obligations, net periodic benefit costs and funded status of the plan were calculated based on census and related data provided by the Company.

The Company makes contributions to a Trust fund and defined contribution savings plans which cover certain employees. Benefits under these plans vary and are generally tied to service years. These amounts are expensed as incurred.

Deferred Financing Costs — Financing costs are deferred and amortized over the life of the associated debt. In the event of early retirement of debt, any unamortized financing costs associated with the retired debt are immediately expensed.

Earnings / (Loss) Per Share — The Company presents basic and diluted earnings per share (''EPS'') data for its ordinary shares. Basic EPS is calculated by dividing the net income attributable to ordinary shares by the weighted average number of those shares outstanding during the period, adjusted for any treasury shares held. Diluted EPS adjusts the figures used in the determination of basic EPS to take into account the effect associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Basic and diluted EPS are computed in conformity with the two class method and applied to the three classes of common shares issued by the Company. Earnings are allocated to the three classes based on a

‘‘Waterfall’’ methodology which classifies cumulative distributions into successive pools with defined quantitative upper limits and specifies different ratios for the distribution of earnings in each successive pool among the three classes of shares. This Waterfall treatment was established and defined in the Amended and Restated Memorandum and Articles of Association (the ‘‘Articles’’) of the Company.

Derivative Financial Instruments — The Company's derivative financial instruments consist of forex contracts which the Company may designate as cash flow hedges. In accordance with U.S. GAAP, each derivative contract is stated in the balance sheet at fair value with gains and losses reflected in the consolidated statements of operations except that, to the extent the derivative qualifies for and is designated as an accounting hedge, the gains and losses are reflected in income in the same period as offsetting gains and losses on the qualifying hedged positions. Designated hedges are expected to be highly effective, and therefore, adjustments to record the carrying value of the effective portion of the derivative financial instruments to their fair value are recorded as a component of accumulated other comprehensive income / (loss) (‘‘AOCIL’’), in the consolidated balance sheets. The effective portion of the cash flow hedge will remain in AOCIL until it is reclassified into earnings in the period or periods during which the hedged transaction affects earnings or it is determined that the hedged transaction will not occur. The Company reports such realized gains and losses as a component of operating and maintenance expenses in the consolidated statements of operations to offset the impact of foreign currency fluctuations of the expenditures in local currencies in the countries in which the Company operates. Derivatives with asset fair values and derivatives with liability fair values are reported in other current assets or other assets and other current liabilities or other long-term liabilities, respectively, on the consolidated balance sheets depending on their maturity date.

Comprehensive Income / (Loss) — Comprehensive income / (loss) is the change in equity of a business enterprise during a period due to transactions and other events and circumstances except transactions resulting from investments by and distributions to owners. Comprehensive income / (loss) includes net income / (loss) and unrealized holding gains and losses on financial derivatives designated as cash flow accounting hedges.

Subsequent Events — The Company has evaluated subsequent events through February 22, 2017, the date of issuance of the financial statements, and subsequently through July 31, 2017. The Company determined that no additional subsequent events had occurred that would require recognition in these financial statements and all material subsequent events that require disclosure have been disclosed. See Note 24 – Subsequent Events.

Note 3 — New Accounting Pronouncements

Recently adopted accounting standards

In January 2015, the Financial Accounting Standards Board (‘‘FASB’’) issued Accounting Standards Update (‘‘ASU’’) No. 2015-01, Income Statement – Extraordinary and Unusual Items. This ASU simplifies income statement classification by removing the concept of extraordinary items from U.S. GAAP. As a result, items that are both unusual and infrequent will no longer be separately reported net of tax after continuing operations. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 and early adoption is permitted. The Company has adopted this ASU from its effective date with no impact on the consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03 (‘‘ASU 2015-03’’): Interest – Imputation of Interest; Simplifying the Presentation of Debt Issuance Costs, effective for annual and interim periods beginning after December 15, 2015 for public entities. This ASU 2015-03 requires that all costs incurred to issue debt be presented in the balance sheet as a direct deduction from the carrying value of the debt. It is applied retrospectively for all prior periods presented in the financial statements prepared after the adoption. In August 2015, the FASB issued ASU 2015-15 to specifically address the presentation and subsequent measurement of debt issuance costs related to line-of-credit arrangements. ASU 2015-15 allows entities to defer and present debt issuance costs related to line-of-credit arrangements as an asset and amortize the costs ratably over the term of the line-of-credit arrangement. The Company has adopted ASU 2015-03 and ASU 2015-15 from their effective dates and has applied the new guidance to debt issuance costs. As a result of this adoption, the Company has reclassified debt issuance cost of $5.4 million and $10.1 million from other current assets and other assets, respectively, to long-term debt on the consolidated balance sheets as of December 31, 2015. See Note 9 - Debt.

Recently issued accounting standards

In May 2017, the FASB issued ASU No. 2017-09, Compensation — Stock Compensation (Topic 718): Scope of Modification. The amendments applies to entities that change the terms or conditions of a share-based payment award. The FASB Accounting Standards Codification currently defines the term modification as ''a change in any of the terms or conditions of a share-based payment award''.

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

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

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

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

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

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

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

This ASU is effective for fiscal years beginning after December 15, 2018 and December 15, 2019 for public and private entities, respectively. The Company does not intend to early adopt this standard and is evaluating the impact of this standard on the consolidated financial statements.

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.

We have formed an implementation team and have begun a project to review relevant contracts. The Company has not yet adopted nor selected a transition method and is currently evaluating what impact the adoption of this standard will have on the consolidated financial statements.

Note 4 — Variable Interest Entities

The Company, through its wholly owned indirect subsidiary Shelf Drilling Holdings Ltd (''SDHL''), is the primary beneficiary of four variable interest entities (''VIEs'') which are Shelf Drilling Ventures Malaysia Sdn. Bhd. (''SDVM''), PT Hitek Nusantara Offshore Drilling (''PT Hitek''), Shelf Drilling Nigeria Ltd. (''SDNL'') and Shelf Drilling Offshore Services Limited (''SDOSL''), which are included in these consolidated 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 overcome 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 provides 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 had 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
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
December 31, 2015:					
Total assets	$ 268	$35,834	$12,984	$ 2,899	$51,985
Total liabilities	1,854	10,525	5,519	4,200	22,098
Net carrying amount	(1,586)	25,309	7,465	(1,301)	29,887

Note 5 — Goodwill

Goodwill represents the excess of consideration paid over the fair value of net assets acquired in the Acquisition by applying the acquisition method of accounting. For the year ended December 31, 2015, the Company has determined that the goodwill was fully impaired and recognized an impairment charge of $9.3 million which was included in the loss on impairment of assets in the consolidated statements of operations. As a result, the carrying value of the goodwill as of December 31, 2015 was nil.

Note 6 — Acquired Drilling Contract Intangibles

As of December 31, 2015, all of the drilling contract intangibles acquired at the time of Acquisition, which were recorded at fair market values, had been fully amortized. The total amortization of $983 thousand for the year ended December 31, 2015 was recorded in the statements of operations under other revenue.

The gross carrying amounts of the acquired drilling contracts and accumulated amortization were as follows (in thousands):

	Year ended December 31, 2015		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Acquired drilling contracts - assets			
Beginning Balance	$36,258	$(31,936)	$ 4,322
Amortization	—	(4,322)	(4,322)
Ending Balance	$36,258	$(36,258)	$ —

	Year ended December 31, 2015		
	Gross carrying amount	Accumulated amortization	Net carrying amount
Acquired drilling contracts - liabilities			
Beginning Balance	$123,624	$(118,319)	$ 5,305
Amortization	—	(5,305)	(5,305)
Ending Balance	$123,624	$(123,624)	$ —

Note 7 — Property and Equipment

Property and equipment as of December 31, 2016 and 2015 consisted of the following (in thousands):

	December 31,	
	2016	2015
Drilling rigs and equipment	$1,138,016	$ 955,640
Construction in progress	136,834	179,261
Spares	33,866	23,947
Land and building	1,228	—
Other	16,417	16,206
Total property and equipment	$1,326,361	$1,175,054
Less: Accumulated depreciation	(295,685)	(230,421)
Total property and equipment, net	$1,030,676	$ 944,633

The Company added one new build rig to its drilling fleet during 2016 while there were no rig additions in 2015. As a result of this addition, the Company transferred $228.6 million from construction in progress to drilling rigs and equipment. Total capital expenditures for the years ended 2016 and 2015 were $202.8 million and $171.9 million, respectively. This includes $190.0 million and $95.3 million related to progress payments, internal project costs, change orders, owner furnished equipment and capitalized interest for the Newbuilds during 2016 and 2015, respectively. This also includes land and building acquired in 2016 for a total cost of $1.2 million, of which $564 thousand was allocated to the cost of the land which is not depreciated. The purchases of inventory are expensed as the impact on the consolidated statements of operations is broadly commensurate with the expense that would have been recorded had inventory been separately recorded on the consolidated balance sheets.

