SHELF DRILLING, LTD.

Financial Information, Financial Statements and Other Information

December 31, 2017

SHELF DRILLING, LTD.
Annual Report for the Year Ended December 31, 2017

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This Annual Report on Form 10-K ("Annual Report") equivalent, with certain exceptions, is provided pursuant to the Indenture for our 8.25% Senior Notes Due 2025 and our $160 million revolving credit facility. This Annual Report should be read in its entirety as it pertains to Shelf Drilling, Ltd. Except where indicated, the Consolidated Financial Statements and the Notes to the Consolidated Financial Statements are combined. References in this Annual Report to "Shelf,", "SDL", the "Company," "Group," "we," "us," "our" and words of similar meaning refer collectively to Shelf Drilling Ltd. and its consolidated subsidiaries.

FORWARD-LOOKING STATEMENTS

Statements contained in this report that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements include words or phrases such as "anticipate," "believe," "estimate," "expect," "intend," "plan," "project," "could," "may," "might," "should," "will" and similar words and specifically include statements regarding expected financial performance; expected utilization, day rates, revenues, operating expenses, contract terms, contract backlog, capital expenditures and deferred costs, insurance, financing and funding; the timing of availability, delivery, mobilization, contract commencement or relocation or other movement of rigs; current or future rig construction (including construction in progress and completion thereof), enhancement, upgrade, repair or reactivation and timing thereof; the suitability of rigs for future contracts; general market, business and industry conditions, trends and outlook; future operations; the impact of increasing regulatory complexity; expected contributions from our newbuild rigs; expense management; and the likely outcome of litigation, legal proceedings, investigations or insurance or other claims and the timing thereof. These forward-looking statements speak only as of the date of this Annual Report and we undertake no obligation to revise or update any forward-looking statement for any reason, except as required by law. Such statements are subject to numerous risks, uncertainties and assumptions that may cause actual results to vary materially from those indicated, including:

- 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 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 newbuild rigs construction and delivery and the return of idle rigs to operations;
- future capital expenditures and deferred costs, refurbishment, reactivation, transportation, repair and upgrade costs;
- the cost and timing of acquisitions and integration of additional rigs;
- our ability to reactivate rigs;
- the proceeds and timing of asset dispositions;
- the effects and results of our strategies;
- 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 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;
- 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 in “Item 1A. - Risk Factors” and elsewhere in this Annual Report.

Part I

Item 1. Business

General

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. All operations are conducted through Shelf Drilling Holdings, Ltd. (“SDHL”). 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”) which closed on November 30, 2012. 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, two of which are stacked, and one stacked swamp barge, making us the world’s largest owner and operator of jack-up rigs by number of rigs.

The Company’s corporate offices are in Dubai, United Arab Emirates (“UAE”), geographically close to its operations in the Middle East (we include Egypt and the Mediterranean 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 listed on the Norwegian over-the-counter market (“OTC”) in May 2017. Our website address is www.shelfdrilling.com.

For additional information on the specifications and the current location of our fleet, see Drilling Fleet included in “Item 2. Properties”.

Recent events

On January 12, 2017, we successfully refinanced the outstanding long-term debt facility of Shelf Drilling Midco, Ltd. (“Midco”), a direct wholly owned subsidiary of SDL, and all but $30.4 million of the 8.625% Senior Secured Notes due November 2018 (“8.625% Senior Secured 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. In addition, we successfully amended the revolving credit facility to extend its maturity date from April 2018 to April 2020 and permanently reduced the facility from $200 million to $160 million. We refer to these transactions collectively as the “refinancing”. See Note 9 - Debt to our consolidated financial statements included in “Item 8. Financial Statements and Supplementary Data”.

On April 6, 2017, we took delivery from Lamprell Energy Limited (the “Builder”, “Lamprell”) of the second newbuild high specification jack-up rig (“Newbuild”) which was under construction since 2014. The rig, which is under a sale and leaseback arrangement, commenced a five-year contract with Chevron Corporation (“Chevron”) on June 1, 2017, after completion of all customer acceptance requirements.

On April 28, 2017, we successfully completed an offering of 28,125,000 new common shares at a price of $8.00 per share for total gross proceeds of $225.0 million (the “Private Placement”). On May 5, 2017, the new common shares issued in the Private Placement began trading on the Norwegian OTC market 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.

On April 29, 2017, we entered into three separate asset purchase agreements to acquire three premium jack-up drilling rigs from a third party 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 in September 2017. We have subsequently secured contracts for all three rigs. See Drilling Fleet included in "Item 2. Properties".

During the second quarter of 2017, we recorded a non-cash impairment loss of $34.8 million in relation to four rigs out of which one rig was impaired to salvage value. This non-cash impairment is included in loss on impairment of assets in the consolidated statements of operations. See “Note 7 – Property and Equipment” to our consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data".

On December 21, 2017, Shelf Drilling Asset III, Ltd, a subsidiary of SDHL, an indirect wholly owned subsidiary of SDL, entered into a $75.0 million senior secured credit facility (“SDA Facility”) which includes a $50.0 million guarantee line and a $25.0 million term loan facility. The SDA Facility matures on March 31, 2020. See Note 9 - Debt to our consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data".

In February 2018, we completed the issuance of $600.0 million of new 8.25% Senior Unsecured Notes due 2025 (the “8.25% Senior Unsecured Notes”). The proceeds were used to purchase and cancel the $502.8 million of 9.5% Senior Secured Notes and $30.4 million of $8.625% Senior Secured Notes. See Note 25 – Subsequent Events to our consolidated financial statements included in “Item 8. Financial Statements and Supplementary Data”.

History and development

As a result of the Acquisition, we acquired a total of 37 independent-leg cantilever jack-up drilling rigs and one swamp barge. The 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 the time of the Acquisition, 25 rigs were operated by Transocean under certain operating and transition services agreements. As of January 1, 2015, all rigs acquired in the Acquisition were operated by us.

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.

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. The 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. 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. We commissioned two highly customized “fit-for-purpose” newbuild rigs to be constructed 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. 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 were 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 December 31, 2017, we had 28 contracted rigs, 8 rigs marketable but uncontracted and 3 rigs stacked.

Operations

Our contract backlog as of December 31, 2017, 2016 and 2015 totaled approximately $1.4 billion, $1.7 billion, and $2.3 billion, with a weighted average backlog dayrate as of December 31, 2017, 2016 and 2015 of $83.2 thousand, $96.7 thousand and $99.4 thousand, respectively.

For the year ended December 31, 2017, the operational uptime performance of our fleet was 98.8% and we achieved a 0.25 total recordable incident rate. This compares to a fleet uptime performance of 98.7% and 98.6% for the years ended December 31, 2016 and 2015, respectively. The total recordable incident rate was 0.25 and 0.22 for the years ended December 31, 2016 and 2015, respectively.

Revenue is primarily generated by the dayrates for each rig pursuant to customer contracts. For the years ended December 31, 2017, 2016 and 2015, we had Adjusted Earnings Before Interest, Taxes, Depreciation and Amortization (“Adjusted EBITDA”) of $228.4 million, $289.8 million and $371.4 million, respectively. In general, seasonal factors do not have a significant effect on our business.

For additional information related to our revenues, profits and measures, see “Item 7. Management’s Discussion and Analysis of Financial Condition and Results of Operations”.

For a breakout of our revenues and long-lived assets by location, see Note 23 – Segment and Related Information to the consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data".

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

We believe 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. Also, the Middle East and India are characterized by what we believe to be comparatively low breakeven points for our customers and are dominated by national oil companies ("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 (including North Africa and Mediterranean) and India comprised $651.3 million, or 47.4%, and $162.9 million, or 11.9 %, of our contract backlog, respectively, as of December 31, 2017, and comprised $285.6 million, or 49.9 %, and $114.1 million, or 19.9%, of our revenues, respectively, for the year ended December 31, 2017.

Industry leading low cost structure, with high national content

We believe we operate with a significantly lower cost structure compared to our peers. 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 72% of our workforce as of December 31, 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 December 31, 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 $566.1 million across 28 major projects related to our original fleet, including the upgrade of nine rigs. In addition, we have constructed two newbuild rigs and, in 2017 we acquired three premium jack-up rigs. 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.

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 international oil companies ("IOCs"), including Saudi Aramco, ONGC, ADNOC, Chevron, ExxonMobil, Dubai Petroleum Establishment ("DPE") and TOTAL S.A. ("TOTAL"). 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 contribute to our contracting success and high fleet utilization. We have secured contracts and extensions with an aggregate value of more than

$5.2 billion since our inception and, for jack-up rigs, $3.5 billion since 2014, which we believe is more than any other contract drilling company added for jack-up rigs according to industry experts.

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.

Strategy

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" approach. 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 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. We believe jack-up rig market demand in our core operating regions of the Middle East, India, West Africa and Southeast Asia will grow moderately from 2017 to 2020. We expect the Middle East to be the main regional driver of jack-up rig demand increase in our core operating regions. We believe 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 2017.

As of December 31, 2017, we had 8 marketable but uncontracted rigs and 9 rigs that are completing their contracts in 2018. 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

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. 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. 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.

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, or TRIR, of 0.25 for year ended December 31, 2017, 54% below the average of the International Association of Drilling Contractors, or 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 competitors. 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 the flexibility to pursue different growth avenues, including attractive acquisition opportunities, such as our acquisition of three premium jack-up rigs in 2017.

Customer Contracts

Our drilling contracts are typically awarded on an individual basis and vary in terms and rates depending on the operational nature, duration, amount and type of equipment and services, geographic area, market conditions and other variables. Contracts terms range in length from the time necessary to drill or workover one well up to several years. The methods through which we pursue new business vary significantly. Small independent oil and natural gas companies are generally less likely to require formal tender processes, while NOCs are more likely to require participation in full tender exercises prior to awarding new contracts.

Our customer base comprises NOCs, IOCs and independent oil and gas companies including Saudi Aramco, ONGC, Chevron, Adnoc Offshore (previously Adma-Opco), TOTAL, DPE and ENI who contract our rigs for varying durations. We believe that our ability to maintain relationships with, and to win repeat business from, our existing customers is critical to our stability and growth of cash flows.

We believe that extending current contracts or entering into additional contracts with existing customers benefits both us and our customers. Advantages from our customers' perspective include: (i) rigs and crews are readily available on the work site, eliminating additional mobilization expense; (ii) the availability of existing equipment which meets customer specifications both operationally and from a safety perspective; and (iii) high degree of expectation that the previously utilized rig will continue to meet the customer's needs in that our employees are familiar with the customer's policies and procedures. Additionally, contract extensions, or entering into new contracts with existing customers, typically simplify contract negotiations and related legal and administrative requirements even during periods of intense price competition. We believe that these are important factors which provide competitive advantages in securing contracts.

If an existing customer fails to renew a contract, we must secure a new contract for that rig. In the year ended December 31, 2017, of the 16 contracts or extensions we entered into, nine represented renewals of contracts with the existing customer. Based on customer contracts in place as of December 31, 2017, nine are scheduled to expire before December 31, 2018, ten are scheduled to expire during 2019, with a further nine contracts scheduled to expire at times subsequent to December 31, 2019.

We seek to secure long-term agreements providing enhanced stability and deeper customer relationships rather than the highest possible dayrates on a shorter term basis. This has allowed us to achieve relatively high levels of fleet utilization compared to our competitors. As of December 31, 2017, the average remaining contract term was approximately 19.7 months per rig, with the shortest remaining contract term being approximately one month and the longest remaining contract term being 4.5 years. Typically, NOC contracts are for longer terms when compared to contracts with IOCs or independent exploration and production companies, although in certain countries annual government budget approval cycles may limit the tenor of these contracts.

A focus on providing services to customers engaged in development and workover activity on producing assets ("brownfield projects") also enhances contract term length. Such brownfield projects provide more predictable levels of activity, as opposed to exploration of unchartered territory, where mineral deposits are not already known to exist ("greenfield exploration"), which tends to be shorter term and more closely linked to prevailing commodity prices and success of exploration activities.

Generally, contracts for drilling services specify a basic rate of compensation computed on a dayrate basis with monthly invoicing and between 30 to 60 day payment terms. Reductions to the basic dayrate are triggered when operations are interrupted due to equipment failure, field moves, adverse weather and other factors beyond our control. Some contracts also provide for price adjustments tied to material changes in specific costs. Such reductions in basic dayrates, inactive periods between contracts and stacking of rigs will result in an adverse effect on revenues and operating profits. An over-supply of drilling rigs or lower demand for drilling rigs in markets in which we operate may adversely affect our ability to acquire contracts at favorable dayrates in those areas. The dayrates and new contracts (including extensions) reflected in recent contract activity are impacted by the current overall industry activity level and rig supply and demand. During periods of weak demand and reduced day rates, we have historically entered into contracts at lower day rates in order to keep our rigs working.

We may receive additional compensation or reimbursement for mechanical or structural alterations to a rig necessary to meet customer specifications and for mobilization costs necessary to relocate the vessel for contractual operations. The extent to which individual customers will pay for these costs is driven by negotiation of the individual contracts. Factors which influence these negotiated payments include the duration of the potential contract, the dayrate, local market conditions and other factors.

Customer contracts are subject to cancellation, suspension and delays for a variety of reasons, including some beyond our control. Dayrates set forth in this Filing are estimates based upon the full contract operating dayrate. However, actual dayrates earned over the course of any given contract are lower, and may be substantially lower, due to factors discussed above.

Certain customer contracts are cancellable upon payment of an early termination fee. These contracts may be terminated at the customers' convenience and sole option. The amount of these payments varies from contract to contract, and typically ranges from 50% to 100% of the dayrate multiplied by the number of firm contract days remaining on the contract. However, in certain contracts the customers may also have an early termination right by serving due advanced notice as stipulated in the contract, and typically in such instances the early termination fee could be lower. In certain cases, a portion of the termination payments can be recouped by the customer upon commencement of a subsequent drilling contract with a different operator. Customer contracts also customarily provide for either automatic termination or termination at the option of the customer for cause, typically without the payment of any termination fee. These options are available under pre-defined circumstances such as our non-performance or material breach to the contractual terms and conditions. Triggering events for early termination with cause include downtime, impaired performance due to equipment or operational issues, safety performance and sustained periods of downtime related to force majeure events. 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.

Our drilling contracts provide for varying levels of indemnification for both us and customers. We believe the terms of such indemnification are standard for the industry. In general, the parties assume liability for their respective personnel and property. However, in certain cases, 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 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 liability 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 which are within our control (e.g., diesel fuel or other fluids stored onboard for the use of the rig). However, all contracts are individually negotiated, and the degrees of indemnification and/or risk retention discussed above vary from contract to contract, based on negotiation. Local jurisdiction regulations may require us to post surety bonds, letters of credit and parent company guarantees for contract performance.

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.

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. 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 —"Variable Interest Entities" to our consolidated financial statements.

Our customer contracts and operations are subject to a number of additional risks and uncertainties; readers of this Filing should carefully review the discussion contained in "Item 1A. Risk Factors".

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.

We maintain an amount of insurance coverage which we believe is common in the industry and is sufficient to adequately mitigate the principal risks to our business, assets and employees. This coverage includes, but is not limited to: general business liability, hull and machinery, cargo, and casualty and liability (including excess 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. The drilling rig fleet is insured for its estimated fair market value and we periodically evaluate risk exposures, insurance limits and self-insured retentions. As of December 31, 2017, the insured value of our drilling rig fleet including the two newbuild rigs and acquired rigs was $2.0 billion.

As a condition of doing business with some of our customers, they may require minimum levels of insurance. We have had sufficient levels of insurance in place to satisfy such requirements and expect to maintain such required levels in the future. In common with most other companies in the industry, we do not carry business interruption insurance to compensate for loss of revenue in the event of loss or damage to our rigs.

The above description of our insurance program and the indemnification provisions of our drilling contracts is only a summary as of the time of preparation of this Filing, and is general in nature. Our insurance policies typically consist of twelve-month policy periods, and the next renewal date for a substantial portion of our insurance program is scheduled for November 2018.

Our insurance policies and contractual rights to indemnity may not adequately cover our losses and liabilities in all cases. For additional information, see "Item 1A. Risk Factors".

Employees

As of December 31, 2017, we had 1,929 employees, with 1,628 working offshore and 301 working onshore. In addition, we engaged 1,033 qualified contractors, of which 960 work offshore and 73 onshore. These employees and contractors have extensive technical, operational and management experience in the jack-up segment of the offshore drilling industry.

Approximately 87% of our employees and contractors comprise offshore rig crew members who carry out day-to-day drilling operations. Our offshore crews include supervisors as well as trained and competent technical specialists in the areas of drilling operations, safety, maintenance and marine support. Offshore crews typically work rotation schedules which vary according to jurisdiction and local practice with periods ranging from two weeks on / two weeks off up to four weeks on / four weeks off. The remaining 13% of our employees and contractors 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, health, safety, and environment ("HSE") and information technology to our customers and shallow water offshore rigs and crews.

The following table presents our employees and contractors by function as of December 31, 2017:

	Company employees	Contractors	Total
Rig-based	1,628	960	2,588
Shore-based	191	45	236
Corporate	110	28	138
Total	1,929	1,033	2,962

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 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 following table shows the employee mix in certain of our key markets as of December 31, 2017:

	National employees and contractors
Egypt	99.5%
India	99.2%
Nigeria	97.9%
All other operating regions	48.4%

Health, Safety and Environment

We place a high priority on managing the risks inherent in the offshore drilling industry and are committed to compliance with the highest national and international HSE standards. We utilize an integrated management system covering the quality, health, safety and environmental principles and objectives of our business, which is implemented throughout all offshore and onshore operations. This management system aims to provide innovative and sustainable solutions to monitor our HSE performance and continuously improve the necessary safeguards to protect our employees, assets, service providers and customers and to minimize our impact on the environment.

Health, safety and environmental obligations

We believe we are an industry leader in HSE due to a commitment to develop, promote and sustain a culture which operates in a manner true to our slogan “protect yourself, protect your team, protect your asset”. Senior management strives to provide strong, demonstrable leadership and commitment to HSE. Participation in specific meetings with staff and contractors, joint management inspection visits and regular HSE audits all encourage a strong focus on HSE in the workplace.

We have implemented comprehensive HSE processes, including Medical Evacuation Response Plans, Emergency Response Plans, a Corporate Operational Support Plan and a major emergency management and safety leadership training program (based on a focused training matrix). We believe we have put in place HSE policies, processes and systems which are in line with industry best practice. We track health, safety and environment performance and issues on a monthly basis by way of a monthly HSE report, tracking, trending and investigations which are stored in a safety data base designed by us named “HSE dashboard”.

We believe our HSE programs are reflective of best practices in the industry. During the year ended December 31, 2017, we had a total recordable incident rate of 0.25.

SDL, on behalf of all subsidiaries, is a member of the International Association of Drilling Contractors (“IADC”) and participates in its Incident Statistics Program.

Our operations are subject to numerous comprehensive environmental 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 ("IMO") 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, or the BWM Convention, may also impose 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 was entered into force on September 8, 2017. Upon the BWM Convention's entry into force, all vessels in international traffic are to comply with the ballast water exchange standard. Thereafter, vessels will be 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 where 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 in "Item 1A. Risk Factors".

Other regulations

Our operations are further subject to various other international conventions, laws and regulations in various countries, including those relating to the importation/exportation 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, or ("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.

Our organizational objective is to maintain its assets to provide optimal operating performance while minimizing out of service time and total capital expenditure.

Item 1A. Risk Factors

You should carefully consider the following risk factors in addition to the other information included in this Annual Report. Each of these risk factors could affect our business, operating results and financial condition, as well as affect an investment in our Company.

Risks Related to the Business

Our business depends on the level of activity in the shallow water offshore drilling industry, which is significantly affected by the volatile nature of the oil and natural gas exploration and production industry and will be adversely affected by a further decline in oil and gas prices.

The level of activity of the offshore oil and natural gas industry is cyclical, volatile and impacted by oil and natural gas prices. Sustained periods of low oil and natural gas prices typically result in reduced exploration and drilling because oil and natural gas 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 and natural gas industry would have a material adverse effect on the business, financial condition and results of our operations.

Oil and natural gas prices are unpredictable and are affected by numerous factors beyond our control, including the following:

- worldwide production and demand for oil and natural gas, which are impacted, amongst other factors, by changes in the rate of economic growth in the global economy;
- worldwide financial instability or recessions;
- the cost of exploring for, developing, producing and delivering oil and natural gas;
- 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;
- technical advances affecting energy consumption and in the development and exploitation of alternative fuels;
- the ability of the Organization of Petroleum Exporting Countries ("OPEC") to set and maintain production levels and pricing;
- the level of production in non-OPEC countries;
- local and international political, economic and weather conditions;
- 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 harm to the environment from such activities, including emission of carbon dioxide, a greenhouse gas;

• the policies and regulations of various governments regarding exploration and development of their oil and natural gas 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 has been historically competitive, cyclical and subject to price competition. If we are unable to compete successfully with our competitors, our profitability may be reduced.

The shallow-water drilling business in which we operate is extremely competitive, and contracts have traditionally been awarded on a competitive bid basis. Price competition is frequently a major factor in determining a contract award. Customers may also consider unit availability and location; operational and safety performance records; and condition and suitability of equipment. Competition for offshore rigs is frequently on a global basis, as drilling rigs are mobile and may be moved from areas of low utilization and dayrates to areas of greater activity and corresponding higher dayrates. Costs connected with relocating drilling rigs for these purposes are sometimes substantial. If we are not able to compete successfully with our competitors, our revenues and profitability may suffer.

The shallow water offshore contract drilling industry, historically, has been cyclical with periods of high demand, limited supply and high dayrates alternating with periods of low demand, excess supply and low dayrates. Competitors may move drilling rigs from region to region in response to changes in demand, which could result in an excess supply of rigs in the markets in which we operate. Periods of low demand and excess supply intensify competition in the industry and may result in some drilling rigs being stacked or earning substantially low dayrates for long 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. There can be no assurance when such periods will end. In addition, the offshore drilling industry is influenced by additional factors including:

• the availability of competing shallow water offshore drilling rigs;

• 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 offshore drilling.

Any of these factors, together with prolonged periods of low utilization and dayrates, as well as extended periods when rigs are stacked, could reduce demand for our services and materially adversely affect our business, financial condition or 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 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 or 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. Based on customer contracts in place as of December 31, 2017, nine are scheduled to expire before December 31, 2018, ten are scheduled to expire during 2019, with a further nine contracts scheduled to expire at times subsequent to December 31, 2019. While we actively market our rigs' availability prior to the expiry of a contract, there can be no assurance that we will 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 other geographical areas and could materially adversely affect our financial condition and results of operations.

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

The contract backlog relating to our drilling rigs was approximately $1.4 billion as of December 31, 2017. The amount of contract backlog does not necessarily indicate future earnings, and the backlog may be adjusted up or down depending on the 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, as in the case of termination resulting from force majeure), renegotiation of contract dayrates, failure by customers to extend existing contracts or to pay amounts owed or the unavailability of equipment to fulfill 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.

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 our future contracted revenue.

Our customer base includes a small number of major and independent oil and gas companies as well as government-owned oil companies. The contract drilling business is subject to the usual risks associated with having a limited number of customers. Our top three customers, who accounted for 79% of contract backlog as of December 31, 2017, also accounted for 69% of revenues for the year ended December 31, 2017. Our business, financial condition and results of operations could be materially and adversely affected if any of these customers were to suspend or withdraw their 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 failed to compensate us for our services, terminated contracts, failed to renew existing contracts or refuse to enter into new contracts with us, or if a customer were unable to perform due to liquidity or solvency issues, and similar contracts with new customers were not forthcoming, our business, financial condition and results of operations would be materially and adversely affected.

Upgrade, refurbishment and repair projects are subject to risks, including delays and cost overruns, which could have an adverse impact on our 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;
- 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 its 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. Our rigs undergoing upgrade, refurbishment or repair 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.

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 our 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 to customers, adversely impact our operations and revenues by resulting in uncompensated downtime, reduced day rates 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 industry downturn, 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 lead to a further reduction of our utilizations and dayrates. As a result, our business, financial condition and results of operations would be materially adversely affected.

Our rigs are on average 32 years old and some customers may prefer newer and/or higher specification rigs.

A number of our competitors' jack-up rigs 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 lower specification jack-up rigs like ours, which could have a material adverse effect on 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. Despite our belief that there are indications of an improving market for jack-up rig services, we observed continued pressure on dayrates in the markets in which we operate and experienced an increase in the number of idle rigs. As a result, we recorded a loss on impairment of assets of $34.8 million for the six months ended June 30, 2017. 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 break-even rates for extended periods of time until day rates 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.

For a description of non-cash impairment losses previously taken, see Note 7 - Property and Equipment to the consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data".

We are exposed to the credit risks of our key customers and certain other third parties.

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 December 31, 2017, our allowance for doubtful accounts was $2.5 million

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 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 risk 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. We may relocate a rig to another geographic market without a customer contract, which could result in costs not reimbursable by future customers. We also operate in regions impacted by monsoon seasons, which may create delays resulting in lower utilization rates and lost dayrate revenue. As such, mobilization and rig relocating activities could materially adversely affect our business, financial condition and results of operations.

Our business involves numerous operating hazards; insurance and contractual indemnity rights may not be adequate to cover any losses resulting therefrom.

Our operations are subject to the usual hazards inherent in the drilling, completion and operation of oil and natural gas wells. These hazards include, but are not limited to blowouts, reservoir damage, punch through, loss of production, loss of control of the well, abnormal drilling conditions, mechanical or technological failures, craterings, fires and pollution and failure of our employees to comply with internal HSE guidelines. We also operated 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 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 our 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 our operations, particularly through blowouts, oil spillage or extensive uncontrolled fires. We may also be subject to fines, penalties (for which indemnification may not be available) resulting from property, environmental, natural resource and other damage claims by governments, environmental organizations, oil and natural gas companies and other businesses operating offshore and in coastal areas, including claims by individuals living in or around coastal areas.

As is customary in the offshore drilling industry, the risks of our operations are covered partially by insurance and partially by contractual indemnities from our customers. However, insurance policies may not adequately cover losses and customers may not be financially able to indemnify us against all these risks. Also, we may not be able to enforce these indemnities due to legal or judicial factors. Additionally, in some customer contracts we are unable to obtain agreements which would fully indemnify us from such damages and risks. As a result, we may not have insurance coverage or indemnification for all risks. Moreover, pollution and environmental risks generally are not fully insurable. 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.

Our insurance coverage may become inadequate to cover losses, more expensive, and may become unavailable in the future.

Our insurance coverage is subject to certain significant deductibles and does not cover all types of losses and, in some situations, may not provide full coverage for losses or liabilities resulting from our operations. In common with other companies in the industry, we do not maintain business interruption insurance. We may experience increased costs for available insurance coverage, which may impose higher deductibles and limit maximum aggregated recoveries, including for hurricane or cyclone-related windstorm damage or loss. Insurance costs may increase in the event of ongoing patterns of adverse changes in weather or climate. Although we believe our insurance is adequate, our policies and contractual indemnity rights may not adequately cover all losses or may have exclusions of coverage for certain losses. We do not have insurance coverage or rights to indemnity for all risks. 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. These insurance related risks could adversely affect our business, financial condition and results of operations.

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

Part of our strategy to grow the business is dependent on our ability to successfully acquire and integrate additional rigs to generate further revenues. The consummation and timing 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, among other things, the risk of undetected defects, incorrect assumptions related to revenue in our evaluation, failing to integrate any acquired assets and operations successfully and timely and unforeseen consequences or other external events beyond our control.

If we were to reactivate speculatively any of our stacked rigs or commit speculatively to construct newbuild rigs, we could be exposed to a number of risks which could adversely affect our financial position, results of operations and cash flows.

If we were to reactivate speculatively any of the rigs which are currently stacked or any other rigs which may be stacked in the future, or to speculatively enter into construction contracts for newbuild rigs, we could be exposed to a number of risks. For example, the reactivation process is subject to project management and execution risks and newbuild projects are subject to the risks discussed below. In addition, if we were to reactivate a stacked rig or order a newbuild rig absent a firm customer contract for the rig, no assurance can be given that we would be able to negotiate a customer contract in a timely manner and on economically attractive terms. Failure to execute the reactivation project on time and on budget, as well as a failure to contract such rig or a newbuild rig on acceptable terms or in a timely manner could adversely affect our business, financial position and results of operations.

We may not be able to keep pace with technological developments and 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 approximately 32 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 materially adversely affect our business, financial condition and results of operations.

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

Our strategy to increase the size of our fleet could include the construction of newbuild rigs. The construction of newbuild rigs is 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 our customer;
- 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 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.

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.

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

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 offshore contract drilling industry, including competition from other 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 or results of operations.

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 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 our 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 works 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 our 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 the 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 our 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 adversely affect 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 foreign 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 also could 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 foreign entities to comply with certain laws and regulations concerning minimum local 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 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.

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 December 31, 2017, we had a total indebtedness of $840.6 million. This included $496.5 million of 9.5% Senior Secured Notes due November 2020 ("9.5% Senior Secured Notes"), $30.2 million of 8.625% Notes and $313.9 million in obligations under our sale and leaseback transactions. On February 7, 2018, SDHL completed the issuance of $600.0 million of new 8.25% Senior Unsecured Notes due 2025 ("8.25% Senior Unsecured Notes"). The net proceeds of $588.9 million, after $11.1 million of fees and expenses, of the 8.25% Senior Unsecured Notes were used to purchase and cancel or redeem $502.8 million of 9.5% Senior Secured Notes and $30.4 million of 8.625% Senior Secured Notes, or such notes redemption provisions. Our revolver has no cash borrowings outstanding and $12.3 million of surety bonds and guarantees issued. 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 restricted 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 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 crossdefault 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 are exposed to market risks, which could create the inability to secure financing on terms which are acceptable to management.

We are exposed to market risks from changes in interest rates under our obligations under the Revolving Credit Agreement, obligations under our sale and leaseback agreements and our SDA facility. Interest rates under theses financing arrangements are determined with reference to a specified margin above LIBOR. If market interest rates increase, this could have an adverse impact on our results of operations and cashflows. We have not entered into any hedging arrangements with respect to our interest rate exposure.