Total capital expenditures through December 31, 2016 and 2015 on the Newbuilds were $361.5 million and $171.5 million, respectively, of which $239.1 million and $74.1 million, respectively, were paid by the Lessor (see Note 10 – Sale and Leaseback).

Interest capitalized on the Newbuild rigs totaled $16.9 million and $9.4 million for the years ended December 31, 2016 and 2015, respectively. Interest capitalized during 2016 and 2015 includes $9.9 million and $1.8 million, respectively, related to the sale and leaseback financing agreements.

The Company sold two stacked rigs, Adriatic V and Adriatic VI, for $750 thousand during 2016. The carrying value of both rigs was $1.6 million and disposal costs were $260 thousand, which resulted in a loss on disposal of $1.1 million. No rig was sold by the Company during 2015. Disposals of other property and equipment with net carrying value of $4.7 million and $12.0 million were sold for $1.0 million and $700 thousand which resulted in a loss on disposal of assets of $3.7 million and $11.3 million during 2016 and 2015, respectively.

On March 22, 2015, a fire broke out on one of the Company's jackup drilling rigs. There was neither human casualty nor environmental damage. The rig was covered under the Company's Hull and Machinery and Excess Liability coverage for an insured value of $45 million. On August 26, 2015, the Company insurance underwriters declared the rig a Constructive Total Loss at a value of $45 million. As a result, the Company recognized an overall net gain of $25.4 million during the year ended December 31, 2015. The Company wrote-off $10.6 million net book value and $1.2 million of unamortized deferred costs, and recorded $6.8 million direct and $977 thousand other indirect costs, partly offset with the insurance proceeds received as of December 31, 2015.

Drilling rigs under capital and operating leases

The net carrying amount of property and equipment includes the newbuild rig held under a capital lease and one rig held under a bareboat charter contract accounted as an operating lease. The rig under operating lease commenced its three year bareboat charter contract (with two 12 month extension options) with a private limited liability company on February 8, 2016. These rigs are included under drilling rigs and equipment as of December 31, 2016. There were no such transactions as of December 31, 2015.

As of December 31, 2016, the drilling rig under capital lease had a total cost of $228.6 million and accumulated depreciation of $1.1 million and the rig under bareboat charter contract had a carrying value of $16.4 million and accumulated depreciation of $7.0 million. There were no such transactions for the year ended December 31, 2015.

As of December 31, 2016, following is the summary of future minimum rentals on operating lease (in thousands):

For the twelve months ending December 31,	
2017	$ 7,759
2018	8,395
2019	713
Thereafter	—
Total future minimum rentals	$16,867

Loss on Impairment of Assets - The Company assesses the recoverability of the Company's long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. During the quarter ended December 31, 2016, the Company identified indicators of impairment impacting the Company, including further reductions in the number of new contract opportunities, dayrates and utilization rates due to industry-wide factors such as continuing low crude oil prices leading to a sustained decrease in global demand as well as a further increase in global supply of jackup drilling rigs. As a result of these indicators, the Company concluded that a triggering event existed and an impairment reassessment on the entire fleet of drilling rigs was required.

An impairment loss on property and equipment exists when the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. Any actual impairment loss recognized represents the excess of the asset's carrying value over the estimated fair value.

The fair value of the drilling rigs using the income approach is 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 Such estimates of future undiscounted cash flows are highly subjective and are based on numerous assumptions about future operations and market conditions such as projected demand, dayrate adjustments, rig downtime estimates and cost inflation assumptions. The Company determined the fair value of the fleet by using the income approach and utilizing a weighted average cost of capital of 11.6% for all the rigs including the Newbuilds.

As a result of the analysis and impairment testing, the Company recognized an impairment loss of $47.1 million on three of the Company's rigs, out of which one rig was impaired to salvage value for the year ended December 31, 2016.

During the year ended December 31, 2015, the Company evaluated all the rigs for impairment due to significantly low crude oil prices and increased global supply of jack-up rigs and recognized an impairment loss of $262.2 million on 13 of the Company's rigs, out of which five rigs were impaired to salvage values.

The impairment losses also include the write-off of current deferred costs of $4.1 million and $11.1 million and non-current deferred costs of $4.4 million and $25.6 million for the years ended December 31, 2016 and 2015, respectively. The impairment losses recognized were included in loss on impairment of assets in the consolidated statements of operations for the years ended December 31, 2016 and 2015, respectively.

If there are further reductions in the number of new contract opportunities, dayrates, utilization and increase in global supply of jackup drilling rigs, the Company may be required to recognize additional impairment losses in future periods.

Note 8 — Income Taxes

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

The provision for income taxes is based on the tax laws and rates applicable in the jurisdictions in which the Company operates and earns income or is considered resident for income tax purposes. The relationship between the provision for or benefit from income taxes and the income or loss before income taxes can vary significantly from period to period considering, among other factors, (a) the overall level of income before income taxes, (b) changes in the blend of income that is taxed based on gross revenues rather than income before taxes, (c) rig movements between taxing jurisdictions and (d) changes in rig operating structures which may alter the basis on which the Company is taxed in a particular jurisdiction.

The annual effective tax rate for the Company's continuing operations was (196.0)% and (20.3)% for 2016 and 2015, respectively.

Income Tax Expense — Income tax expense was $19.8 million and $30.4 million for 2016 and 2015, respectively. The components of the provisions for income taxes were as follows (in thousands):

	Years ended December 31,	
	2016	2015
Current tax expense	$19,460	$29,081
Deferred tax expense	297	1,292
Income tax expense	$19,757	$30,373

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

	Years ended December 31,	
	2016	2015
Income tax expense at the Cayman statutory rate	$ —	$ —
Taxes on earnings subject to rates different than Cayman statutory rate	17,604	33,051
Change in reserve for uncertain tax positions, including interest and penalties	1,098	(2,962)
Other	1,055	284
Income tax expense	$19,757	$30,373

Deferred Taxes — The significant components of the Company's deferred tax assets and liabilities are as follows (in thousands):

	December 31, 2016	December 31, 2015
Deferred tax assets		
Net operating loss carry-forwards of subsidiaries	$4,112	$3,697
Valuation allowance	(975)	—
	$3,137	$3,697

	December 31, 2016	December 31, 2015
Deferred tax liabilities		
Unremitted earnings	$8,525	$8,788

At December 31, 2016 and 2015, the Company's deferred tax liabilities 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 consolidated financial statements. The Company's deferred tax assets include subsidiary level net operating loss carry-forwards which are expected to be utilized in future periods. To the extent that insufficient taxable income is generated by the relevant subsidiaries in future years to fully utilize these net operating loss carry-forwards, any remaining carry-forwards will expire by 2024.

Liabilities for Uncertain Tax Positions — The Company has tax liabilities related to various tax positions that have been taken on the tax returns of certain subsidiaries that have resulted in a reduction in tax liabilities for those subsidiaries. In management's judgment, these tax positions are "uncertain" in that they are likely to be successfully challenged by the relevant tax authorities in the future. As such, the tax benefits, recorded as "Other assets", related to these uncertain tax positions have been offset by a corresponding tax liability. The Company acquired a portion of these liabilities from the Seller as part of the Acquisition and is fully indemnified by the Seller for all such acquired liabilities, including any related interest and penalties. Any interest and penalties related to such liabilities are included as a component of income tax expense. Not considering any indemnification, the liabilities related to uncertain tax positions, including related interest and penalties, recorded as "Other long-term liabilities" were as follows (in thousands):

	December 31, 2016	December 31, 2015
Liabilities for uncertain tax positions, excluding interest and penalties	$2,455	$1,357
Interest and penalties	—	—
Liabilities for uncertain tax positions, including interest and penalties	$2,455	$1,357

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

	December 31, 2016	December 31, 2015
Balance, beginning of year	$1,357	$ 3,734
(Reductions) / additions for prior period tax positions	(458)	333
Reductions related to statute of limitation expirations	(100)	(2,710)
Additions for current period tax positions	1,656	—
Balance, end of year	$2,455	$ 1,357

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 consolidated 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.