Our overall debt level and/or market conditions and also failure to make payments of interest on our outstanding indebtedness on a timely basis would 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. As a consequence, we may not be able to issue additional debt in reasonable amounts and terms. This could potentially limit our ability to pursue business opportunities.

To service and refinance our indebtedness, fund our capital and liquidity needs or pay dividends (if any), 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, fund our capital and liquidity needs or pay dividends (if any), 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, fund our capital and liquidity needs or pay dividends (if any), which would have a material adverse effect on us. As of December 31, 2017, our cash and cash equivalents was $84.6 million and we had $12.3 million of surety bonds issued and no borrowings under our revolver.

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 we may be exposed to political and other uncertainties, including risks of:

- terrorist acts, armed hostilities, geopolitical events, military actions, 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 the Strait of Malacca and West Africa, 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 its 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, our 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.

These factors 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.

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, or our service or equipment providers', security systems for protecting against cybersecurity breaches or failures prove 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 (or our customers') 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 (or our customers') 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 position and results of operations.

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 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 of 1973, as amended, or MARPOL, the International Convention on Civil Liability for Oil Pollution Damage of 1969, as amended, or CLC, the International Convention on Civil Liability for Bunker Oil Pollution Damage of 2001, as amended, or 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, or 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 life 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 business, 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.

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.

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 and adversely affect the market for our common shares. 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 are exposed to regulatory and enforcement risks regarding taxes. U.S. tax authorities may treat us as a passive foreign investment company, causing potential adverse U.S. federal tax consequences to U.S. holders.

For U.S. federal income tax purposes, a foreign corporation will be treated as a Passive Foreign Investment Company, or PFIC, if either (i) at least 75.0% of its gross income for any taxable year (including its proportionate share of the gross income of any other corporation in which it owns, directly or indirectly, 25% or more (by value) of such corporation's stock) consists of certain types of "passive" income or (ii) at least 50.0% of the average value of the corporation's assets (including its proportionate share of the assets of any other corporation in which it owns, directly or indirectly, 25% or more (by value) of such corporation's stock) either produce or are held for the production of those types of "passive" income. Passive income for these purposes includes certain rents and royalties, dividends, interest, net gains from the sale or exchange of investment property, and net gains from commodities and securities transactions. Passive income does not include income derived from the performance of services.

We believe that we will not be treated as a PFIC for any relevant period as any income we receive from offshore drilling service contracts should be treated as "services income" rather than as passive income under the PFIC rules. In addition, the assets we own and utilize to generate this "services income" should not be considered to be passive assets.

Although there is significant legal authority supporting our position, including relevant statutory provisions, legislative history, case law and various pronouncements from the United States Department of Internal Revenue ("IRS"), there is a possibility that the IRS may still characterize this income as "passive" income in light of a recent case characterizing income from the time chartering of vessels as rental income rather than services income for other tax purposes. However, the IRS has subsequently formally announced that it does not agree with the decision in that case. Despite this IRS announcement, no assurance can be given that the IRS or a relevant court will accept our position that we are not a PFIC.

If we were to be treated as a PFIC for any relevant period, our U.S. shareholders may face adverse U.S. tax consequences. Under the PFIC rules, a U.S. shareholder would be liable to pay U.S. federal income tax at the highest applicable rates on ordinary income upon the receipt of certain "excess" distributions and upon any gain from the disposition of our shares, plus certain interest and penalties. Although shareholders can make certain elections to mitigate the application of the PFIC rules, these elections can themselves cause other adverse tax consequences to the electing shareholder.

Any relevant change in tax laws, regulations, or treaties, and 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 our 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. Such changes may result in a materially higher effective tax rate on our worldwide earnings and could result in material changes to 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.

We are a Cayman corporation that operates through our many subsidiaries in various countries throughout the world. Our 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 our 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 and our earnings and cash flow from operations could be materially impacted.

Item 2. Properties

Drilling Fleet

Our drilling fleet consists of 38 Independent-leg cantilever design ("ILC") jack-up rigs, including our recent acquisition of three premium jack-up rigs and 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 grown our business by successfully reactivating five rigs and invested a total of $566.1 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.

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 added three premium jack-up drilling rigs and one Newbuild rig to our active fleet during the year ended December 31, 2017. The three premium jack-up drilling rigs, Shelf Drilling Resourceful, Shelf Drilling Tenacious and Shelf Drilling Mentor, were part of the three separate asset purchase agreements from a third party for $75.4 million each. These rigs have proven designs and reputable operating histories.

The Shelf Drilling Resourceful and Shelf Drilling Mentor rigs are a LeTourneau Super 116 design, capable of operating in water depths of up to 350 feet and for use in constructing wells with maximum drilling depth of 30,000 feet. The Shelf Drilling Tenacious rig is a Baker Marine Pacific Class 375 design, capable of operating in water depths of up to 375 feet and for use in constructing wells with maximum drilling depth of 30,000 feet. We have secured a two-year contract with Dubai Petroleum Establishment for each of the Shelf Drilling Mentor and Shelf Drilling Tenacious which commenced drilling operations in January 2018. The Shelf Drilling Resourceful started drilling operations with Chevron in March 2018 as a substitute for another Company owned rig.

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

We also own a heavy swamp barge which is capable of operating in shallow waters of up to 21 feet in depth. The swamp barge is used in shallow inland waters or swamp locations and is also equipped with a complete cantilever drilling package, including three mud pumps and self-contained living quarters for 100 personnel. Upon being towed to a drilling location, the hull is flooded with water until securely positioned on the sea bottom. Upon completion of the contract, the barge’s hull is pumped dry until the barge is afloat and ready to be towed to its next drilling location.

We manage our business across four core operating regions: the Middle East, India, West Africa and Southeast Asia. We own or lease office space and shore based facilities to support drilling operations in Indonesia, Malaysia, Vietnam, Singapore, Thailand, India, Egypt, Nigeria, Qatar, Bahrain, Italy, the UAE and Saudi Arabia.

The following table sets forth certain information concerning our rig fleet as of December 31, 2017:

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
Adriatic X	MLT 116-C	1982/2006	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
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	MLT 84-C Mod	1976/2004	300	25,000	Bahrain
Trident IX	Modec 400-C	1982/2009	400	21,000	Malaysia

Item 3. Legal Proceedings

Information regarding legal proceedings is set forth in Note 12 – “Commitments and Contingencies” to the consolidated financial statements included in "Item 8. Financial Statements and Supplementary Data".

Item 4. Mine Safety Disclosures

Not applicable.

PART II

Item 5. Market for Registrant’s Common Equity, Related Stockholder Matters and Issuer Purchases of Equity Securities

In April 2017, we 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. In connection with the Private Placement, we arranged for prices of our common shares to be quoted on the Norwegian over-the-counter (“OTC”) beginning on May 5, 2017 under the symbol “SHLF”. In connection with the Private Placement, the previously existing classes A, B, C and D ordinary shares were reclassified as a single class of 55,000,000 common shares. After the Private Placement, the total number of outstanding common shares was 83,125,000.

The Norwegian OTC is an over-the-counter quotation market whereby securities dealers can enter quotations to engage in voluntary trades. The Norwegian OTC is not a stock exchange. A limited number of trades in our common shares have been entered and as a result, only limited historical price information is available. On December 31, 2017, the last reported sale price of our common shares on the Norwegian OTC was 65 NOK per share, which was equivalent to approximately $7.9228 per share based on the Bloomberg Composite Rate of 8.2042 NOK to $1.00 in effect on that date.

The following table sets forth the high and low sale prices for our common shares as reported on the Norwegian OTC for the periods listed below. Share prices are presented in $ per common share based on the Bloomberg Composite Rate on each day of measurement.

	Norwegian OTC	
	High	Low
First quarter	N/A	N/A
Second quarter (beginning May 5, 2017)	8.9353	7.8245
Third quarter	8.4491	7.5911
Fourth quarter (through December 31, 2017)	7.9943	7.6094

The above over-the-counter market quotations reflect inter-dealer prices, without retail mark-up, mark-down or commission and may not necessarily represent actual transactions.

We have not paid any dividends on our common shares. Certain of our debt and preferred equity agreements contain limits to the payment of future dividends.

See “Note 9 – Debt”, “Note 16 – Mezzanine Equity” and “Note 18 – “Shareholders’ Equity” to our consolidated financial statements included in “Item 8. Financial Statements and Supplementary Data” for additional information.

Item 6. Selected Financial Data

The following table sets forth our selected financial data. This information should be read in connection with, and is qualified in its entirety by, the more detailed information in our financial statements included in Item 8 of this Annual Report.

	Years ended December 31,		
	2017	2016	2015
		(In thousands)	
Total revenues	$ 571,964	$ 684,317	$ 1,031,298
Operating income / (loss)	28,954	68,163	(68,321)
Net loss	(71,210)	(29,836)	(180,002)
Total debt [(1)]	840,600	1,053,721	877,756
Cash and cash equivalents	84,563	213,139	115,685
Property and equipment, net	1,249,990	1,030,676	944,633
Total assets	1,682,950	1,585,940	1,483,883
Loss per share [(2)]:			
Basic and Diluted - Common shares	$ (1.02)	$ -	$ -
Basic and Diluted - Class A shares	(10.79)	(66.99)	(403.12)
Basic and Diluted - Class B, C and D shares	-	-	-
Statement of cash flows data:			
Net cash provided by operating activities	$ 41,751	$ 136,532	$ 133,013
Net cash used in investing activities	(237,403)	(35,592)	(107,513)
Net cash provided by / (used in) financing activities	67,076	(3,486)	(861)

(1) Total debt consists of current maturities of long-term debt, long-term debt and current and non-current obligations under sale and leaseback.

(2) For the year ended December 31, 2017, the loss per share is 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 eight months ended December 31, 2017 for the common shares. See Note 22 – Loss Per Share.

Certain financial information of SDL and SDHL

The following tables present certain financial information for SDL and SDHL for the year ended December 31, 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.

December 31, 2017

Consolidated Statements of Operations for the year ended December 31, 2017

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.
		(In thousands)	
Revenues			
Operating revenues	$ 556,047	$ -	$ 556,047
Other revenue	15,917	-	15,917
	571,964	**-**	**571,964**
Operating costs and expenses			
Operating and maintenance	320,084	-	320,084
Depreciation	80,573	-	80,573
Amortization of deferred costs	64,664	-	64,664
General and administrative[(1)]	43,726	(2,539)	41,187
Loss on impairment of assets	34,802	-	34,802
Gain on disposal of assets	(839)	-	(839)
	543,010	**(2,539)**	**540,471**
Operating income	**28,954**	**2,539**	**31,493**
Other (expense) / income, net			
Interest income	1,062	-	1,062
Interest expense and financing charges[(2)]	(83,995)	1,824	(82,171)
Other, net	(2,969)	-	(2,969)
	(85,902)	**1,824**	**(84,078)**
Loss before income taxes	**(56,948)**	**4,363**	**(52,585)**
Income tax expense	14,262	-	14,262
Net loss	**$ (71,210)**	**$ 4,363**	**$ (66,847)**
Preferred dividend[(3)]	(17,041)	17,041	-
Net loss attributable to common shares	**$ (88,251)**	**$ 21,404**	**$ (66,847)**

(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 year ended December 31, 2017. Of the $17.0 million adjustment, $9.6 million was paid in cash and $7.4 million was accrued.

Consolidated Balance Sheets as of December 31, 2017

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.
		(In thousands)	
Assets			
Cash and cash equivalents	$ 84,563	$ (55)	$ 84,508
Accounts and other receivables, net(1)	137,785	5,390	143,175
Other current assets(2)	96,960	(3,669)	93,291
Total current assets	319,308	1,666	320,974
Property and equipment	1,620,830	-	1,620,830
Less accumulated depreciation	370,840	-	370,840
Property and equipment, net	1,249,990	-	1,249,990
Deferred tax assets	1,321	-	1,321
Other assets	112,331	-	112,331
Total assets	**$ 1,682,950**	**$ $1,666**	**$ 1,684,616**
Liabilities and equity			
Accounts payable(3)	$ 95,098	$ (335)	$ 94,763
Accrued income taxes	4,822	-	4,822
Interest payable	8,399	-	8,399
Obligations under sale and leaseback	35,115	-	35,115
Current maturities of long-term debt	30,167	-	30,167
Other current liabilities(4)	36,681	(7,405)	29,276
Total current liabilities	210,282	(7,740)	202,542
Long-term debt	496,503	-	496,503
Obligations under sale and leaseback	278,815	-	278,815
Deferred tax liabilities	4,407	-	4,407
Other long-term liabilities	17,719	-	17,719
Total long-term liabilities	797,444	-	797,444
Mezzanine equity, net of issuance costs(5)	165,978	(165,978)	-
Commitments and contingencies			
Common shares(6)	831	(831)	-
Additional paid-in capital(7)	663,090	88,684	751,774
Accumulated losses(8)	(154,675)	87,531	(67,144)
Total equity	509,246	175,384	684,630
Total liabilities and equity	**$ 1,682,950**	**$ 1,666**	**$ 1,684,616**

(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 Consolidated Statements of Operations for the year ended December 31, 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.

Consolidated Statements of Cash flows for year ended December 31, 2017

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.
		(In thousands)	
Cash flows from operating activities			
Net loss	$ (71,210)	$ 4,363	$ (66,847)
Adjustments to reconcile net loss to net cash provided by operating activities			
Depreciation	80,573	-	80,573
Loss on impairment of assets	34,802	-	34,802
Gain on foreign currency forward exchange contracts	(238)	-	(238)
Amortization of deferred revenue	(15,254)	-	(15,254)
Reversal of provision for doubtful accounts, net	(5,444)	-	(5,444)
Share-based compensation expense, net of forfeitures / Capital contribution by Parent share-based compensation	842	-	842
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	3,705	(133)	3,572
Gain on disposal of assets	(839)	-	(839)
Deferred tax benefit	(2,302)	-	(2,302)
Proceeds from settlement of foreign currency forward exchange contracts	238	-	238
Changes in deferred costs, net	2,232	-	2,232
Changes in operating assets and liabilities			
Intercompany receivables[(2)]	-	40,830	40,830
Other operating assets and liabilities, net[(3)]	20,775	11,914	32,689
Net cash provided by operating activities	41,751	70,598	112,349
Cash flows from investing activities		-	
Additions to property and equipment	(253,834)	-	(253,834)
Proceeds from disposal of property and equipment	5,557	-	5,557
Proceeds from sale and leaseback	16,880	-	16,880
Change in restricted cash	(6,006)	-	(6,006)
Net cash used in investing activities	(237,403)	-	(237,403)
Cash flows from financing activities			
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	(24,829)	-	(24,829)
Payments to retire long-term debt[(1)]	(103,750)	75,250	(28,500)
Payments of debt issuance costs	(11,223)	-	(11,223)
Preferred shares dividend paid	(9,635)	9,635	-
Ordinary shares dividend paid[(5)]	-	(53,992)	(53,992)
Net cash provided by financing activities	67,076	29,380	96,456
Net decrease in cash and cash equivalents	(128,576)	99,978	(28,598)
Cash and cash equivalents at beginning of year	213,139	(100,033)	113,106
Cash and cash equivalents at end of year	**$ 84,563**	**$ (55)**	**$ 84,508**

(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 9.5% 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) settle the intercompany payable to SDHL, (ii) facilitate the Midco interest payment, and (iii) 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 (In thousands)	Shelf Drilling Holdings, Ltd.
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 the 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.

Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is intended to assist you in understanding our financial position as of December 31, 2017 and 2016. You should read the accompanying consolidated financial statements and related notes in conjunction with this discussion.

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.

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.

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".

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 "Item 1. 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 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 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 "Item 1. 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 "Item 1. 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.

As of December 31, 2017, of our 39 rigs, 35 were marketable (of which 27 were under contract and eight were actively being marketed), one rig was under bareboat charter and three rigs were stacked. We currently have no near term plans to reactivate the stacked rigs. In 2017, we have sold one stacked rig to a third party.

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."

The following table lists contract backlogs for our drilling fleet as of December 31, 2013 through 2017:

	As of December 31,				
	2013	2014	2015	2016	2017
Total contract backlog (1) *(in millions)*	$2,091	$3,162	$2,346	$1,743	$1,374
Weighted average backlog dayrate (2) *(in thousands)*	$111.1	$123.8	$99.4	$96.7	$83.2
Average contract days per rig	537	690	762	721	590
Number of contracted rigs (3)	35	37	31	25	28

(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 rig under non-drilling contracts.

The following table sets out the future years which the contract backlog relates to, as of December 31, 2017, and assumes no exercise of extension options or renegotiations under our current contracts:

	2018	2019	2020	Thereafter	Total as of December 31, 2017
Total contract backlog *(in millions)*	$ 623	$ 414	$ 192	$ 145	$ 1,374

The table below sets out our drilling fleet uptime, total recordable incident rate, marketed utilization, average earned dayrate and marketable rigs for the years ended December 31, 2013 through 2017:

	Years ended December 31,				
	2013	2014	2015	2016	2017
Uptime (%)	98.9%	98.5%	98.6%	98.7%	98.8%
Total Recordable Incident Rate	0.69	0.48	0.22	0.25	0.25
IADC Average TRIR (1)	0.81	0.75	0.60	0.46	0.54
Marketed Utilization (%)	91%	89%	72%	74%	62%
Average dayrate *(in thousands)*	$ 102.7	$ 111.0	$ 104.3	$ 75.2	$ 70.4
Average marketable rigs	32.7	34.6	34.5	31.2	33.2

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 generally accepted accounting principles ("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.

In addition, important factors which could cause actual operations or financial conditions to differ materially from those expressed or implied below include, but are not limited to, factors described in this document under "Item 1A. Risk Factors" and "Item 7A. Quantitative and Qualitative Disclosures About Market Risks".

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

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 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 years ended December 31, 2017, 2016 and 2015 were as follows:

	Years ended December 31,		
	2017	2016	2015
		(In thousands)	
Net loss	$ (71,210)	$ (29,836)	$ (180,002)
Add back:			
Interest expense and financing charges, net of interest income (1)	82,933	79,764	80,435
Income tax expense	14,262	19,757	30,373
Depreciation	80,573	71,780	87,421
Amortization of deferred costs	64,664	91,763	80,984
Loss on impairment of assets	34,802	47,094	271,469
(Gain) / loss on disposal of assets	(839)	4,826	11,299
Amortization of drilling contract intangibles (2)	-	-	(983)
EBITDA	$ 205,185	$ 285,148	$ 380,996
Sponsors' fee (3)	4,500	4,500	4,500
Share-based compensation expense, net of forfeitures	842	179	638
Acquired rig reactivation costs (4)	17,828	-	4,185
Gain on insurance recovery, net of rig relocation costs (5)	-	-	(18,984)
Start-up costs (6)	-	-	59
Adjusted EBITDA	$ 228,355	$ 289,827	$ 371,394
Adjusted EBITDA margin	39.9%	42.4%	36.0%

(1) Represent interest expenses incurred and accrued on our debt and the amortization of debt issuance fees and costs over the term of the debt net of capitalized interest and interest income. This also includes the loss on debt extinguishment in relation to the refinancing of our debt during in Q1 2017.

(2) Represents the amortization of the fair market value of existing drilling service contracts at the time of the initial acquisition.

(3) Represent the fee to the sponsors in respect of their role as advisors to us.

(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) 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.

(6) 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.

For the years ended December 31, 2017, 2016 and 2015, the Company's unrestricted subsidiaries accounted for $52.8 million (23.1%), $4.8 million (1.7%) and $(0.3) million (0.1%), respectively, of the Company's Adjusted EBITDA. As of December 31, 2017 and 2016, the Company's unrestricted subsidiaries had assets of $654.5 million, representing 38.9%, and $402.9 million, representing 25.4%, of the Company's total assets, respectively. SDHL has agreed to cause its subsidiary, SDAIII, which holds two newly acquired rigs, to guarantee the 8.25% Senior Unsecured Notes due 2025 by February 2019. Assuming that SDAIII's guarantee was in effect on December 31, 2017, the unrestricted subsidiaries would have accounted for $487.4 million, or 29.0%, of our total assets.

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 $65.78 per barrel on March 5, 2018, is a key driver of exploration, development and production activity by our customers.

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

While price competition among offshore drilling contractors remains intense, the global number of contracted jack-up rigs has begun to increase, growing by 5% from January 2017 to December 2017. Further, there has been a significant rise in tendering activity in 2017 compared to 2016, which has the potential to result in a continued increase in the global number of contracted rigs. We experienced an increase in market and tender inquiries from our customers in 2017, particularly in the Middle East and other key markets. Oil and gas companies have expressed a high interest in 2017 in increasing their drilling activity in our core operating regions. We believe that we will be well-positioned to benefit from any increase in demand for jack-up rig services due to our operating track record and competitive low cost structure.

As of December 31, 2017, our contract backlog was $1.4 billion across 28 contracted rigs. During the year ended December 31, 2017, we entered into a total of 16 contracts resulting from new business, contract extensions, and exercised options, for a total of 17.5 rig years. We remain focused on delivering safe and efficient operations, as well as realizing cost savings and efficiency gains across all levels of the organization.

Results of Operations

Year ended December 31, 2017 compared to the year ended December 31, 2016

	Years ended December 31,			
	2017	**2016**	**Change**	**% change**
	(In thousands except percentages)			
Revenues				
Operating revenues	$ 556,047	$ 668,649	$ (112,602)	-17%
Other revenue	15,917	15,668	249	2%
	571,964	684,317	(112,353)	-16%
Operating costs and expenses				
Operating and maintenance	320,084	353,802	(33,718)	-10%
Depreciation	80,573	71,780	8,793	12%
Amortization of deferred costs	64,664	91,763	(27,099)	-30%
General and administrative	43,726	46,889	(3,163)	-7%
Loss on impairment of assets	34,802	47,094	(12,292)	-26%
(Gain) / loss on disposal of assets	(839)	4,826	(5,665)	-117%
	543,010	616,154	(73,144)	-12%
Operating income	28,954	68,163	(39,209)	-58%
Other (expense) / income, net				
Interest income	1,062	356	706	198%
Interest expense and financing charges	(83,995)	(80,120)	(3,875)	5%
Other, net	(2,969)	1,522	(4,491)	-295%
	(85,902)	(78,242)	(7,660)	10%
Loss before income taxes	(56,948)	(10,079)	(46,869)	465%
Income tax expense	14,262	19,757	(5,495)	-28%
Net loss	$ (71,210)	$ (29,836)	$ (41,374)	139%

Revenues

Total revenue for 2017 was $572.0 million compared to $684.3 million for 2016. Revenue for 2017 consisted of $556.1 million (97.2 %) of operating revenue and $15.9 million (2.8%) of other revenue. In 2016, these same revenues were $668.6 million (97.7%) and $15.7 million (2.3%), respectively.

Revenue for 2017 decreased by $112.3 million compared to the same period in 2016 primarily due to $95.4 million lower average earned dayrates ($70.4 thousand in 2017 compared to $75.2 thousand in 2016), $86.8 million lower marketed utilization (62% in 2017 compared to 74% in 2016), $6.8 million lower revenue related to contract termination fees and $5.8 million lower other revenue in 2017. This was partly offset by $82.5 million higher operating revenue due to the operations of the two newbuilds.

Marketed utilization for 2017 of 62% was lower than the marketed utilization for 2016 of 74% mainly due to the higher number of rigs in shipyards and undergoing contract preparation during 2017. There were 12 rigs for 848 days in shipyard undergoing contract preparation during the year ended December 31, 2017, compared with 10 rigs for 555 days during the year ended December 31, 2016.

Operating and maintenance expenses

Total operating and maintenance expenses for 2017 were $320.1 million, or 56.0% of total revenue, compared to $353.8 million, or 51.7% of total revenue, in 2016. Operating and maintenance expenses in 2017 consisted of $286.9 million rig-related expenses and $33.2 million shore-based expenses. In 2016, these expenses were $317.3 million and $36.5 million, respectively.

During 2017, rig-related expenses included $162.5 million for personnel expenses, $99.0 million for rig maintenance expenses and $25.4 million for other rig-related expenses. This compares to $188.7 million, $95.0 million and $33.6 million for those respective categories during 2016. Compared to 2016, the decrease in rig-related expenses of $30.4 million was due to $36.8 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 and insurance expenses, $5.2 million lower maintenance and shipyard expenses and $3.4 million lower other costs. This was partly offset by $18.4 million of increased costs related to the two newbuild rigs which started their contracts in December 2016 and June 2017, respectively, and $18.6 million of costs for the three premium jack-up drilling rigs acquired in 2017.

There were $3.3 million of cost savings across local shore-based offices (an 9.0% decrease from 2016), primarily attributable to headcount reductions and cost restructuring throughout 2016 due to the reduction in rig activity.

Depreciation expense

Depreciation expense in 2017 was $80.6 million compared to $71.8 million in 2016. The increase of $8.8 million mainly related to $10.7 million of higher depreciation of the two newbuild rigs which were placed into service in December 2016 and June 2017, respectively, and $5.2 million of higher depreciation on the three acquired premium jack-up rigs, partly offset by $7.0 million of lower depreciation on drilling rigs and equipment which were impaired in December 2016 and June 2017.

Amortization of deferred costs

The amortization of deferred costs in 2017 was $64.7 million compared to $91.8 million in 2016. The $27.1 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 in 2017 were $43.7 million compared to $46.9 million in 2016. The $3.2 million decrease in general and administrative expenses resulted from $5.0 million of lower net releases of provision for doubtful accounts in 2017, partly offset by $1.8 million of higher other costs.

Loss on impairment of assets

Loss on impairment of assets was $34.8 million in 2017 compared to $47.1 million in 2016, on four and three of our rigs, respectively, out of which one rig in each year in 2017 and 2016 was impaired to salvage value. The impairment loss in 2017 was recorded in the second quarter in 2017 as a result of crude oil prices further declining, continued pressure on market dayrates and an increase in the number of idle rigs.

(Gain) / loss on disposal of assets

(Gain) / loss on disposal of assets was ($0.8) million and $4.8 million in 2017 and 2016, respectively. The $5.6 million decrease in loss on disposal of assets primarily resulted from the $2.7 million gain on disposal of one stacked rig in 2017 and $2.9 million lower losses on disposal and sale of other capital equipment in 2017 as compared to 2016.

Other (expense) / income, net

Other (expense) / income, net was an expense of $85.9 million in 2017 and $78.2 million in 2016. Other expense consisted primarily of interest expense and financing charges of $84.0 million and $80.1 million during 2017 and 2016, respectively. Interest expense and financing charges in 2017 were $3.9 million higher compared to 2016 due to the $14.2 million loss on debt extinguishment associated with the refinancing of our debt, $12.3 million lower capitalized interest and $7.3 million higher interest expense on the sale and leaseback financing facility. This was mostly offset by the $29.9 million of lower interest on our debt, primarily resulting from the full settlement in January 2017 of the $350.0 million Midco term loan.

The loss on debt extinguishment in 2017 of $14.2 million included the $15.2 million write-off of unamortized debt issuance costs, $5.7 million of incentive fees paid to bondholders and $4.1 million legal fees, partly offset by the $10.8 million gross settlement gain on the term loan.

Also included in the Other (expense) / income, net is Other, net which was an expense of $3.0 million in 2017 compared to $1.5 million of income in 2016. The difference of $4.5 million was mainly due to increased foreign currency exchange losses in 2017. The interest income of $1.1 million during 2017 also increased by $0.7 million compared to 2016 primarily due to higher interest rates in 2017.

Income tax expense

Income tax expense in 2017 was $14.3 million compared to $19.8 million 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 in 2017 is lower than 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 are recoverable 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 the year ended December 31, 2015

	Years ended December 31, 2016	Years ended December 31, 2015	Change	% change
	(In thousands except percentages)			
Revenues				
Operating revenues	$ 668,649	$ 1,012,757	$ (344,108)	-34%
Other revenue	15,668	18,541	(2,873)	-15%
	684,317	1,031,298	(346,981)	-34%
Operating costs and expenses				
Operating and maintenance	353,802	534,156	(180,354)	-34%
Depreciation	71,780	87,421	(15,641)	-18%
Amortization of deferred costs	91,763	80,984	10,779	13%
General and administrative	46,889	139,722	(92,833)	-66%
Loss on impairment of assets	47,094	271,469	(224,375)	-83%
Loss on disposal of assets	4,826	11,299	(6,473)	-57%
Gain on insurance recovery	-	(25,432)	25,432	-100%
	616,154	1,099,619	(483,465)	-44%
Operating income / (loss)	68,163	(68,321)	136,484	-200%
Other (expense) / income, net				
Interest income	356	102	254	249%
Interest expense and financing charges	(80,120)	(80,537)	417	-1%
Other, net	1,522	(873)	2,395	-274%
	(78,242)	(81,308)	3,066	-4%
Loss before income taxes	(10,079)	(149,629)	139,550	-93%
Income tax expense	19,757	30,373	(10,616)	-35%
Net loss	$ (29,836)	$ (180,002)	$ 150,166	-83%

Revenues

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

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 (expense) / income, net

Other (expense) / income, net was an expense of $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 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 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 capital expenditures and deferred costs payments, repayment of long term debt, debt issuance costs payments, and interest and income tax payments.

We had $84.6 million and $113.1 million in cash and cash equivalents as of December 31, 2017 and 2016, respectively. Under the SDHL Revolver, we had $12.3 million and $28.5 million of surety bonds issued as of December 31, 2017 and 2016, respectively. In addition, there were no cash borrowings under the SDHL Revolver or the SDA Facility during the same periods.

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

At any given time, we may require a significant portion of cash on hand and amounts available under the SDHL Revolver and the SDA Facility 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.

Detailed explanations of our liquidity and capital resources for the years ended December 31, 2017, 2016 and 2015 are given below.

Discussion of Cash flows

2017 compared to 2016

The following table sets out certain information regarding our cash flow statements for the years ended December 31, 2017 and 2016:

	Years ended December 31,	
	2017	2016
	(In thousands)	
Net cash provided by operating activities	$ 41,751	$ 136,532
Net cash used in investing activities	(237,403)	(35,592)
Net cash provided by / (used in) financing activities	67,076	(3,486)
Net (decrease) / increase in cash and cash equivalents	$ (128,576)	$ 97,454

Net cash provided by operating activities

Net cash provided by operating activities totalled $41.8 million in 2017 compared to $136.5 million in 2016. The decrease of $94.7 million was primarily due to the cash payments associated with our debt refinancing and the overall decline in our drilling business activity. See discussion of revenue in "—Results of operations—Revenue."