Tax Returns — The Company is currently subject to or expects to be subject to income tax examinations in various jurisdictions where the Company operates or has previously operated. While the Company cannot predict or provide assurance as to the final outcome of any tax proceedings, the Company does not expect the ultimate tax liability to have a material adverse effect on its consolidated balance sheets or consolidated statements of operations. Any tax liability relating to entities acquired by the Company from the Seller and relating to periods prior to the Acquisition are indemnified by the Seller.

Other Tax Matters — Operations are conducted through various subsidiaries in a number of countries throughout the world. Each country has its own tax regimes with varying nominal rates, deductions and tax attributes. From time to time, changes to previously evaluated tax positions may be identified that could result in adjustments to the current recorded assets and liabilities. Although it is not possible to predict the outcome of these changes, it is not expected that the effect, if any, resulting from these assessments to have a material adverse effect on the consolidated balance sheets, statements of operations or statements of cash flows.

Note 9 — Debt

Debt is comprised of the following (in thousands):

	December 31,	
	2016	2015
8.625% Senior Secured Notes, due November 1, 2018 (see note (i) below)	$466,857	$464,204
Term Loan Facility, due October 8, 2018 (see note (ii) below)	342,159	338,849
Revolving Credit Facility, due April 30, 2018 (see note (iii) below)	—	—
Total debt	$809,016	$803,053

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

For the twelve months ending December 31,	
2017	$ —
2018	809,016
Total debt	$809,016

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

	December 31, 2016		
	Principal Amount	Unamortized Discount and Debt Issuance Costs	Carrying Value
8.625% Senior Secured Notes, due November 1, 2018	$475,000	$ (8,143)	$466,857
Term Loan Facility, due October 8, 2018	350,000	(7,841)	342,159
Total	$825,000	$(15,984)	$809,016

	December 31, 2015		
	Principal Amount	Unamortized Discount and Debt Issuance Costs	Carrying Value
8.625% Senior Secured Notes, due November 1, 2018	$475,000	$(10,796)	$464,204
Term Loan Facility, due October 8, 2018	350,000	(11,151)	338,849
Total	$825,000	$(21,947)	$803,053

The following tables summarized the total interest on debt (in thousands):

	Year ended December 31, 2016			
	Coupon Interest	Amortization of Discount	Amortization of Debt Issuance Costs	Total Interest
8.625% Senior Secured Notes, due November 1, 2018	$40,969	$ —	$2,653	$43,622
Term Loan Facility, due October 8, 2018	35,583	2,131	1,179	38,893
	$76,552	$2,131	$3,832	$82,515

	Year ended December 31, 2015			
	Coupon Interest	Amortization of Discount	Amortization of Debt Issuance Costs	Total Interest
8.625% Senior Secured Notes, due November 1, 2018	$40,969	$ —	$3,528	$44,497
Term Loan Facility, due October 8, 2018	35,486	1,911	1,533	38,930
	$76,455	$1,911	$5,061	$83,427

The outstanding debt balances as of December 31, 2016 and 2015 reflect the adoption of ASU 2015-03 as discussed in Note 3 – New Accounting Pronouncements. The effective interest rates on the 8.625% Senior Secured Notes due November 1, 2018, and Term Loan Facility due October 8, 2018, are 9.79% and 10.79%, respectively.

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

On October 24, 2012, SDHL completed the issuance and sale of $475 million aggregate principal amount of the 8.625% senior secured notes due November 1, 2018. The 8.625% Senior Secured Notes were sold at par and SDHL received net proceeds from the offering of the 8.625% Senior Secured Notes of $452.8 million after deducting the offering expenses of $22.2 million. Interest on the 8.625% Senior Secured Notes accrues from October 25, 2012 at a rate of 8.625% per year and is payable semi-annually in arrears on May 1 and November 1 of each year, beginning May 1, 2013.

SDHL's obligations under the 8.625% 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 subordinate to the liens securing the obligations of the Note Guarantors under the Revolving Credit Facility (''SDHL Revolver'').

SDHL may redeem the 8.625% Senior Secured Notes, in whole or part, at the redemption prices set forth below, together with accrued and unpaid interest to the redemption date.

Period	Redemption Price
On or after May 1, 2015	104.313%
On or after November 1, 2016	102.156%
On or after November 1, 2017 and thereafter	100.000%

If SDHL experiences a change of control, as defined in the indenture governing the 8.625% Senior Secured Notes (the ''Indenture''), it must offer to repurchase the 8.625% 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 8.625% Senior Secured Notes at an offer price in cash equal to 100% of their principal amount, plus accrued and unpaid interest.

On January 12, 2017, the Company exchanged and cancelled $444.585 million of 8.625% Senior Secured Notes at 100% redemption price. See Note 24 – Subsequent Events.

(ii) Term Loan Facility, due October 2018

On October 8, 2013, Shelf Drilling Midco, Ltd. (''Midco'') entered into a credit agreement (''Midco Term Loan'') providing for a $350 million five-year term loan facility issued at an original discount of 3% (issue price 97%). All borrowings under the term loan facility mature on October 8, 2018.

Midco received $331.2 million proceeds net of discount and $8.3 million of transaction costs. Borrowings under the Midco Term Loan agreement bear interest, at Midco's option, at either (i) the Alternate Base Rate (''ABR'') which is defined as the highest of the base rate of interest, as determined by the administrative agent, 2% per year, the federal funds rate plus 0.5%, or the one-month Adjusted LIBOR Rate (which is subject to a floor of 1% and is defined in the Midco Term Loan) plus 1%, plus an applicable margin of 8% per year, or (ii) the Adjusted Libor Rate plus an applicable margin of 9% per year. Interest is paid semi-annually on March 31 and September 30. The first and last interest installments must be paid in cash; other interest installments may be paid in kind at the option of the Company if certain conditions are met. Interest paid in kind accrues at the otherwise applicable interest rate plus 0.75% per year.

Midco may, at its option, redeem all or part of the term loan a) at any time during the third year of the loan at a price of 102% of the principal being redeemed; b) at any time during the fourth year of the loan at a price of 101% of the principal being redeemed; and (c) thereafter at a price of 100% of the principal being redeemed. These redemption prices do not apply to redemptions from the net cash proceeds of one or more qualified or public equity offerings. The net cash proceeds from qualified equity offerings can be used to redeem up to 35% of the aggregate principal of the loan outstanding without any premium and the net cash proceeds of public equity offerings can be used to redeem up to 100% of the aggregate principal of the loan outstanding at a price of 102% of the principal being redeemed. Redemption from equity offerings must occur within 180 days after the closing of the equity offering.

Midco's obligations under the Midco Term Loan are secured by liens on the majority of Midco's assets, including Midco's shares in SDIL, subject to certain exceptions.

On January 12, 2017, the Company fully settled the outstanding balance of $350 million under its term loan facility. See Note 24 – Subsequent Events.

(iii) Revolving Credit Facility, due April 2018

On February 24, 2014, SDHL entered into a $150 million Revolving Credit Facility which was available for utilization on February 28, 2014. 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. All borrowings under the SDHL Revolver mature on April 30, 2018, and letters of credit and bank guarantees issued under the SDHL Revolver expire no later than five business days prior to April 30, 2018. On June 11, 2014 in accordance with the terms of the SDHL Revolver, the Company sought and was granted, an increase in the total amount available under the SDHL Revolver to $200 million.

The Company issued bank guarantees and performance bonds totalling $28.5 million and $48.3 million as of December 31, 2016 and 2015, respectively, against the SDHL Revolver. As a result, the remaining available balance under the Revolving Credit Facility is $171.5 million and $151.7 million as of December 31, 2016 and 2015, respectively. The second lien note indenture currently restricts the SDHL Revolver capacity to $170 million, as such the available amount for drawdown under the SDHL Revolver as of December 31, 2016 was $141.5 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 (''ABR'', 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. During the years ended December 31, 2016 and 2015, the amortization of debt issuance costs on the SDHL Revolver amounted to $1.7 million and $1.8 million, respectively.

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 by Standard and Poor's and Moody's; currently the Applicable Margin is 4.75% per year for borrowings at the Adjusted LIBOR Rate.

The Applicable Margin can range from a maximum of 5.0% per year and a minimum of 3.5% per year for borrowings at the Adjusted LIBOR Rate and from a maximum of 4.0% per annum and a minimum of 2.5% 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 30% 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, if SDHL as of the last day of any fiscal quarter is using more than 25% of the SDHL Revolver (excluding non-financial or cash-collateralized letters of credit and bank guarantees), then the 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) of not greater than 3:1 for the four consecutive fiscal quarters ended on such last day. This covenant did not apply as the Company had not met the more than 25% threshold during the years ended December 31, 2016 and 2015.

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 liens securing the 8.625% Senior Secured Notes.

On January 12, 2017, the Company successfully amended its revolving credit agreement. See Note 24 – Subsequent Events.

Terms Common to All Indebtedness

The Indenture, the Midco Term Loan and the SDHL Revolver contain customary events of default. These agreements also contain a provision under which an event of default by SDHL or by any restricted subsidiary (under the SDHL Revolver and the Indenture) and by Midco or by any restricted subsidiary (under the Midco Term Loan) on any other indebtedness exceeding $25 million would be considered an event of default if such default: a) is caused by failure to pay the principal or interest when due after the applicable grace period, or b) results in the acceleration of such indebtedness prior to maturity.

The Indenture, the SDHL Revolver and the Midco Term Loan contain covenants that, among other things, limit SDHL's and, in the case of the Midco Term Loan, SDIL's and Midco's ability and the ability of their restricted subsidiaries to:

- incur additional indebtedness or issue certain preferred stock;
- make restricted payments or investments;
- sell assets;

- create liens;
- engage in transactions with affiliates; and
- consolidate, merge or transfer all or substantially all of its assets.

The Company incurred a total of $8.3 million of transaction costs related to the Midco term loan facility agreement, $7.2 million of transaction costs related to the SDHL Revolver and $22.2 million of transaction costs related to issuance of 8.625% Senior Secured Notes. These costs are amortized over the life of the associated debt and the unamortized portion is netted off against the debt's carrying value, except for the $7.2 million transaction costs for the SDHL Revolver which are carried as both short-term and long-term term assets on the consolidated balance sheets and are being amortized over the life of the associated debt.

Note 10 — Sale and Leaseback

On October 10, 2015, two wholly owned subsidiaries of SDL, Shelf Drilling TBN I, Ltd and Shelf Drilling TBN II, Ltd (collectively, the ''Lessee''), whose assets consist solely of the two under construction fit-for-purpose new build jackup rigs entered into a combined minimum of $296.2 million and maximum of $330.0 million (''Purchase Price'') sale and leaseback financing transactions (the ''Sale and Leaseback Transactions'') with Hai Jiao 1502 Limited and Hai Jiao 1503 Limited (collectively, the ''Lessor''), both wholly owned subsidiaries of Industrial and Commercial Bank of China Leasing. In connection with these transactions, the Lessee executed Memorandum of Agreements and 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 7 – Property and Equipment.

The Company, in substance, is the accounting owner of the Newbuilds during the construction period due to being the primary obligor on the construction contract and its involvement during the construction period. The Company effectively receives the Purchase Price over the construction period from the Lessor in the form of construction milestone payments paid directly by the Lessor to the Builder on various due dates as per the construction contracts and the remaining balance reimbursed to the Company on the Bareboat Charter commencement dates. The Company records these payments as construction in progress and long-term liabilities on its consolidated balance sheets until the assets are completed and delivered. The Company, being the accounting owner of the Newbuilds, has also recorded $7.6 million as construction in progress payments for set-up fees, legal fees, brokerage fees and handling fees related to these sale and leaseback transactions. No profit and loss is recognized on these sale and leaseback transactions as the Company retains substantially all the benefits and risks incidental to the ownership of the property sold.

The Company is liable to pay a commitment fee of 1.20% per annum to the Lessor calculated on undrawn amount of Purchase Price calculated from October 10, 2015 until the Purchase Price is paid in full for each rig, payable on the date of first installment payment of Purchase Price and quarterly in arrears thereafter. The milestone payments bear interest at 3 months LIBOR plus an applicable margin of 4% annually. Such interest is capitalized at intervals of three months from the date of payment of each installment until the charterhire 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 charterhire accrual dates through its estimated maturities on December 28, 2021 and July 5, 2022 at which time the Lessee will have the obligation to acquire the Newbuilds from the Lessor for $82.5 million each (''Purchase Obligation Price''). The fixed monthly average payments for each rig at the inception of the bareboat charter period are calculated using the Prepaid Purchase Price (Purchase Price and capitalized interest on milestone payments net of Purchase Obligation) over the lease term. The average variable payments over the lease term for each rig are calculated on each payment date using a projected 3 months LIBOR rate plus applicable margin of 4% annually on the Notional Rent Outstanding (Prepaid Purchase Price reduced by fixed payments). The charter payments will be made in advance every 5th day of the month.

On December 1, 2016, after completion of the final customer acceptance requirements, the rig commenced a five-year contract with Chevron. The Company accounted for this sale and leaseback transaction as a capital lease and transferred $228.6 million from construction in progress to drilling rigs and equipment in property and equipment. See Note 7 – Property and Equipment. The capital lease contract has an estimated average interest rate of 5.823% and requires scheduled monthly average principal payments of $1.4 million and average interest payments of $607 thousand through December 5, 2021.

As of December 31, 2016, the following is a summary of the estimated future rental payments on capital lease (in thousands):

For the twelve months ending December 31,	
2017	$ 23,698
2018	25,680
2019	25,102
2020	24,318
2021	105,293
Thereafter	—
Total future rental payments	$204,091

The Company made rental payments, including interest, of $2.7 million during the year ended December 31, 2016. This includes pre-payments of principal and interest of $1.5 million and $729 thousand, respectively.

The outstanding balance of obligations under sale and leaseback is $244.7 million and $74.7 million as of December 31, 2016 and 2015, respectively. The current year balance consists of $16.0 million which represents the scheduled monthly principal installments for the newbuild rig which started its drilling contract on December 1, 2016 and $228.7 million as long term obligations. The long term obligations comprise of $152.0 million for the newbuild rig under capital lease and $76.7 million for the newbuild rig still under construction. The prior year balance of $74.7 million represents the long term obligations for the newbuilds under construction.

The Lessor paid $165.0 million ($148.1 million was paid directly to the Builder and $16.9 million to the Company for costs incurred) and $74.1 million ($55.5 million was paid directly to the Builder and $18.5 million to the Company related to milestone payment) during the years ended December 31, 2016 and 2015, respectively. In addition, the Company recorded $6.8 million and $643 thousand for interest in kind on the obligations under the sale and leaseback during the years ended December 31, 2016 and 2015.

The Company has the right to purchase either of the rigs on an ‘‘as is where is’’ basis, after the delivery date and without any default during the bareboat charter agreement period, at redemption prices as follows:

Period	Redemption Price
Year 1	Notional Rent Outstanding * (1+3%)
Year 2	Notional Rent Outstanding * (1+2%)
Year 3	Notional Rent Outstanding * (1+2%)
Year 4	Notional Rent Outstanding * (1+1%)
Year 5	Notional Rent Outstanding * (1+1%)

Besides the redemption price, the Company is required to pay any rent and other amounts due, and the broken funding costs as defined in the Bareboat Charter agreements.

The Lessor also has the right to compel the Company to purchase the relevant rig when there is a termination event at a price of an aggregate of the Notional Rent Outstanding plus a 3% fee on the Notional Rent Outstanding. The Company is also required to pay any rent and other amounts due, and the broken funding costs as defined in the Bareboat Charter agreements. This option is not exercisable by the Lessor when the relevant rig is in service under its contract with Chevron.

The Company's obligation under the sale and leaseback transactions is secured by pledge over all bank accounts specific to this transaction and pledge of shares of certain wholly owned subsidiaries of the Company. The Company has also assigned to Lessor the construction contracts with the Builder, the advance payment guarantee covering 30% of the contract price received from the Builder which is valid during the construction period, an additional payment guarantee covering 10% of the contract price which is also valid during the construction period, and the receivable and earnings from the Chevron contracts.

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. As of December 31, 2016 and 2015, the Company was in compliance with all above mentioned requirements as applicable.

The lease agreements contain certain representations, warranties, obligations, conditions, indemnification provisions and termination provisions customary for sale and leaseback financing transactions. The lease agreements contain certain affirmative and negative covenants that, subject to exceptions, limit the Lessee's ability to, among other things, incur additional indebtedness and guarantee indebtedness, pay dividends or make other distributions or repurchase or redeem capital stock, make loans and investments, sell, transfer or otherwise dispose of certain assets, create or incur liens and enter into certain types of transactions with affiliates, consolidate, merge or sell all or substantially all of its assets.

Note 11 — Employee Benefit Plans

The Company makes regular monthly cash contributions to defined contribution retirement and savings plans. The Company also makes cash payments whenever the departure of an employee triggers the requirement to pay an end of service payment under local labor laws or the Company policy.

Retirement and Savings Plans — The Company contributes between 4.5% and 6.5% of certain employees' base salaries each month into an employee's retirement plan. The actual percentage rate contribution is determined by the number of years of service with the Company, including, for certain employees, the number of years of service with the Seller. The Company has no further obligations for these retirement plans and the Company's contributions are expensed as incurred.