During the years ended December 31, 2017 and 2016, we made cash payments of $77.4 million and $73.0 million in interest and financing charges, respectively, net of interest amounts capitalized of $2.5 million and $10.7 million in relation to our Newbuilds rig construction, respectively, included under "other operating assets and liabilities, net". The amounts for capitalized interest are included in cash used in investing activities as capital expenditures.

We also made cash payments of $18.2 million and $26.1 million in income taxes included under "other operating assets and liabilities, net" during the years ended December 31, 2017 and 2016, respectively. The decrease of $7.9 million in 2017 compared to 2016 is primarily due to reduced revenue in 2017 as compared to 2016.

Net cash used in investing activities

Net cash used in investing activities for 2017 totalled $237.4 million compared to $35.6 million in 2016. Our primary use of cash for investing activities in 2017 included $253.8 million of additions to property and equipment and a $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, amounted to $253.8 million in 2017 and $53.5 million in 2016. The increase of $200.3 million in 2017 compared to 2016 is primarily attributable to the $234.0 million for the purchase and preparation for deployment of the three-premium jack-up drilling rigs, partly offset by the lower expenditures on the Newbuilds and reduced capital spending initiatives across the fleet during 2017.

As part of the sale and leaseback transactions, contractual commitment payments totalling $74.1 million and $148.1 million were paid by the third party financial institutions directly to the shipyard constructing the rigs and $3.1 million and $6.8 million of interest in kind was recorded as capitalized interest and obligations under sale and leaseback in 2017 and 2016, respectively. These non-cash transactions were not reflected on the consolidated statements of cash flows for the years ended December 31, 2017 and 2016.

See "—Liquidity and capital resources—Sources and uses of liquidity—Capital expenditures and deferred costs" for more information.

Net cash provided by / (used in) financing activities

Net cash provided by financing activities totalled $67.1 million in 2017 compared to net cash used in financing activities of $3.5 million in 2016.

In April 2017, we 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 used to acquire the three premium jack-up drilling rigs from Seadrill for $75.4 million each. 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 to certain of the sponsors and $86.8 million 9.5% Notes (as defined herein) were issued for the full settlement of the Midco term loan, and $416.1 million 8.625% Notes were cancelled in exchange for 9.5% Notes. As a result, we issued a total of $502.8 million 9.5% Notes during 2017. These non-cash transactions were not reflected on the consolidated statement of cash flows for 2017.

During the year ended December 31, 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 consolidated statement of operations.

During the year ended December 31, 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.

We made rental payments to the Lessor of $37.2 million and $2.7 million, of which $24.8 million and $1.8 million was related to principal payments during the years ended December 31, 2017 and December 31, 2016, respectively, for the Newbuild rigs which entered into capital leases in December 2016 and June 2017, respectively.

2016 compared to 2015

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.

See "—Liquidity and capital resources—Sources and uses of liquidity—Capital expenditures and deferred costs" for more information.

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.

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, 2017, 2016 and 2015:

	Years ended December 31,		
	2017	2016	2015
	(In thousands)		
Regulatory and capital maintenance (1)	$ 35,018	$ 37,960	$ 127,695
Contract preparation (2)	13,741	22,353	65,232
Fleet spares and other (3)	2,976	6,964	11,646
Reactivation projects (4)	-	-	23,372
	51,735	67,277	227,945
Rig acquisitions (5)	253,230	-	-
Newbuilds (6)	92,161	190,035	95,254
Total capital expenditures and deferred costs	$ 397,126	$ 257,312	$ 323,199

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

(6) 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.

Capital expenditures and deferred costs increased by $139.8 million in 2017 compared to 2016 mainly due to $253.2 million related to the acquisition of three premium jack-up drilling rigs. This was partly offset by the decrease of $97.8 million attributable to the two Newbuild rigs under construction, from $190.0 million in 2016 to $92.2 million in 2017, and a $15.6 million decline in other capital expenditures and deferred costs from $67.3 million in 2016 to $51.7 million in 2017 mainly due to a $8.6 million reduction in contract preparation expenditure in 2017 and a $3.0 million reduction in regulatory and capital maintenance associated with the reduction in activity. A decrease in our total capital expenditures and deferred costs can also be noted in 2016 compared to 2015. 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.

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, 2017, 2016 and 2015:

	Years ended December 31,		
	2017	2016	2015
		(In thousands)	
Cash payments for additions to property and equipment	$ 253,834	$ 53,541	$ 157,193
Net change in accrued but unpaid additions to property and equipment	4,578	(5,080)	(60,034)
	$ 258,412	$ 48,461	$ 97,159
Asset addition related to sale and leaseback transactions	76,282	154,306	74,703
Total capital expenditures	$ 334,694	$ 202,767	$ 171,862
Changes in deferred costs, net	$ (2,232)	$ (37,218)	$ 70,353
Amortization of deferred costs	64,664	91,763	80,984
Total deferred costs	$ 62,432	$ 54,545	$ 151,337
Total capital expenditures and deferred costs	$ 397,126	$ 257,312	$ 323,199

Our existing indebtedness

As of December 31, 2017, we had a total indebtedness of $840.6 million. This amount included: $496.5 million of 9.5% Notes, $30.2 million of 8.625% Notes and $313.9 million in obligations under our sale and leaseback transactions. Our revolver and the SDA Facility were undrawn as of December 31, 2017.

2017 Debt refinancing and issuances

On January 12, 2017, we completed the refinancing of our debt facilities. We fully settled the $350 million Midco Term Loan for an aggregate consideration of $339.2 million, which included the issuance of $166.7 million of SDL Preferred Shares to certain equity Sponsors. In addition, SDHL completed the issuance and sale of $502.8 million aggregate principal amount of the 9.5% Senior Secured Notes. The 9.5% Senior Secured 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, we had reduced our 2018 debt maturities from $825.0 million to $30.4 million.

We also reduced the SDHL Revolver facility amount from $200.0 million to $160.0 million and extended the maturity date for two years until April 30, 2020.

We pay interest on the 9.5% Senior Secured Notes semi-annually on May 1 and November 1 of each year, which began accruing on January 12, 2017.

See also Note 9—"Debt" to our Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data".

Credit Facilities

On April 26, 2017, Shelf Drilling Egypt Limited, one of our wholly owned subsidiaries, entered into an equivalent of $5.0 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. As of December 31, 2017, there were no amounts outstanding under the overdraft 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 two of the recently acquired premium jackup drilling rigs. The SDA Facility matures on March 31, 2020. As of December 31, 2017, there were no borrowings or outstanding bank guarantees under the uncommitted guarantee line.

Certain of our indebtedness, including our SDHL revolver, impose significant operating and/or financial restrictions on us. As of December 31, 2017, there was no cash drawdown and $12.3 million of surety bonds were outstanding on the SDHL Revolver.

See Note 9—"Debt" to our Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data".

2018 Debt issuance, tender offer and redemption

In February 2018, we completed the issuance of $600.0 million of new 8.25% Senior Unsecured Notes due 2025. The proceeds were used to purchase and cancel the $502.8 million of 9.5% Senior Secured Notes and $30.4 million of $8.625% Senior Secured Notes.

See Note 25—"Subsequent Events" to our Consolidated Financial Statements "Item 8. Financial Statements and Supplementary Data".

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 December 31, 2017 for the referenced years:

	Years ended December 31,						
	2018	2019	2020	2021	2022	Thereafter	Total
	(In thousands)						
Debt repayment (1)	$ 30,415	$ -	$502,835	$ -	$ -	$ -	$ 533,250
Interest on debt (2)	52,532	50,355	40,646	-	-	-	143,533
Sale and lease back obligations (3)	52,884	51,743	49,857	129,492	94,057	-	378,033
Operating leases and other commitments	13,512	2,853	1,021	824	374	-	18,584
Total	$ 149,343	$ 104,951	$ 594,359	$ 130,316	$ 94,431	$ -	$1,073,400

(1) Debt includes of 8.625% Notes and 9.5% 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 December 31, 2017.

Other Commercial Commitments

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

We have surety bond facilities in either U.S. dollars or local currencies of approximately $103.5 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 $53.6 million and $33.3 million as of December 31, 2017 and 2016, respectively.

The Company also has a $50.0 million uncommitted guarantee facility included in the SDA facility. As of December 31, 2017, there was no outstanding bank guarantees under the uncommitted guarantee facility.

In addition, we had outstanding bank guarantees and performance bonds amounting to $12.3 million and $28.5 million as of December 31, 2017 and 2016, respectively, against the SDHL Revolver.

Therefore, the total outstanding bank guarantees and surety bonds issued by us were $65.9 million and $61.8 million as of December 31, 2017 and 2016, respectively.

As of December 31, 2017, these obligations stated in U.S. dollar equivalent and their expiration dates were as follows:

	Years ended December 31,					
	2018	2019	2020	2021	Thereafter	Total
	(In thousands)					
Surety bonds and other guarantees	$ 32,236	$ 10,863	$ 7,008	$ 15,771	$ -	$ 65,878

Off Balance Sheet Arrangements

Contingent liabilities

As of December 31, 2017, we are not exposed to any contingent liabilities that will result in a material adverse effect on the current consolidated financial position, results of operations or cash flows. The majority of the contingent liabilities that we are exposed to, relate to legal and tax cases, which are fully indemnified by the Seller.

See Note 9—"Income Taxes" and Note 13—"Commitments and Contingencies" to our Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data".

Derivative Instruments

The Board has approved policies and procedures for derivative instruments that require the approval of our Chief Financial Officer prior to entering into any derivative instruments. From time to time, we may choose to enter into a variety of derivative instruments in connection with the management of our exposure to fluctuations in interest rates and currency exchange rates. We do not enter into derivative transactions for speculative purposes; however, we may enter into certain transactions that do not meet the criteria for hedge accounting.

Off-balance Sheet Financing

We had no off-balance sheet arrangements during the years ended December 31, 2017 and December 31, 2016.

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.

We identify our critical accounting policies as those that are significant to our results of operations, financial condition and cash flows and that require management's most difficult, subjective or complex judgements in matters that are inherently uncertain. We believe that our more critical accounting policies include revenue recognition, property and equipment, operating and deferred costs, share-based compensation, derivative financial instruments and fair value.

Our significant accounting policies are included in Note 2—"Significant Accounting Policies" to our Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data".

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 fulfil the contract obligations.

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 Acquisition were 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 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 7—"Property and Equipment" to our Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data".

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 applicable 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 modelling 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), or 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.

Recently Issued and Recently Adopted Accounting Standards

See Note 3 – New Accounting Pronouncements” to the consolidated financial statements included in “Item 8. Financial Statements and Supplementary Data” for a discussion of recently adopted and issued accounting pronouncements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risks

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 9.5% Notes, 8.625% Notes and variable rate debts under our revolver, the SDA facility, preferred shares 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. Based upon variable-rate obligations outstanding as of December 31, 2017, a hypothetical one percentage point change in annual interest rates could result in a corresponding change in annual interest expense of approximately $4.8 million.

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 material 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 forex contracts to manage foreign exchange risk, for which we maintain documented policy and procedures to monitor and control the use of the derivative instruments. We are not engaged in derivative transactions for speculative or trading purposes. Our 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 fixing 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 our customers to issue bank guarantee in our 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 $2.5 million and $99.6 million as of December 31, 2017 and 2016, respectively.

Item 8. Financial Statements and Supplementary Data

The consolidated financial statements as of December 31, 2017 can be found in the Exhibits section pages F-1 to F-45.

Item 9. Changes and Disagreements with Accountants on Accounting and Financial Disclosure

None

Item 9A. Controls and Procedures

We are not required to report this Item.

Item 9B. Other Information

None

PART III

Item 10. Directors, Executive Officers, and Corporate Governance

The following table sets forth information concerning our executive officers and directors, including their ages, as of December 31, 2017:

Name	Age as of December 31, 2017	Position
David Mullen	59	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
Greg 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 UK 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, 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 UK. 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, Mr. Castle has been a director and/or member of the investment committee of various Castle Harlan Australian Mezzanine Partnership entities (CHAMP Private Equity Group). Currently, his role is as a member of the CHAMP III Fund Investment Committee. 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 the King Saud University 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.

Item 11. Executive Compensation

We are not required to report this Item.

Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Shareholders Matters

We are not required to report this Item.

Item 13. Certain Relationships and Related Transactions, and Director Independence

The credit agreements provide an exemption to reporting this Item.

Item 14. Principal Accounting Fee and Services

We are not required to report this Item.

Part IV

Item 15. Exhibits

Financial Statements pages F-1 to F-45.
Material agreements governing indebtedness can be found on our website.

SHELF DRILLING, LTD.
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2017, 2016 AND 2015
INDEX

Independent Auditor's Report

To the board of directors and shareholders of Shelf Drilling, Ltd.

We have audited the accompanying consolidated financial statements of Shelf Drilling, Ltd. and its subsidiaries (together, the "Company"), which comprise the consolidated balance sheets as of December 31, 2017 and December 31, 2016, and the related consolidated statements of operations, comprehensive income, equity and cash flows for the years ended December 31, 2017, 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 Company'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 Company'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 the Company as of December 31, 2017 and December 31, 2016 and the results of their operations and their cash flows for the years ended December 31, 2017, 2016 and 2015 in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers

PricewaterhouseCoopers
Dubai, United Arab Emirates
March 13, 2018

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Douglas O'Mahony, Paul Suddaby, Jacques Fakhoury and Mohamed ElBorno are registered as practising auditors with the UAE Ministry of Economy

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

	Years ended December 31,		
	2017	**2016**	**2015**
Revenues			
Operating revenues	$ 556,047	$ 668,649	$ 1,012,757
Other revenue	15,917	15,668	18,541
	571,964	684,317	1,031,298
Operating costs and expenses			
Operating and maintenance	320,084	353,802	534,156
Depreciation	80,573	71,780	87,421
Amortization of deferred costs	64,664	91,763	80,984
General and administrative	43,726	46,889	139,722
Loss on impairment of assets	34,802	47,094	271,469
(Gain) / loss on disposal of assets	(839)	4,826	11,299
Gain on insurance recovery	-	-	(25,432)
	543,010	616,154	1,099,619
Operating income / (loss)	28,954	68,163	(68,321)
Other (expense) / income, net			
Interest income	1,062	356	102
Interest expense and financing charges	(83,995)	(80,120)	(80,537)
Other, net	(2,969)	1,522	(873)
	(85,902)	(78,242)	(81,308)
Loss before income taxes	(56,948)	(10,079)	(149,629)
Income tax expense	14,262	19,757	30,373
Net loss	$ (71,210)	$ (29,836)	$ (180,002)
Less: Preferred shares dividend	17,041	-	-
Net loss attributable to common and ordinary shares *	$ (88,251)	$ (29,836)	$ (180,002)
Loss per share: *			
Basic - Common shares	$ (1.02)	$ -	$ -
Diluted - Common shares	$ (1.02)	$ -	$ -
Basic and Diluted - Class A shares	$ (10.79)	$ (66.99)	$ (403.12)
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	81,572,999	-	-
Diluted - Common shares	81,572,999	-	-
Basic and Diluted - Class A shares	444,594	445,386	446,525
Basic - Class B shares	18,555	17,500	15,142
Diluted - Class B shares	18,555	17,500	15,142
Basic - Class C shares	5,110	5,119	5,133
Diluted - Class C shares	5,110	5,119	5,133
Basic - Class D shares	-	-	-
Diluted - Class D shares	-	-	-

* For the year ended December 31, 2017, the loss per share is 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 eight months ended December 31, 2017 for the common shares. See Note 22 – Loss Per Share.