Certain employees have the option to contribute a percentage of their base salary to an individual savings plan. The Company will match up to 6% of the employee's base salary and pay it into the savings plan. The Company has no further obligations for this savings plan and the Company's contribution is expensed as incurred.

The Company has recorded approximately $5.3 million and $7.3 million in expense related to defined contribution retirement and savings plans for 2016 and 2015, respectively.

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 the new plan was $1.3 million, which resulted in a gain of $248 thousand during the year ended December 31, 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.

Contribution expense related to this plan is $122 thousand from the effective date of August 1, 2016 to December 31, 2016. The expenses were previously recorded as end of service benefit expense during the year ended 2015 and through to July 31, 2016.

End of Service Plans — The Company offers end of service plans to employees in certain countries in accordance with the labor laws in these countries or the Company policy.

The Company has recorded approximately $6.3 million and $6.7 million in expense related to employee end of service plans for 2016 and 2015, respectively.

Countries in which management estimates that the liabilities are significant in amount are subject to an analysis which considers specific actuarial assumptions for those countries. The discount rate used in the analyses ranged from 4.2% to 16.5% and the assumed average annual rate of compensation increase ranged from 2% to 5%.

The estimated total liability for the end of service plans was $8.8 million and $15.1 million at December 31, 2016 and 2015, respectively.

Defined Benefit Plan — As a result of the Acquisition described in Note 1 — Nature of Business, the Company agreed to replicate certain employee benefits for the employees of the Seller who joined the Company. Benefits under this plan vest immediately and are paid in a single lump sum cash payment when a participant has both reached the age of 55 and is no longer employed by the Company. The single sum paid is calculated taking into account employee's base salary and various other factors. The Company has removed the restriction of the minimum age of 55 related to this plan as of January 1, 2016.

The number of employees who were eligible for benefits under this plan totaled 63 and 99 at December 31, 2016 and 2015, respectively. The plan freeze date is December 31, 2015 and the Company stopped accruing service awards benefits as of January 1, 2016. The plan is currently unfunded.

A reconciliation of the changes in benefit obligation is as follows (in thousands):

	Years ended December 31,	
	2016	2015
Change in Benefit Obligation		
Benefit obligation, beginning of year	$ 4,913	$ 3,346
Service cost	—	2,960
Interest cost	146	79
Plan changes	—	—
Benefits paid	(1,737)	(1,078)
Actuarial gain	(156)	(394)
Curtailment	—	—
Benefit obligation, end of year	$ 3,166	$ 4,913

The Company has recorded $481 thousand and $739 thousand as current, and $2.7 million and $4.2 million as non-current obligations for this plan as of December 31, 2016 and 2015, respectively.

The benefit cost includes the following components (in thousands):

	Years ended December 31,	
	2016	2015
Net periodic benefit (gain) / costs		
Service cost	$ —	$2,960
Interest cost	146	79
Expected return on plan assets	—	—
Amortization of prior service cost	—	—
Actuarial gain	(156)	(394)
Net periodic benefit (gain) / costs, end of year	$ (10)	$2,645

The plan does not have any assets, nor does the Company intend to fund the plan. The Company has elected to immediately recognize any gains and losses from this plan and as such no amounts have been recorded in accumulated other comprehensive income related to the plan.

The key assumptions for the plan are summarized below:

	Years ended December 31,	
	2016	2015
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	3.00%	3.21%
Rate of compensation increase	N/A	N/A

	Years ended December 31,	
	2016	2015
Weighted-average assumptions used to determine net periodic benefit costs:		
Discount rate	3.00%	3.21%
Rate of compensation increase	N/A	N/A
Expected long-term rate of return on assets	N/A	N/A

The future estimated payouts are as follows (in thousands):

	Projected benefit payments
Years ending December 31,	
2017	$ 481
2018	471
2019	523
2020	265
2021	348
2022-2026	1,140

Retention Plans — The Company also sponsors medium term cash incentive programs for certain employees. The plans generally vest over a period ranging from one to two years, and associated payouts are made over a two year period provided the participant is still employed. The pay outs under existing plans are expected to occur in March, 2017 and March, 2018. The Company recorded approximately $3.0 million and $3.0 million expense under the plans for the years ended December 31, 2016 and 2015, respectively. The estimated total cash payments under the retention plans for 2017 and 2018 are $2.7 million and $3.3 million, respectively.

Note 12 — Commitments and Contingencies

Operating Lease Obligations – The Company has operating lease commitments expiring at various dates, principally for office 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 December 31, 2016. See Note 10 - Sale and Leaseback.

As of December 31, 2016, contractual payments related to those matters were as follows (in thousands):

	Operating leases	Sale and leaseback obligations	Total commitments
For the twelve months ending December 31,			
2017	$ 6,367	$ 37,379	$ 43,746
2018	4,207	52,082	56,289
2019	474	50,946	51,420
2020	189	49,387	49,576
2021	82	129,337	129,419
Thereafter	—	93,705	93,705
Total	$11,319	$412,836	$424,155

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 December 31, 2016 and 2015, 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.

Insurance

The Company's hull and machinery, property, cargo and equipment and excess liability insurance consists of commercial market policies that the Company renewed on November 30, 2016 for one year. The Company periodically evaluates its risks, insurance limits and self-insured retentions. As of December 31, 2016, the insured value of the Company's drilling rig fleet was $1.6 billion, which includes the newbuild rig which commenced its drilling contract on December 1, 2016.

Hull and Machinery Coverage — At December 31, 2016, under the Company's hull and machinery insurance policies, the Company maintained a $5 million deductible per occurrence, with no deductible in the event of loss greater than 75% of the insured value of the rig. The Company also has insurance coverage for costs incurred for wreck removal for the greater of 25% of the rig's insured value or $20 million (plus an additional $25 million per occurrence) with a nil deductible. The hull and machinery policy also covers war risk, which is cancellable either immediately or with 7 days' notice by the underwriters in certain circumstances. To protect against this cancellation risk, the Company also insures, through commercial market policies, a Political Risks Policy covering acts of war and terrorism with a $250,000 deductible per occurrence (an additional $2.75 million in certain countries) and a limit of $175 million.

Excess Liability Coverage — At December 31, 2016, the Company carried $400 million of commercial market excess liability coverage, exclusive of the deductibles, which generally covered onshore and offshore risks such as personal injury, third-party property claims, and third-party non-crew claims, including pollution from the rig and non-owner aviation liability. The Company's excess liability coverage generally has a $1 million deductible per occurrence.

At December 31, 2016, the Company also carried $100 million of additional insurance per occurrence that generally covered expenses that would otherwise be assumed by the well owner, such as costs to control the well, re-drill expenses and pollution from the well. This additional insurance provides coverage for such expenses in circumstances in which the Company has a legal or contractual liability arising from gross negligence or willful misconduct. The deductible is $1 million per occurrence.

Self-Insured Medical Plan —The Company offers a self-insured medical plan (''the Medical Plan'') for U.S. resident rig based expatriates employees and their eligible dependents to provide medical, vision, dental within the U.S. and security evacuation and repatriation. The maximum potential liability related to the plan excluding dental benefits is $1.7 million as of December 31, 2016, as the Company is reinsured for the excess amount by a third party insurance provider.

Surety Bonds — It is customary in the contract drilling business to have various surety bonds in place that secure customs obligations relating to the temporary importation of rigs and equipment and certain contractual performance and other obligations.

The Company has surety bond facilities in either U.S. dollars or local currencies of approximately $85.0 million provided by several banks to guarantee various contractual, performance, and customs obligations. The Company entered into these facilities in India, Egypt, UAE and Nigeria. The outstanding surety bonds were $33.3 million and $64.2 million at December 31, 2016 and 2015 (including $7.8 million surety bonds for which the credit facility was not in place which were secured by 100% cash deposits in 2015), respectively.

In addition, the Company had outstanding bank guarantees and performance bonds amounting to $28.5 million and $48.3 million as of December 31, 2016 and 2015, respectively, against the SDHL Revolver.

Therefore, the total outstanding bank guarantees and surety bonds issued by the Company were $61.8 million and $112.5 million as of December 31, 2016 and 2015, respectively.

Under the terms of the Acquisition, the Seller agreed to continue to provide financial support by maintaining letters of credit, surety bonds and other performance and obligation guarantees. This agreement with the Seller to provide financial support expired on November 30, 2015. The Seller did not issue any new letter of credits, surety bonds and other performance and obligation guarantees after November 30, 2015. All outstanding surety bonds provided by the Seller on the Company's behalf of $23.7 million as of December 31, 2015 were cleared and replaced by the Company's issued surety bonds in 2016.

Note 13 — Fair Value of Financial Instruments

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

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

	December 31 , 2016		December 31 , 2015	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
8.625% Senior Secured Notes, due November 1, 2018	$466,857	$399,000	$464,204	$361,000
Term Loan Facility, due October 8, 2018	342,159	258,620	338,849	192,063
Total debt	$809,016	$657,620	$803,053	$553,063

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).

Derivative financial instrument was measured at fair value on a recurring basis using Level 2 inputs. See Note 18 – Derivative Financial Instruments. At December 31, 2016, there were no outstanding derivative contracts.

Note 14 — Financial Instruments and Risk Concentration

Interest Rate Risk — Financial instruments that potentially subject the Company to concentrations of interest rate risk include cash and cash equivalents, debt and the obligation under sale and leaseback. Exposure to interest rate risk may occur in relation to cash and cash equivalents, as the interest income earned on these balances changes with market interest rates. Floating rate debt, where the interest rate may be adjusted annually or more frequently over the life of the instrument, exposes the Company to short-term changes in market interest rates. Fixed rate debt, where the interest rate is fixed over the life of the instrument and the instrument's maturity is greater than one year, exposes the Company to changes in market interest rates if and when refinancing of maturing debt with new debt occurs.

Foreign Currency Risk — The Company's functional currency is the U.S. dollar and its international operations expose it to currency exchange rate risk. This risk is primarily associated with the compensation costs of the Company's employees and purchasing costs from non-U.S. suppliers, which are generally denominated in currencies other than the U.S. dollar.

The Company's primary currency exchange rate risk management strategy involves structuring customer contracts to provide for payment in 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 the Company's international operations generally has not had a material impact on its operating results. The Company recognized gain of $1.9 million and $1.7 million related to net foreign currency exchange during 2016 and 2015, respectively, which are included in other, net in the consolidated statements of operations.

Further, the Company may utilize forex contracts to manage foreign exchange risk, for which the Company has documented policies and procedures to monitor and control the use of the derivative instruments. The Company does not engage in derivative transactions for speculative or trading purposes. The Company's forex contracts generally require it to net settle the spread between the contracted foreign currency exchange rate and the spot rate on the contract settlement date. As of December 31, 2016, the Company had no forex contracts outstanding. There were no such transactions as of December 31, 2015.

Credit Risk — Financial instruments that potentially subject the Company to concentrations of credit risk are cash and cash equivalents and accounts receivables.

The Company generally maintains cash and cash equivalents at commercial banks with high credit ratings.

The market for the Company's services is the offshore oil and natural gas industry. The Company's customers primarily consist of government owned or controlled energy companies, publicly listed integrated oil companies or independent exploration and production companies. Periodic credit evaluations of the Company's customers are performed and generally do not require material collateral. The Company may from time to time require its customers to issue a bank guarantee in its favor to cover non-payment under drilling contracts.

Allowance for doubtful accounts are based upon expected collectability on a contract by contract basis where the required payment of specific amounts owed to the Company is unlikely to occur. At December 31, 2016 and 2015, the allowance for doubtful accounts was $99.6 million and $110.2 million, respectively.

Note 15 — Restricted Cash

The Company maintained a restricted cash deposit of $9.3 million and $8.8 million as of December 31, 2016 and 2015, respectively, which is included in other current assets and other assets in the consolidated balance sheets. Restricted cash is primarily used as collateral for bid tenders and performance bonds. The increase in restricted cash in 2016 was related to the reserve requirements for the sale and leaseback transaction amounting to $6.4 million, partly offset by the $5.9 million cash collateral released in the first quarter of the current year.

Note 16 — Shareholders' Equity

The Company is authorized to issue up to 5,000,000 ordinary shares with a par value of $0.01 per share for a total amount of $50 thousand. Following is the summary of ordinary shares authorized:

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

	Year ended December 31, 2015			
	Number of ordinary shares authorized			
	Class A	Class B	Class C	Total
Number of ordinary shares authorized	4,666,080	269,560	64,360	5,000,000
Amount of ordinary shares authorized	$ 46,660	$ 2,696	$ 644	$ 50,000

During the year ended December 31, 2016, the Company granted 2,835 ordinary shares (2,659 Class B shares and 176 Class C shares) under the time and performance based share compensation plan to members of the Company's senior management (see Note 17 – Share-based Compensation). These shares were issued to a Trust for further issuance to the employee upon fulfilling the vesting conditions. There were no issuance of ordinary shares during the year ended December 31, 2015.

During the years ended December 31, 2016 and 2015, 1,915 ordinary shares (1,851 Class A shares, 43 Class B shares and 21 Class C shares) and 200 ordinary shares (193 Class A shares, 5 Class B shares and 2 Class C shares) were repurchased and retired for an aggregate consideration of $1.7 million and $270 thousand, respectively. In 2016, of the cancelled 1,915 ordinary shares, 850 ordinary shares were issued in March 2014 at a lower value compared to the fair value at the date of exercise, which resulted in a benefit of $433 thousand recorded to share-based compensation, 750 ordinary shares were cancelled at a lower consideration than the cost for these shares at the issuance date, which resulted in $155 thousand in additional paid-in capital, and the remaining 315 ordinary shares were cancelled at issuance cost. In 2015, the 200 ordinary shares cancelled were issued at higher consideration than the cost for these shares at issuance date, which resulted in $70 thousand charged to retained earnings. See Note 17 – Share-based Compensation.

During the years ended December 31, 2016 and 2015, 2,478 ordinary shares (2,306 Class B shares and 172 Class C shares) and 158 ordinary shares (146 Class B shares and 12 Class C shares) previously issued under share-based compensation plans were forfeited for nil consideration. In addition, 33 ordinary Class B shares issued under the share-based compensation plans were repurchased and retired for a consideration of approximately $40 thousand during 2015. See Note 17 – Share-based Compensation.

Holders of all classes of vested shares are entitled to such dividends as may be declared by the board of directors of the Company out of legally available funds. The A, B, and C ordinary shares participate in cumulative distributions based on preference in accordance with the Waterfall methodology established and defined in the Articles. The Waterfall methodology classifies cumulative distributions into successive pools with defined quantitative upper limits and specifies different ratios for the distribution of earnings in each successive pool among the three classes of shares. Class A shares rank highest in terms of preference, followed by Class B and Class C shares, respectively. Of the six pools defined in the Articles, the first pool of cumulative distributions amounting to $461.2 million is fully distributed to Class A shareholders, while the second pool amounting to $462.1 million is distributed among Class A and Class B shareholders proportionally. Class A and Class B shareholders are together entitled to 72%, 55%, 17% and 55% of total available funds respectively of the third, fourth, fifth and sixth pools, with the remaining funds in each of these pools distributed to Class C shareholders. The third, fourth and fifth pools are equivalent to $462.1 million each.

The Company did not pay any dividend during years ended December 31, 2016 and 2015. Holders of all classes of ordinary shares are also entitled to, in the event of liquidation, to share in the distribution of assets remaining after payment of liabilities as set out in the Articles.

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

	Year ended December 31, 2016			
	Number of ordinary shares issued and outstanding			
	Class A	Class B	Class C	Total
Balance, beginning of year	446,445	24,789	6,092	477,326
Shares issued to trust	—	2,659	176	2,835
Repurchase and retirement of shares	(1,851)	(2,349)	(193)	(4,393)
Balance, end of year	444,594	25,099	6,075	475,768

	Year ended December 31, 2016			
	Amount of ordinary shares issued and outstanding (at par value)			
	Class A	Class B	Class C	Total
Balance, beginning of year	$ 5	$—	$—	$ 5
Shares issued to trust	—	—	—	—
Repurchase and retirement of shares	—	—	—	—
Balance, end of year	$ 5	$—	$—	$ 5

	Year ended December 31, 2015			
	Number of ordinary shares issued and outstanding			
	Class A	Class B	Class C	Total
Balance, beginning of year	446,638	24,973	6,106	477,717
Shares issued to trust	—	—	—	
Repurchase and retirement of shares	(193)	(184)	(14)	(391)
Balance, end of year	446,445	24,789	6,092	477,326

	Year ended December 31, 2015			
	Amount of ordinary shares issued and outstanding (at par value)			
	Class A	Class B	Class C	Total
Balance, beginning of year	$ 5	$—	$—	$ 5
Shares issued to trust	—	—	—	—
Repurchase and retirement of shares	—	—	—	—
Balance, end of year	$ 5	$—	$—	$ 5

In accordance with the Articles, in the event of an IPO, the board may take such actions as it deems necessary to effect the conversion or exchange, directly or indirectly of each class of ordinary shares into another class of shares, or other equity security and/or other equity instruments issued or contemplated for issuance by SDL.