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,		
	2017	2016	2015
Net loss	$ (71,210)	$ (29,836)	$ (180,002)
Other comprehensive income, net of tax			
Foreign currency forward exchange contracts			
Changes in unrealized gains	238	427	-
Reclassification of net gain from other comprehensive income to net income	(238)	(427)	-
	$ -	$ -	$ -
Total comprehensive loss	$ (71,210)	$ (29,836)	$ (180,002)

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

SHELF DRILLING

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

	December 31, 2017	December 31, 2016
Assets		
Cash and cash equivalents	$ 84,563	$ 213,139
Accounts and other receivables, net	137,785	125,312
Other current assets	96,960	95,235
Total current assets	319,308	433,686
Property and equipment	1,620,830	1,326,361
Less accumulated depreciation	370,840	295,685
Property and equipment, net	1,249,990	1,030,676
Deferred tax assets	1,321	3,137
Other assets	112,331	118,441
Total assets	$ 1,682,950	$ 1,585,940
Liabilities and equity		
Accounts payable	$ 95,098	$ 70,605
Interest payable	8,399	15,773
Obligations under sale and leaseback	35,115	15,977
Current maturities of long-term debt	30,167	-
Accrued income taxes	4,822	-
Other current liabilities	36,681	32,665
Total current liabilities	210,282	135,020
Long-term debt	496,503	809,016
Obligations under sale and leaseback	278,815	228,728
Deferred tax liabilities	4,407	8,525
Other long-term liabilities	17,719	25,197
Total long-term liabilities	797,444	1,071,466
Mezzanine equity, net of issuance costs	165,978	-
Commitments and contingencies (Note 13)		
Common and ordinary shares of $0.01 par value; 200,000,000 and 5,000,000 shares authorized at December 31, 2017 and December 31, 2016, respectively; issued and outstanding as follows:		
Common and ordinary shares: 83,125,000 and nil at December 31, 2017 and December 31, 2016, respectively	831	-
Class A shares: nil and 444,594 at December 31, 2017 and December 31, 2016, respectively	-	5
Class B shares: nil and 25,099 at December 31, 2017 and December 31, 2016, respectively	-	-
Class C shares: nil and 6,075 at December 31, 2017 and December 31, 2016, respectively	-	-
Additional paid-in capital	663,090	462,914
Accumulated losses	(154,675)	(83,465)
Total equity	509,246	379,454
Total liabilities and equity	$ 1,682,950	$ 1,585,940

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,		
	2017	2016	2015	2017	2016	2015
		Shares			Amount	
Common and ordinary shares						
Balance, beginning of year	475,768	477,326	477,717	$ 5	$ 5	$ 5
Shares issued to trust	1,629	2,835	-	-	-	-
Repurchase and retirement of ordinary shares	(477,397)	(4,393)	(391)	(5)	-	-
Recapitalization	55,000,000	-	-	550	-	-
Issuance of common shares	28,125,000	-	-	281	-	-
Balance, end of year	83,125,000	475,768	477,326	$ 831	$ 5	$ 5
Shares held in trust for share-based compensation						
Balance, beginning of year	15,844	15,487	15,678	$ -	$ -	$ -
Shares issued to trust	1,629	2,835	-	-	-	-
Retirement of ordinary shares	(17,473)	(2,478)	(191)	-	-	-
Replaced for common shares	2,274,860	-	-	-	-	-
Balance, end of year	2,274,860	15,844	15,487	$ -	$ -	$ -
Additional paid-in capital						
Balance, beginning of year				$ 462,914	$ 464,403	$ 464,005
Issuance of common shares				216,920	-	-
Recapitalization adjustment				(545)	-	-
Preferred shares dividend				(17,041)	-	-
Share-based compensation expense, net of forfeitures.				842	179	638
Repurchase and retirement of ordinary shares				-	(1,668)	(240)
Balance, end of year				$ 663,090	$ 462,914	$ 464,403
Accumulated other comprehensive income				$ -	$ -	$ -
Accumulated losses						
Balance, beginning of year				$ (83,465)	$ (53,629)	$ 126,443
Repurchase and retirement of ordinary shares				-	-	(70)
Net loss				(71,210)	(29,836)	(180,002)
Balance, end of year				$ (154,675)	$ (83,465)	$ (53,629)
Total equity						
Balance, beginning of year				$ 379,454	410,779	590,453
Issuance of common shares				217,201	-	-
Share-based compensation expense, net of forfeitures.				842	179	638
Preferred shares dividend				(17,041)	-	-
Repurchase and retirement of ordinary shares				-	(1,668)	(310)
Total comprehensive loss				(71,210)	(29,836)	(180,002)
Balance, end of year				$ 509,246	$ 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,		
	2017	**2016**	**2015**
Cash flows from operating activities			
Net loss	$ (71,210)	$ (29,836)	$ (180,002)
Adjustments to reconcile net loss to net cash provided by operating activities			
Depreciation	80,573	71,780	87,421
Loss on impairment of assets	34,802	47,094	271,469
Gain on foreign currency forward exchange contracts, net	(238)	(427)	-
Gain on insurance recovery	-	-	(25,432)
Amortization of deferred revenue	(15,254)	(23,511)	(41,026)
(Reversal of) / provision for doubtful accounts, net	(5,444)	(401)	87,431
Amortization of drilling contract intangibles	-	-	(983)
Share-based compensation expense, net of forfeitures	842	179	638
Non-cash portion of loss on debt extinguishment	4,371	-	-
Payment of original issue discount	(10,500)	-	-
Amortization of debt issue costs and discounts	3,705	7,663	9,232
(Gain) / loss on disposal of assets	(839)	4,826	11,299
Deferred tax (benefit) / expense	(2,302)	297	1,292
Proceeds from settlement of foreign currency forward exchange contracts, net.	238	427	-
Changes in deferred costs, net *	2,232	37,218	(70,353)
Changes in operating assets and liabilities	20,775	21,223	(17,973)
Net cash provided by operating activities	41,751	136,532	133,013
Cash flows from investing activities			
Additions to property and equipment *	(253,834)	(53,541)	(157,193)
Proceeds from disposal of property and equipment	5,557	1,490	547
Proceeds from sale and leaseback	16,880	16,880	18,515
Payments of transaction costs for sale and leaseback	-	-	(7,555)
Proceeds from insurance recovery	-	-	45,000
Change in restricted cash	(6,006)	(421)	(6,827)
Net cash used in investing activities	(237,403)	(35,592)	(107,513)
Cash flows from financing activities			
Proceeds from issuance of common shares	225,000	-	-
Payments for common and preferred shares issuance costs	(8,487)	-	-
Payments for redemption of ordinary shares	-	(1,668)	(310)
Payments for obligations under sale and leaseback	(24,829)	(1,818)	-
Payments to retire long-term debt	(103,750)	-	-
Payments of debt issuance costs	(11,223)	-	(551)
Preferred shares dividend paid	(9,635)	-	-
Net cash provided by / (used in) financing activities	67,076	(3,486)	(861)
Net (decrease) / increase in cash and cash equivalents	(128,576)	97,454	24,639
Cash and cash equivalents at beginning of year	213,139	115,685	91,046
Cash and cash equivalents at end of year	$ 84,563	$ 213,139	$ 115,685

* See Note 21 – 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.

SHELF DRILLING

SHELF DRILLING, LTD.
NOTES TO THE 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") which 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 listed on the Norwegian over-the-counter market in May 2017.

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 December 31, 2017, the Company owned 38 independent cantilever jackup rigs, two of which are stacked, and one stacked swamp barge.

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, 2017, 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 on 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, 2017, none of the Company's investments meet the criteria established for application of the equity method of accounting.

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 that the 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 operating 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 reported as other, net in the consolidated statements of operations 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 reported as other, net in the consolidated statements of operations.

Cash and Cash Equivalents — Cash and cash equivalents are 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 is stated at cost adjusted for any economic impairment in value. The property and equipment acquired as part of the Acquisition were 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.

Depreciation is computed using the straight-line method, after allowing for salvage value where applicable, over the estimated useful lives of the assets. Land is not depreciated. If an impairment loss is recognized, the adjusted carrying amount shall be depreciated over the remaining useful life of that asset.

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 as of December 31, 2017 and 2016 is 11 and 10 years, respectively. The Company reviews the remaining useful lives and salvage values of rigs when certain events occur that directly impact the useful lives and salvage values of the rigs. This includes changes in operating condition, functional capability and market and economic factors.

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. 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.

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 a sale and leaseback transaction as a result of a sale price lower than fair value is recognized immediately in the consolidated statements of operations. In situations where a loss on sale of an 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 it 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 the applicable 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, are generally tied to service years and 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 reported as part of gains or losses on debt extinguishment in the consolidated statements of operations.

Earnings / (Loss) Per Share — The Company presents basic and diluted earnings per share ("EPS") data for its common shares (periods after the Recapitalization date (See Note 17 Shareholders' Equity), and ordinary shares (periods prior to the Recapitalization date).

Basic EPS is calculated by dividing the net income or loss attributable to common and ordinary shares by the weighted average number of those shares outstanding during the period, excluding shares legally issued for unvested share-based compensation. Preferred stock dividends, whether declared or accumulated, are deducted from net income (or added to net loss) attributable to common shareholders in computing basic EPS.

Diluted EPS adjusts the weighted average number of common shares outstanding in the basic EPS calculation for the assumed issuance of all potentially dilutive securities. Potentially dilutive securities consist primarily of unvested share-based compensation awards. In periods of net losses attributable to common shareholders, potentially dilutive securities will always be anti-dilutive, and therefore basic and diluted EPS will be the same.

For periods prior to the Recapitalization, basic and diluted EPS were computed in conformity with the two class method and applied to the three classes of ordinary shares 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 ordinary 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 it 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.

Note 3 — New Accounting Pronouncements

Recently adopted accounting standards

In October 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 consolidated financial statements.

In March 2016, The FASB has issued ASU No. 2016-09, Compensation - Stock Compensation (Topic 718): Improvements to Employee Share-Based Payment Accounting, which includes provisions intended to simplify the accounting for and presentation of share-based payment transactions, including: (a) income tax consequences; (b) classification of awards as either equity or liabilities; and (c) classification on the statement of cash flows. The amendments are effective for financial statements issued for annual reporting periods beginning after December 15, 2016, and interim periods within that reporting period The Company has adopted this ASU from its effective date with no impact on the consolidated 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 consolidated financial statements.

In May 2017, the FASB issued ASU No. 2017-09, Compensation — Stock Compensation (Topic 718): Scope of Modification. The amendments apply 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 has adopted this standard as of January 1, 2018. Management believes that the adoption will not have a material effect on the consolidated 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 has adopted this standard as of January 1, 2018. 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. The Company does 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 for public entities, including interim periods within those periods. The Company has adopted this standard as of January 1, 2018. Management believes that the adoption will not have a material effect 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. Upon adoption, the Company will include the restricted cash balance as part of cash, cash equivalents and restricted cash on the consolidated 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.

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 consolidated 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 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.

Based on the initial assessment, with respect to 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 and lease liability is not expected to be material. The Company also does not expect any material changes with respect to its finance leases. However, the adoption of this standard will result in additional quantitative and qualitative disclosures. The amendment is effective for annual and interim periods for fiscal years beginning after December 15, 2018 with an option of early adoption. The Company does not intend to early adopt this standard.

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, 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.

Based on the assessment of the drilling contracts entered into with the Company’s customers, the Company has concluded that a standard drilling contract provides rig and rig related services as one integrated service to the customer. Therefore, no material changes are expected in the Company’s revenue recognition except additional quantitative and qualitative disclosures in the consolidated financial statements with the adoption of this standard. The Company will apply the cumulative effects approach for transition and has adopted this standard effective January 1, 2018.

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, commercially incompatible with local content requirements. To comply with such foreign ownership and/or local content 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 gains or 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 gains or 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.

SHELF DRILLING, LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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, 2017					
Total assets	$ 78	$ 14,421	$ 14,696	$ 2,787	$ 31,982
Total liabilities	406	781	7,720	864	9,771
Net carrying amount	$ (328)	$ 13,640	$ 6,976	$ 1,923	$ 22,211
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 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 amount of goodwill is 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 $1.0 million for the year ended December 31, 2015 was recorded in the consolidated 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, 2017 and 2016 consisted of the following (in thousands):

	December 31,	
	2017	2016
Drilling rigs and equipment	$ 1,554,045	$ 1,138,016
Spares	36,120	33,866
Construction in progress	12,642	136,834
Land and building	1,354	1,228
Other	16,669	16,417
Total property and equipment	$ 1,620,830	$ 1,326,361
Less: Accumulated depreciation	(370,840)	(295,685)
Total property and equipment, net	$ 1,249,990	$ 1,030,676

The Company added four drilling rigs to its fleet during 2017, consisting of one new build high specification jackup rig ("Newbuild") and three rigs purchased from a third party. The Company added one Newbuild rig to the fleet during 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 requirements. 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. These two Newbuilds were financed under sale and leaseback arrangements. (see Note 10 – Sale and Leaseback).

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 17 – Shareholders' Equity. On May 18, 2017, two of the rigs were delivered, and on September 8, 2017, the third rig was delivered. As of December 31, 2017, these rigs were capitalized along with the associated transaction and mobilization costs of $0.4 million under "Drilling rigs and equipment".

Total capital expenditures for the years ended December 31, 2017, 2016 and 2015 were $334.7 million, $202.8 million and $171.9 million, respectively. This includes $92.2 million, $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 2017, 2016 and 2015, respectively. It also includes $234.0 million related to the three rigs acquired in 2017.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, 2017, 2016 and 2015 on the Newbuilds were $453.7 million, $361.5 million and $171.5 million, respectively, of which $330.0 million, $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 was $4.7 million, $16.9 million and $9.4 million for years ended December 31, 2017, 2016 and 2015, respectively, which included $2.6 million, $9.9 million and $1.8 million, respectively, related to the sale and leaseback financing agreements.

During 2017, the Company sold one stacked rig, the Adriatic IX, for $4.3 million with a carrying value of $1.4 million and associated disposal costs of $0.2 million, which resulted in a gain on disposal of $2.7 million. During 2016, the Company sold two stacked rigs, Adriatic V and Adriatic VI, for $0.8 million. The carrying value of both rigs was $1.6 million and associated disposal costs were $0.3 million, which resulted in a loss on disposal of $1.1 million. No rigs were sold by the Company during 2015. Disposals of other property and equipment with a net carrying value of $3.3 million, $4.7 million and $12.0 million were sold for $1.5 million, $1.0 million and $0.7 million which resulted in a loss on disposal of assets of $1.8 million, $3.7 million and $11.3 million during 2017, 2016 and 2015, respectively.

In 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 insured under the Company's Hull and Machinery and Excess Liability coverage for an insured value of $45 million and was declared a constructive total loss of the same value by the Company's insurance underwriters. As a result, the Company recorded a net gain of $25.4 million related to the insurance proceeds received of $45 million less associated costs of $19.6 million during the year ended December 31, 2015.