Note 17 — Share-based Compensation

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

The Company has recorded a share-based compensation expense related to the share-based compensation plan of $179 thousand (net of a $487 thousand gain related to forfeitures and an additional expense of $23 thousand for repurchased vested shares) and $638 thousand (net of a $34 thousand gain related to forfeitures and an additional expense of $18 thousand for repurchased vested shares) in 2016 and 2015, respectively. No income tax benefit was recognized for these plans.

Time Based Restricted Class B Ordinary Shares

Time based restricted shares are awarded as Class B ordinary shares which typically vest in equal proportion over a period of five years from the grant date provided the grantee remains employed by the Company. Upon vesting these shares are non-transferable. In the event of an IPO or other exit event, all Class B shares, regardless of grant date, vest immediately. Following an IPO, Class B shares held by members of management continue to be non-transferable pursuant to the terms of a management-shareholder agreement. These transfer restrictions lapse ratably over three years, at one year intervals beginning twelve months after an IPO or other exit event. Compensation cost is recognized over a period of five years from the grant date subject to acceleration as discussed above in the event of an IPO or other exit event.

Performance Based Class C Ordinary Shares

Performance based shares are awarded as Class C ordinary shares which have rights to dividends or distributions at certain pre-defined amounts of aggregate distributions which are junior to holders of the Class A and Class B shares. The specifics of these rights are set forth in the Articles. Upon an exit event or IPO, Class C shares vest immediately and are subject to the same transferability restrictions as described above regarding Class B shares. Compensation expense related to the grant date fair value of the Class C shares will be recognized upon vesting.

The fair value of awards made under the share-based compensation plans is estimated at the grant date using standard quantitative modeling techniques performed by an independent third party. The estimates are established using a zero premium option, with reference to the volatility of a group of broadly similar offshore drilling service companies. The following assumptions were used in the valuation calculations for shares awarded in 2016. There were no shares awarded in 2015, therefore the assumptions were not applicable:

	Years ended December 31,			
	2016		2015	
	Class B	Class C	Class B	Class C
Valuation assumptions:				
Expected term	2 years	2 years	N/A	N/A
Risk free interest rate	0.85% p.a.	0.85% p.a.	N/A	N/A
Expected volatility	60.0%	60.0%	N/A	N/A
Dividend yield	—	—	N/A	N/A

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

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

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

Dividend Yield: The Company has not historically issued any dividends on these classes of shares and does not expect to in the future nor are the unvested shares entitled to dividends.

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

	Time based restricted shares	Performance based shares	Weighted average grant date fair value per share	
	Class B	Class C	Class B	Class C
Non-vested shares at January 1, 2016	9,041	961	$236.68	$5,728.39
Granted	2,659	176	456.22	4,677.20
Vested	(2,503)	—	245.62	—
Forfeited	(1,493)	(172)	185.23	4,217.58
Non-vested shares at December 31, 2016	7,704	965	$357.05	$5,808.48

	Time based restricted shares	Performance based shares	Weighted average grant date fair value per share	
	Class B	Class C	Class B	Class C
Non-vested shares at January 1, 2015	12,125	973	$ 254.46	$ 6,280.40
Granted	—	—	—	—
Vested	(2,905)	—	213.50	—
Forfeited	(179)	(12)	1,814.00	51,100.00
Non-vested shares at December 31, 2015	9,041	961	$ 236.68	$ 5,728.39

The total grant date fair value of the time based restricted Class B vested ordinary shares was $615 thousand and $620 thousand during the year ended December 31, 2016 and 2015, respectively.

The following table summarizes the total unrecognized compensation expense and the expected weighted average period for the shares to be recognized:

	Years ended December 31,			
	2016		2015	
	Class B	Class C	Class B	Class C
Total unrecognized compensation expense (in thousands)	$2,751	$5,601	$2,140	$5,506
Weighted-average period unvested compensation expense	2.91 years	N/A	3.05 years	N/A

Note 18 — Derivative Financial Instruments

Foreign Currency Forward Exchange Contracts

The Company may enter into 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 foreign currencies in which the Company conducts significant business and for which there is a financial market. These forward contracts are derivatives and any change in fair value resulting from ineffectiveness is recognized immediately in earnings.

During the year ended December 31, 2016, the Company settled forex contracts with aggregate notional values of approximately $21.6 million, of which the aggregate amounts were designated as an accounting hedge. There were no such transactions for the year ended December 31, 2015. There were no forex contracts outstanding as of December 31, 2016.

The following table presents the amounts recognized in the Company's consolidated statements of operations related to the derivative financial instruments designated as cash flow hedges (in thousands). The effective portion of gain / (loss) reclassified from AOCIL is recorded under operating and maintenance.

	Gain recognized through AOCIL Years ended December 31, 2016	2015
Cash flow hedges		
Foreign currency forward contracts	$427	$—

	Gain reclassified from AOCIL to "Operating and maintenance" Years ended December 31, 2016	2015
Cash flow hedges		
Foreign currency forward contracts	$427	$—

Note 19 — Supplemental Balance Sheet Information

Accounts and other receivables consisted of the following (in thousands):

	December 31, 2016	2015
Accounts and other receivables, net		
Accounts receivables	$217,741	$ 263,384
Allowance for doubtful accounts	(99,606)	(110,251)
Accounts receivables, net	118,135	153,133
VAT receivables	5,802	10,798
Other	1,375	2,178
	$125,312	$ 166,109

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

	December 31, 2016	2015
Other current assets		
Deferred costs	$61,140	$ 86,803
Prepayments	18,810	18,455
Income tax receivable	7,200	—
Deferred financing fee	1,706	1,721
Restricted cash	626	5,985
Other	5,753	5,536
	$95,235	$118,500

Other assets consisted of the following (in thousands):

	December 31, 2016	December 31, 2015
Other assets		
Deferred costs	$101,933	$122,420
Restricted cash	8,630	2,850
Retention receivable	4,148	3,503
Deposits	2,432	2,644
Deferred financing fee	568	2,289
Other	730	1,553
	$118,441	$135,259

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

	December 31, 2016	December 31, 2015
Other current liabilities		
Deferred revenue	$12,964	$18,566
Incentive compensation and bonus accruals	9,196	11,848
Accrued taxes, other than income	5,663	5,955
Accrued payroll and employee benefits	2,867	6,574
End of service benefits	1,274	2,989
Defined benefit obligation	481	739
Other	220	1
	$32,665	$46,672

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

	December 31, 2016	December 31, 2015
Other long-term liabilities		
Deferred revenue	$12,266	$15,729
End of service benefits	7,541	12,108
Defined benefit obligation	2,685	4,174
Income taxes	2,455	1,357
Other	250	233
	$25,197	$33,601

Note 20 — Supplemental Cash Flow Information

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

	Years ended December 31,	
	2016	2015
Decrease / (increase) in operating assets		
Accounts and other receivables, net	$ 41,443	$ 29,306
Other current assets	(7,757)	(27,984)
Other assets	429	27,164
(Decrease) / increase in operating liabilities		
Accounts payable and other current liabilities	(16,772)	(40,316)
Accrued income taxes	(546)	(8,391)
Other long-term liabilities	4,426	2,248
	$ 21,223	$(17,973)

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

	Years ended December 31,	
	2016	2015
Cash payments for		
Interest, net of amounts capitalized.	$72,997	$68,894
Income taxes	26,125	40,669

As part of the sale and leaseback agreements for the Newbuilds, contractual commitments totalling $148.1 million and $55.5 million were paid by third party financial institution directly to the Builder during the years ended December 31, 2016 and 2015, respectively, and $6.8 million and $643 thousand of interest in kind were recorded as obligations under sale and leaseback, respectively. Therefore, these non-cash transactions were not reflected on the consolidated statements of cash flows during the years ended December 31, 2016 and 2015.

Capital expenditures and deferred costs

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

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

	Years ended December 31,	
	2016	2015
Regulatory and capital maintenance	$ 37,960	$127,695
Contract preparation	22,353	65,232
Fleet spares and other	6,964	11,646
Reactivation projects	—	23,372
	67,277	227,945
Newbuilds	190,035	95,254
Total capital expenditures and deferred costs	$257,312	$323,199

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

	Year ended December 31, 2016	Year ended December 31, 2015
Cash payments for additions to property and equipment	$ 53,541	$157,193
Net change in accrued but unpaid additions to property and equipment	(5,080)	(60,034)
	$ 48,461	$ 97,159
Add: Asset addition related to sale and seaseback transactions	154,306	74,703
Total capital expenditures	$202,767	$171,862
Changes in deferred costs, net	$ (37,218)	$ 70,353
Add: Amortization of deferred costs	91,763	80,984
Total deferred costs	$ 54,545	$151,337
Total capital expenditures and deferred costs	$257,312	$323,199

Note 21 — Loss Per Share

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

	Years ended December 31,					
	2016			2015		
	Class A	Class B	Class C	Class A	Class B	Class C
Numerator for loss per share						
Net loss attributable to ordinary shares	$ (29,836)	$ —	$ —	$(180,002)	$ —	$ —
Denominator for loss per share						
Weighted average shares:						
Basic outstanding per Class	445,386	17,500	5,119	446,525	15,142	5,133
Effect of stock options and other share-based awards	—	3,454	—	—	8,155	641
Diluted per Class	445,386	20,954	5,119	446,525	23,297	5,774
Basic loss per share per Class	$ (66.99)	$ —	$ —	$ (403.12)	$ —	$ —
Diluted loss per share per Class	$ (66.99)	$ —	$ —	$ (403.12)	$ —	$ —

Net (loss) / income is allocated to the three classes of common stock under the provisions of the distribution Waterfall set forth in the Articles. See Note 16 – Shareholders' Equity. In each of the periods presented in the above table, there were dilutive class B and C shares which were not included in the computation of diluted loss per share as the effect of including these shares in the calculation would have been anti-dilutive.

Note 22 — Segment and Related Information

Operating segments are defined as components of an entity for which separate financial statements are available and are regularly evaluated by the chief operating decision maker ("CODM") in deciding how to allocate resources and assess performance. The Company has one reportable segment, contract drilling services, which reflects how the Company manages its business, and the fact that all the drilling fleet is dependent upon the worldwide oil industry. The mobile offshore drilling units comprising the offshore rig fleet operate in a single global market for contract drilling services and are often redeployed globally due to changing demands of the customers, which consist largely of integrated oil and gas companies, independent exploration and production companies and government owned/controlled oil and gas companies in the Middle East, South East Asia, India, West Africa and the Mediterranean.

The accounting policies of our reportable segment are the same as those described in the summary of significant accounting policies (see Note 2 – Significant Accounting Policies).

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

	Years ended December 31,	
	2016	2015
India	$193,202	$ 159,754
Saudi Arabia	165,280	184,653
United Arab Emirates	78,279	33,349
Nigeria	76,473	195,948
Thailand	57,578	150,531
Egypt	49,044	83,069
Qatar	40,704	63,937
Other countries	23,757	159,074
Gross revenue from rigs	$684,317	$1,030,315
Adjustment to reconcile 'Gross revenue from rigs' to Operating revenues		
Amortization of drilling contract intangibles	—	983
Total	$684,317	$1,031,298

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

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

	December 31,	
	2016	2015
United Arab Emirates	$ 233,967	$ 336,799
Saudi Arabia	228,331	244,606
Thailand	227,400	71,224
India	140,180	158,023
Cameroon	67,535	—
Egypt	59,032	64,347
Nigeria	55,660	121,107
Other countries	181,644	157,750
Total long-lived assets	$1,193,749	$1,153,856

A substantial portion of the Company's assets are mobile. The assets in the UAE include $134.1 million (31 December 2015: $171.5 million) relating to the Newbuild under construction. See Note 7 – Property and Equipment. Asset locations at the end of the year are not necessarily indicative of the geographic distribution of the revenue generated by such assets during the year.

Major Customers — The Company provides contract drilling services to government owned or controlled energy companies, publicly listed integrated oil companies and independent exploration and production companies.

Consolidated revenues by customer for the years ended December 31, 2016 and 2015 were as follows:

	Years ended December 31,	
	2016	2015
A	28%	18%
B	24%	16%
C	11%	11%
Other	37%	55%
	100%	100%

In the above table, the customers presented for the year ended December 31, 2016 do not necessarily represent the same customers for the year ended December 31, 2015.

Note 23 — Related Parties

In connection with the Company's operations of a foreign subsidiary, a related party provided goods and services to drilling rigs owned by one of the Company's foreign subsidiaries. These goods and services totaled $3.3 million and $4.3 million during 2016 and 2015, respectively. The total liability recorded under accounts payable for such transactions were $551 thousand and $654 thousand as of December 31, 2016 and 2015, respectively.

The Company recorded $5.2 million and $5.1 million during 2016 and 2015, respectively, for Sponsors' costs related to the $375 thousand monthly fee, directors' fees and reimbursement of costs incurred by Sponsors and directors for attendance at meetings relating to the management and governance of the Company. The total liability recorded under accounts payable for such transactions were $211 thousand and $159 thousand as of December 31, 2016 and 2015, respectively.

Note 24 — Subsequent Events

On January 12, 2017 (''Closing Date''), the Company successfully refinanced its long term debt. As a result, SDHL issued $502.835 million of new 9.5% Senior Secured Notes due November 2020 (''9.5% Senior Secured Notes''). These notes were issued in exchange and cancellation of $444.585 million of 8.625% Senior Secured Notes due November 2018 in accordance with the terms and conditions of the Offering Memorandum to Exchange Notes and Solicit Consents (of which $28.5 million were settled for cash), and $86.75 million in exchange for partial settlement of the $350 million Midco Term Loan. As of the Closing Date, $30.415 million of 8.625% Senior Secured Notes remain outstanding after issuance of $416.085 million 9.5% Senior Secured Notes, principal payment of $28.5 million in cash and incentive fee payment of $5.7 million in cash.

At the Closing Date, the Company also fully settled the outstanding $350 million Midco Term Loan. The term loan was settled in exchange for the issuance of $166.7 million of SDL Preferred Shares to certain equity Sponsors, issuance of $86.75 million of new 9.5% Senior Secured Notes and $85.75 million in cash. This settlement resulted in a gross gain of $10.8 million (excluding transaction costs and unamortized original issue discount and deferred financing costs write off). The equity Sponsors paid $100 million in cash directly to the Midco lenders in exchange for the purchase of $166.7 million of the term loan.

Simultaneously, the Company successfully amended the SDHL Revolver to extend the maturity date to April 2020, permanently reduce the facility from $200 million to $160 million and amended certain other terms of this agreement including the addition of a financial maintenance covenant for a total net leverage ratio no greater than 3.5:1.

As a result of the above mentioned debt refinancing, the Company recognized a total loss on debt extinguishment of $15.7 million, of which $13.7 million was related to the exchange and cancellation of the 8.625% Senior Secured Notes and $2 million was related to the retirement of the Midco Term Loan.

A total loss on debt extinguishment of $13.7 million was recognized for the exchange and cancellation of the 8.625% Senior Secured Notes, which included the $7.5 million write off of the original unamortized debt issuance cost, incentive fee of $5.7 million paid to the lenders and legal fees of $556 thousand (of which $55 thousand was incurred in 2016). These transactions were recorded as expense under ''interest expense and financing charges''.

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

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

In April 2017, the Board approved the award of 326 time-based restricted Class B ordinary shares, 41 performance Class C ordinary shares and 1,020 Class D ordinary shares to certain members of management in respect of compensation for future services provided. Class D ordinary shares have no rights to dividends or distributions. Upon an initial public offering (the ''IPO''), Class D shares vest immediately and are non-transferable pursuant to the terms of a management shareholder agreement. These transferability restrictions lapse ratably over a three year period beginning on the first anniversary of the IPO, and at the end of the third year after the IPO, all the restrictions would be lifted. In case of an exit event, Class D shares vest immediately and have no transferability restrictions. Compensation expense related to the grant date fair value of the Class D shares will be recognized upon vesting.

On April 28, 2017, the Company successfully completed an offering of 28,125,000 new common shares at a price of $8.00 per share for total gross proceeds of $225 million (the ''Private Placement''). On May 5, 2017, the new common shares issued in the Private Placement began trading on the Norwegian over-the-counter (OTC) market under the symbol SHLF.

In connection with the Private Placement, the current classes of A, B, C and D ordinary shares have been converted into a single class of new common shares. The number of new common shares issued to the existing shareholders of the company through such conversion was 55,000,000. The total number of outstanding shares is 83,125,000 after the Private Placement.

On April 29, 2017, the Company entered into three separate asset purchase agreements and used the net proceeds from the Private Placement 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 on May 18, 2017 and the third rig is expected to be delivered in Q3 2017.

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