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 $12.7 million and $1.1 million, as of December 31, 2017 and 2016, respectively. The total costs included capital equipment transfers from other rigs.

As of December 31, 2017 and 2016, the rig under an operating lease had a net carrying value of $14.5 million and $16.4 million, and accumulated depreciation of $8.9 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 December 31, 2017, following is the summary of future minimum rentals receivable on the operating lease (in thousands):

For the twelve months ending December 31,		
2018	$	8,395
2019		713
2020		-
Thereafter		-
Total future minimum rentals	$	9,108

Due to payment delays by the lessee, the Company has ceased 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 year ended December 31, 2017.

Loss on Impairment of Assets — The Company assesses the recoverability of its long-lived assets 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. Any actual impairment loss recognized represents the excess of the asset's carrying value over the estimated fair value. The Company determined the fair value of the fleet by using the income approach and utilizing a weighted average cost of capital for certain rigs with indicators for impairment. The fair value of the drilling rigs using the income approach is based on estimated discounted cash flows expected to be realized 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.

During the first half of 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 impairment loss of $34.8 million on four of its rigs, out of which one was impaired to salvage value. 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 fourth quarter of 2017, there were no events or changes in circumstances that indicated the carrying value of rigs would not be recoverable. Therefore, no impairment assessment was required.

During the fourth quarter ended December 31, 2016 and 2015, the Company identified indicators of impairment, including the reduction in the number of new contract opportunities, lower dayrates and utilization rates due to significantly lower crude oil prices, a decrease in global demand and 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 assessment on the fleet of drilling rigs was required. The Company recognized an impairment loss of $47.1 million on three of the Company's rigs, out of which one was impaired to salvage value for the year ended December 31, 2016 and an impairment loss of $262.2 million on 13 of the Company's rigs, out of which five were impaired to salvage values, for the year ended December 31, 2015.

The impairment losses also include the write-off of current deferred costs of $1.8 million, $4.1 million and $11.1 million and non-current deferred costs of $2.9 million, $4.4 million and $25.6 million for the years ended December 31, 2017, 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, 2017, 2016 and 2015, respectively.

If there are further reductions in the number of new contract opportunities, dayrates, utilization rates or an increase in the 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 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 (25.0)%, (196.0)% and (20.3)% for 2017, 2016 and 2015, respectively.

Income Tax Expense — Income tax expense was $14.3 million, $19.8 million and $30.4 million for 2017, 2016 and 2015, respectively. The components of the provisions for income taxes were as follows (in thousands):

	Years ended December 31,		
	2017	2016	2015
Current tax expense	$ 16,564	$ 19,460	$ 29,081
Deferred tax (benefit) / expense	(2,302)	297	1,292
Income tax expense	$ 14,262	$ 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,		
	2017	2016	2015
Income tax expense at the Cayman statutory rate	$ -	$ -	$ -
Taxes on earnings subject to rates different than Cayman statutory rate	15,257	17,604	33,051
Change in reserve for uncertain tax positions, including interest and penalties	(207)	1,098	(2,962)
Other	(788)	1,055	284
Income tax expense	$ 14,262	$ 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,	
	2017	2016
Deferred tax assets		
Net operating loss carry-forwards of subsidiaries	$ 2,351	$ 4,112
Valuation allowance	(1,030)	(975)
	$ 1,321	$ 3,137

	December 31,	
	2017	2016
Deferred tax liabilities		
Depreciation	$ 758	$ -
Unremitted earnings	3,649	8,525
	$ 4,407	$ 8,525

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.

The Company's deferred tax liabilities as of December 31, 2017 and 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 consolidated financial statements. The Company considers a portion of the earnings of a certain subsidiary to be indefinitely reinvested. As such, the Company has not provided for taxes on these unremitted earnings. As of December 31, 2017, the amount of indefinitely reinvested earnings was approximately $13.9 million. The Company did not consider any part of its unremitted earnings to be indefinitely reinvested as of 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.

Liabilities for Uncertain Tax Positions — The Company has tax liabilities related to various tax positions that have been taken on the tax returns of certain subsidiaries that have resulted in a reduction in tax liabilities for those subsidiaries. In management's judgment, these tax positions are "uncertain" in that they are likely to be successfully challenged by the relevant tax authorities in the future. Any interest and penalties related to such liabilities are included as a component of income tax expense. The liabilities for uncertain tax positions 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 as other. 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,	
	2017	**2016**
Liabilities for uncertain tax positions, excluding interest and penalties	$ 2,248	$ 2,455
Interest and penalties	-	-
Liabilities for uncertain tax positions, including interest and penalties	$ 2,248	$ 2,455

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

	December 31,		
	2017	**2016**	**2015**
Balance, beginning of year	$ 2,455	$ 1,357	$ 3,734
(Reductions) / additions for prior period tax positions	(273)	(458)	333
Reductions related to statute of limitation expirations	(81)	(100)	(2,710)
Additions for current period tax positions	147	1,656	-
Balance, end of year	$ 2,248	$ 2,455	$ 1,357

Liabilities for uncertain tax positions may change from quarter to quarter based on various factors, including, but not limited to, favorable or unfavorable resolution of tax audits or disputes, expiration of relevant statutes of limitations, changes in tax laws or changes to the interpretation of existing tax laws due to new legislative guidance or court rulings, or new uncertain tax positions taken on recently filed tax returns. Although the Company has recorded liabilities against all tax benefits resulting from tax positions which, in management's judgment, are more likely than not to be successfully challenged by the relevant tax authorities in the future, the Company cannot provide assurance as to the final tax liability related to its tax positions as it is not possible to predict with certainty the ultimate outcome of any related tax disputes. Thus, it is reasonably possible that ultimate tax liabilities related to such tax positions could substantially exceed recorded liabilities related to such tax positions, resulting in a material adverse effect on the Company's earnings and cash flows from operations.

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. If any tax authority successfully challenges the Company's tax positions, including, but not limited to, the validity of various intercompany transactions, or the taxable presence of the Company's key subsidiaries in certain countries; or if the terms of certain income tax treaties are interpreted in an adverse manner; or if the Company loses a material tax dispute in any country, the Company's income tax liability could increase substantially and the Company's earnings and cash flows from operations could be materially adversely affected. The Company is indemnified from any tax liabilities of subsidiaries previously owned by the Seller related to the periods prior to the Acquisition.

Note 9 — Debt

Current maturities of long-term debt is comprised of the following (in thousands):

	December 31, 2017	December 31, 2016
8.625% Senior Secured Notes, due November 1, 2018 (see note (i) below)	$ 30,167	-
Unsecured overdraft facility - Short-term debt (see note (ii) below)	-	-
	$ 30,167	$ -

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

	December 31, 2017	December 31, 2016
9.5% Senior Secured Notes, due November 2, 2020 (see note (iii) below)	$ 496,503	$ -
8.625% Senior Secured Notes, due November 1, 2018 (see note (i) below)	-	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)	-	-
Senior Secured Credit Facility, due March 31, 2020 (see note (vi) below)	-	-
	$ 496,503	$ 809,016

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

For the twelve months ending December 31,	
2018	$ -
2019	-
2020	502,835
2021	-
Total debt	$ 502,835

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

	December 31, 2017		
	Principal Amount	Unamortized Debt Issuance Costs	Carrying Value
9.5% Senior Secured Notes, due November 2, 2020	$ 502,835	$ (6,332)	$ 496,503
8.625% Senior Secured Notes, due November 1, 2018	30,415	(248)	30,167
Total	$ 533,250	$ (6,580)	$ 526,670

	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 following tables summarized the total interest on debt (in thousands):

	Year ended December 31, 2017			
	Coupon Interest	Amortization of Discount	Amortization of Debt Issuance Costs	Total Interest
9.5% Senior Secured Notes, due November 2, 2020.........	$ 46,310	$ -	$ 1,806	$ 48,116
8.625% Senior Secured Notes, due November 1, 2018....	3,795	-	395	4,190
Term Loan Facility, due October 8, 2018	1,167	74	59	1,300
Revolving Credit Facility, due April 30, 2020	-	-	1,354	1,354
Senior Secured Credit Facility, due March 31, 2020	-	-	17	17
	$ 51,272	$ 74	$ 3,631	$ 54,977

	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	$ -	$ 2,656	$ 43,625
Term Loan Facility, due October 8, 2018	35,583	2,131	1,195	38,909
Revolving Credit Facility, due April 30, 2020	-	-	1,681	1,681
	$ 76,552	$ 2,131	$ 5,532	$ 84,215

	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	$ -	$ 3,714	$ 44,683
Term Loan Facility, due October 8, 2018	35,486	1,911	1,755	39,152
Revolving Credit Facility, due April 30, 2020	-	-	1,852	1,852
	$ 76,455	$ 1,911	$ 7,321	$ 85,687

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.

(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”). 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.

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, an 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”.

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.

During February 2018, the Company fully settled the outstanding $30.4 million of 8.625% Senior Secured Notes. See Note 25 – Subsequent Events.

(ii) 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. As of December 31, 2017, there were no amounts outstanding under the overdraft facility.

(iii) 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 (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. See below (iv) Term Loan Facility, due October 2018. As a result of this transaction, SDHL incurred $8.1 million of debt issuance cost, as a direct deduction from the carrying value of the debt, and which 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.

During February 2018, the Company fully settled the outstanding $502.8 million of 9.5% Senior Secured Notes. See Note 25 – Subsequent Events.

(iv) 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.

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 16 – 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 included $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 $12.3 million and $28.5 million as of December 31, 2017 and 2016, respectively, against the SDHL Revolver. As of December 31, 2017, the Company had no outstanding borrowings under the SDHL Revolver. There are certain limitations which restrict the Company's ability to draw down the available balance of the SDHL Revolver.

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 was in compliance with this ratio as of December 31, 2017 and 2016.

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 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 (deferred financing fee) carried both as current and long-term assets on the consolidated balance sheets were as follows (in thousands):

	December 31, 2017	December 31, 2016
Current	$ 1,333	$ 1,706
Non-current	1,797	568
Total	$ 3,130	$ 2,274

(vi) Senior Secured Credit Facility, due March 2020

On December 21, 2017, Shelf Drilling Asset III, Ltd (the "SDAIII"), a wholly owned subsidiary of the Company, entered into a $75 million senior secured credit facility (the "SDA Facility"). The SDA Facility includes a $50 million guarantee facility, 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 two of the recently acquired premium jackup drilling rigs. 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 no outstanding bank guarantees under the uncommitted guarantee line.

The SDA Facility further requires a total net leverage ratio (consolidated net debt to consolidated EBITDA, as defined in the SDA Facility) not to exceed 4:1 is maintained and tested semi-annually. In addition, the fair market value of the two acquired rigs 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 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 (deferred financing fee) of $1.3 million was reported as long-term assets on the consolidated balance sheet.

Terms Common to All Long-term Indebtedness

The 9.5% Senior Secured Notes Indenture and the SDHL Revolver contain customary restrictive covenants. These agreements also contain a provision under which an event of default by SDHL or by any restricted subsidiary on any other indebtedness exceeding $25 million would be triggered 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 or equivalent;
- Restricted payments;
- Disposal of assets;
- Incurrence of new liens;
- Certain transactions with affiliates;
- 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 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 consisted solely of the two "fit-for-purpose" newbuild jackup rigs under construction, 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"), wholly owned subsidiaries of Industrial and Commercial Bank of China Limited. In connection with these transactions, the Lessee executed bareboat charter agreements (the "Bareboat Charter Agreements") with the Lessor to operate the newbuild rigs and to execute two drilling service contracts with Chevron for a period of 5 years. See Note 7 – Property and Equipment.

The Company, in substance, was 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 received 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 balances reimbursed to the Company on the Bareboat Charter commencement dates. The Company recorded these payments as construction in progress and long-term liabilities on its consolidated balance sheets until the assets were completed and delivered. The Company, being the accounting owner of the Newbuilds, 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 was recognized on these sale and leaseback transactions as the Company retains substantially all the benefits and risks incidental to the ownership of the sold properties.

The Company incurred 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 rent with variable and fixed payment components from the charter hire accrual dates, as defined in the lease contract, through its expiry dates of December 28, 2021 and July 5, 2022 at which time the Lessee will have the obligation to acquire the Newbuild rigs 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 three month LIBOR rate plus applicable margin of 4.0% annually on the Notional Rent Outstanding (Prepaid Purchase Price reduced by fixed payments). The charter payments are made on every fifth day of the month.

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. The Company accounted for these Sale and Leaseback Transactions as capital leases and transferred $228.6 million for the first Newbuild rig and $227.0 million for the second Newbuild rig from construction in progress to drilling rigs and equipment reported in property and equipment. See Note 7 – Property and Equipment. The capital lease contracts have an estimated average interest rate of 6.20% and 6.22% and require scheduled monthly average principal payments and average interest payments of approximately $1.5 million and $0.6 million for each rig through December 5, 2021 and June 5, 2022, respectively.

As of December 31, 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 December 31,		
2018	$	52,884
2019		51,743
2020		49,857
2021		129,492
2022		94,057
Total future rental payments	$	378,033

The Company made rental payments of $37.2 million and $2.7 million, including interest of $12.4 million and $0.9 million, during the years ended December 31, 2017 and 2016, respectively. In 2016, the payment includes pre-payments of rental of $2.2 million, including interest of $0.7 million.

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The total outstanding balance of obligations under the Sale and Leaseback Transactions is $313.9 million and $244.7 million as of December 31, 2017 and 2016, respectively, of which $35.1 million and $16.0 million were classified as current on the consolidated balance sheets.

The Lessor paid $74.1 million and $148.1 million directly to the Builder during the years ended December 31, 2017 and 2016, respectively. The Lessor also paid $16.9 million to the Company during the years ended December 31, 2017 and 2016 for costs incurred during the construction period.

In addition, the Company recorded $3.1 million, $6.8 million and $0.6 million for interest in kind on the obligations under the Sale and Leaseback Transactions during the years ended December 31, 2017, 2016 and 2015, respectively.

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 Market Value of the rig plus additional cash collateral or any additional security provided by the Company to the lessor divided by the Notional Rent Outstanding); and (3) a Consolidated Net Debt to Consolidated EBITDA Ratio at or below 4:1, as defined in the Bareboat Charter agreement and tested semi-annually. As of December 31, 2017 and 2016, 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 $4.7 million, $5.3 million and $7.3 million in expense related to defined contribution retirement and savings plans for the years ended December 31, 2017, 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 $0.2 million 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 contribution expense related to this plan was $0.3 million during the year ended December 31, 2017 and $0.1 million from the effective date of August 1, 2016 to December 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 $4.8 million, $6.3 million and $6.7 million in expense related to employee end of service plans for the years ended December 31, 2017, 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 3.7% to 17.5% 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 $9.5 million and $8.8 million as of December 31, 2017 and 2016, 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 beginning January 1, 2016.

The number of employees who were eligible for benefits under this plan totaled 57, 63 and 99 as of December 31, 2017, 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,	
	2017	**2016**
Change in Benefit Obligation		
Benefit obligation, beginning of year	$ 3,166	$ 4,913
Service cost	-	-
Interest cost	88	146
Plan changes	-	-
Benefits paid	(397)	(1,737)
Actuarial loss / (gain)	17	(156)
Curtailment	-	-
Benefit obligation, end of year	$ 2,874	$ 3,166

The Company has recorded $0.6 million and $0.5 million as current, and $2.3 million and $2.7 million as non-current obligations for this plan as of December 31, 2017 and 2016, respectively.

The net periodic benefit (gain) / cost includes the following components (in thousands):

	Years ended December 31,		
	2017	2016	2015
Net periodic benefit costs / (gain)			
Service cost	$ -	$ -	$ 2,960
Interest cost	88	146	79
Expected return on plan assets	-	-	-
Amortization of prior service cost	-	-	-
Actuarial loss / (gain)	17	(156)	(394)
Net periodic benefit costs / (gain) , end of year	$ 105	$ (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,		
	2017	2016	2015
Weighted-average assumptions used to determine benefit obligations:			
Discount rate	2.95%	3.00%	3.21%
Rate of compensation increase	N/A	N/A	N/A

	Years ended December 31,		
	2017	2016	2015
Weighted-average assumptions used to determine net periodic benefit costs:			
Discount rate	2.95%	3.00%	3.21%
Rate of compensation increase	N/A	N/A	N/A
Expected long-term rate of return on assets	N/A	N/A	N/A

The future estimated payouts are as follows (in thousands):

	Projected benefit payments
Years ending December 31,	
2018	$ 551
2019	558
2020	260
2021	305
2022	240
Thereafter	960

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 payouts under existing plans are expected to occur in March 2018 and March 2019. The Company recorded approximately $3.1 million, $3.0 million and $3.0 million expense under the plans for the years ended December 31, 2017, 2016 and 2015, respectively. The estimated total cash payments under the retention plans for 2018 and 2019 are $3.3 million and $2.8 million, respectively.

Note 12 — 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 a Purchase Obligation Price assuming average estimated interest rates pursuant to the sale and leaseback transactions as of December 31, 2017. See Note 10 – Sale and Leaseback.

As of December 31, 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 December 31,			
2018	$ 13,512	$ 52,884	$ 66,396
2019	2,853	51,743	54,596
2020	1,021	49,857	50,878
2021	824	129,492	130,316
2022	374	94,057	94,431
Total	$ 18,584	$ 378,033	$ 396,617

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, 2017 and 2016, 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, 2017 for one year. The Company periodically evaluates its risks, insurance limits and self-insured retentions. As of December 31, 2017, the insured value of the Company's drilling rig fleet including the two newbuild rigs and acquired rigs was $2.0 billion.

Hull and Machinery Coverage — As of December 31, 2017, 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). 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 — As of December 31, 2017, 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.

As of December 31, 2017, 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 provides self-insured medical plans to certain employees subject to exclusions and limitations.

The Company offers a self-insured medical plan for certain U.S. resident rig based expatriate employees and their eligible dependents to provide medical, vision, dental within the U.S. The maximum potential liability as of December 31, 2017 related to the plan is $2.5 million, as the Company is reinsured for the claims in excess of that amount by a third-party insurance provider.

The Company also offers a self-insured medical plan to provide medical coverage for certain employees represented by labor unions and work under collective bargaining agreements, and their eligible dependents. The Company is fully responsible for eligible claims.

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 $103.5 million provided by several banks to guarantee various contractual, performance, and customs obligations. The Company entered into these facilities in India, Egypt, UAE and Nigeria. The outstanding surety bonds were $53.6 million and $33.3 million as of December 31, 2017 and 2016, respectively.

The Company also has a $50.0 million uncommitted guarantee facility included in the SDA facility. As of December 31, 2017, there was no outstanding bank guarantees under the uncommitted guarantee facility.

In addition, the Company had outstanding bank guarantees and performance bonds amounting to $12.3 million and $28.5 million as of December 31, 2017 and 2016, respectively, against the SDHL Revolver.

Therefore, the total outstanding bank guarantees and surety bonds issued by the Company were $65.9 million and $61.8 million as of December 31, 2017 and 2016, respectively.

Note 13 — Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, which include cash and cash equivalents, accounts receivable, restricted cash, accounts payable, accrued liabilities and short-term debt, approximate their fair market values due to the short-term nature of the instruments (except for non-current portion of restricted cash with an estimated fair value of $13.2 million as of December 31, 2017 and $7.8 million as of December 31, 2016). We measured the estimated fair value of the non-current portion of restricted cash using significant other observable inputs, representative of a Level 3 fair value measurement, including the terms 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, 2017		December 31 , 2016	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
9.5% Senior Secured Notes, due November 2, 2020	$ 496,503	$ 512,721	$ -	$ -
8.625% Senior Secured Notes, due November 1, 2018	30,167	31,022	466,857	399,000
Term Loan Facility, due October 8, 2018	-	-	342,159	258,620
Total debt	$ 526,670	$ 543,743	$ 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). The estimated fair value of the 9.5% Senior Secured Notes and the 8.625% Senior Secured Notes exclude unamortized debt issuance costs as of December 31, 2017 of $6.3 million and $0.2 million, respectively. The estimated fair value of the 8.625% Senior Secured Notes and the Midco Term Loan exclude unamortized discount and debt issuance costs as of December 31, 2016 of $8.1 million and $7.8 million, respectively. See Note 9 – Debt.

Derivative financial instruments are measured at fair value on a recurring basis using Level 2 inputs. See Note 19 – Derivative Financial Instruments. There were no outstanding derivative contracts as of December 31, 2017 and 2016.

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.

Further, the Company may in the future utilize derivative instruments to manage interest rate risk, for which it maintains documented policies and procedures to monitor and control the use of derivative instruments. The Company is not engaged in derivative transactions for speculative or trading purposes.

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 a (loss) / gain of ($3.3) million, $1.9 million and $1.7 million related to net foreign currency exchange during the years ended December 31, 2017, 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 fixing date. As of December 31, 2017 and 2016, the Company had no forex contracts outstanding.

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 ("E&P") 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. As of December 31, 2017 and 2016, the allowance for doubtful accounts was $2.5 million and $99.6 million, respectively.

Note 15 — Restricted Cash

The Company maintained a restricted cash deposit of $15.3 million and $9.3 million as of December 31, 2017 and 2016, respectively, which is included in other current assets and other assets in the consolidated balance sheets. Restricted cash is primarily funds held in the Debt Reserve Account related to the obligations under sale and leaseback and amounts used as collateral for bid tenders and performance bonds. The increase in restricted cash in 2017 was mainly related to the reserve requirements for the obligations under sale and leaseback amounting to $6.6 million.

Note 16 — 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. 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. There were no preferred shares issued and outstanding as of December 31, 2016.

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

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

The preferred shares are entitled to a dividend rate equal to LIBOR plus 9% per annum paid semi-annually on January 31 and July 31. If the preferred dividend is not paid in cash on each due date, the dividend amount is added to the Liquidation Preference of the preferred shares at a rate of LIBOR plus 9.75% per annum. The total dividend recognized for the year ended December 31, 2017 was $17.0 million, of which $9.6 million was paid in cash on the due dates and $7.4 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.

Note 17 — Shareholders' Equity

As of December 31, 2016, the Company was 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. 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 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 period up to 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 18 – Share-based Compensation.

The changes in ordinary shares by class from January 1, 2017 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

During the year ended December 31, 2016, the Company granted 2,835 ordinary shares under the time and performance based share compensation plan to members of the Company's senior management. These shares were issued to a Trust for further issuance to the employee upon fulfilling the vesting conditions. See Note 18 – Share-based Compensation.

During the years ended December 31, 2016 and 2015, there were 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 $0.3 million, respectively. Among the cancelled 1,915 ordinary shares in 2016, 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 $0.4 million 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 $0.2 million 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 $0.1 million charged to retained earnings. See Note 18 – Share-based Compensation.

During the years ended December 31, 2016 and 2015, 2,478 ordinary shares issued under share-based compensation plans (2,306 Class B shares and 172 Class C shares) and 158 ordinary shares (146 Class B shares and 12 Class C shares) 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 18 – Share-based Compensation.

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	51,970,740
Class B	25,653	1,893,513
Class C	6,130	-
Class D	1,020	1,135,747
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 years ended 2017, 2016 and 2015 (in thousands, except share data):

	Year ended December 31, 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 year	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 year	-	-	-	-	83,125,000	83,125,000

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	Year ended December 31, 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 year	$ 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 year	$ -	$ -	$ -	$ -	$ 831	$ 831

	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 for share-based compensation	-	2,659	176	2,835
Repurchase and retirement of ordinary 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 for share-based compensation	-	-	-	-
Repurchase and retirement of ordinary 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 for share-based compensation	-	-	-	-
Repurchase and retirement of ordinary 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			
	Class A	Class B	Class C	Total
Balance, beginning of year	$ 5	$ -	$ -	$ 5
Shares issued to trust for share-based compensation	-	-	-	-
Repurchase and retirement of ordinary shares	-	-	-	-
Balance, end of year	$ 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 years ended December 31, 2017, 2016 and 2015. The Company is restricted in declaring and paying dividends to its new common shareholders until the preferred shares are fully redeemed. See Note 16 – Mezzanine Equity.

Prior to the Recapitalization, holders of all classes of vested shares were 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 participated in cumulative distributions based on preference in accordance with the Waterfall methodology established and defined in the Articles. Prior to the Recapitalization, the Waterfall methodology classified 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 ranked 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 would be fully distributed to Class A shareholders, while the second pool amounting to $462.1 million would be distributed among Class A and Class B shareholders proportionally. Class A and Class B shareholders were 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 were equivalent to $462.1 million each.

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 with 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 18 — 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 17 – Shareholders' 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 are non-transferable and are 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 costs are to be recognized over a period of five years from the grant date subject to acceleration 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 first quarter of 2017, the Company granted 243 ordinary shares (228 Class B shares and 15 Class C shares) to members of the Company's management. During April 2017, the Company granted 1,386 additional ordinary shares (326 Class B shares, 40 Class C shares and 1,020 Class D shares) to members of the Company's management. There were no new grants of common shares subsequent to the Recapitalization date. During the years 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. There was no issuance of ordinary shares under the share-based compensation plans during the year ended December 31, 2015. (See Note 17- Shareholders' Equity)

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		Year ended December 31, 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.	0.85% p.a.	0.85% 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.

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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.

There were no shares awarded in 2015.

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 January 1, 2017	7,175	7,704	-	965	-	-	7,175	8,669
Granted	-	554	-	55	-	1,020	-	1,629
Vested	2,425	(2,425)	-	-	-	-	2,425	(2,425)
Balance, at April 28, 2017	9,600	5,833	-	1,020	-	1,020	9,600	7,873

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	9,600	5,833	15,433	708,558	430,555	1,139,113
Class C	-	1,020	1,020	-	-	-
Class D	-	1,020	1,020	-	1,135,747	1,135,747
Total	9,600	7,873	17,473	708,558	1,566,302	2,274,860

At the Recapitalization date, the unamortized cumulative compensation cost for the former Class B, Class C and Class D shares amounted to $2.9 million, $5.8 million and $9.1 million, respectively.

The $2.9 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.

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The Company has recorded a share-based compensation expense related to the plan of $0.8 million, $0.2 million and $0.6 million during the years ended December 31, 2017, 2016 and 2015, 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:

	Years ended December 31,					
	2017		2016		2015	
	Time based restricted shares	Performance based shares	Time based restricted shares	Performance based shares	Time based restricted shares	Performance based shares
	New common shares		Class B	Class C	Class B	Class C
Total unrecognized compensation expense (in thousands)....	$ 2,321	$ 9,086	$ 2,751	$ 5,601	$ 2,140	$ 5,506
Weighted-average period unvested compensation expense...	2.64 years	N/A	2.91 years	N/A	3.05 years	N/A

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

	Time based restricted shares	Performance based shares		Weighted average grant date fair value per share		
	Class B	Class C	Class D	Class B	Class C	Class D
Non-vested ordinary shares at January 1, 2017....	7,704	965	-	$ 357.05	$ 5,808.48	$ -
Granted	554	55	1,020	73.81	2,979.67	8,907.82
Vested..	(2,425)	-	-	78.00	-	-
Forfeited	-	-	-	-	-	-
Non-vested ordinary shares at April 28, 2017.......	5,833	1,020	1,020	$ 498.40	$ 5,653.33	$ 8,907.82

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..	5,833	2,040	$ 498.40	$ 7,280.17
Replaced for new common shares...	430,555	1,135,747	6.75	8.00
Vested..	(36,795)	-	15.93	-
Repurchase of ordinary shares..	(5,833)	(2,040)	(498.40)	(7,280.17)
Non-vested common shares at December 31, 2017..............................	393,760	1,135,747	$ 5.89	$ 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..	2,659	176	456.22	4,677.20
Vested...	(2,503)	-	245.62	-
Forfeited..	(1,493)	(172)	185.23	4,217.58
Non-vested ordinary 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 ordinary 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 ordinary shares at December 31, 2015	9,041	961	$ 236.68	$ 5,728.39

The total grant date fair value of the time based restricted vested ordinary shares was $0.8 million, $0.6 million and $0.6 million during the years ended December 31, 2017, 2016 and 2015, respectively.

Note 19 — 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 years ended December 31, 2017 and 2016, the Company settled forex contracts with aggregate notional values of approximately $13.7 million and $21.6 million, respectively, 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, 2017 and 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,		
	2017	2016	2015
Cash flow hedges			
Foreign currency forward contracts	$ 238	$ 427	$ -

	Gain reclassified from AOCIL to "Operating and maintenance"		
	Years ended December 31,		
	2017	2016	2015
Cash flow hedges			
Foreign currency forward contracts	$ 238	$ 427	$ -

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Note 20 — Supplemental Balance Sheet Information

Accounts and other receivables consisted of the following (in thousands):

	December 31, 2017	December 31, 2016
Accounts and other receivables, net		
Accounts receivables	$ 133,114	$ 217,741
Allowance for doubtful accounts	(2,496)	(99,606)
Accounts receivables, net	130,618	118,135
VAT receivables	6,892	5,802
Other	275	1,375
	$ 137,785	$ 125,312

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 $8.6 million.

Other current assets consisted of the following (in thousands):

	December 31, 2017	December 31, 2016
Other current assets		
Deferred costs	$ 76,563	$ 61,140
Prepayments	7,401	18,810
Income tax receivable	3,274	7,200
Deferred financing fee	1,333	1,706
Restricted cash	632	626
Other	7,757	5,753
	$ 96,960	$ 95,235

Other assets consisted of the following (in thousands):

	December 31, 2017	December 31, 2016
Other assets		
Deferred costs	$ 79,341	$ 101,933
Restricted cash	14,630	8,630
Income tax receivable	10,155	-
Deposits	3,220	2,432
Deferred financing fee	3,058	568
Retention receivable	-	4,148
Other	1,927	730
	$ 112,331	$ 118,441

Other current liabilities consisted of the following (in thousands):

	December 31, 2017	December 31, 2016
Other current liabilities		
Deferred revenue	$ 11,276	$ 12,964
Incentive compensation and bonus accruals	10,785	9,196
Preferred dividend payable	7,406	-
Accrued payroll and employee benefits	2,988	2,867
Accrued taxes, other than income	1,939	5,663
End of service benefits	1,546	1,274
Defined benefit obligation	550	481
Other	191	220
	$ 36,681	$ 32,665

Other long-term liabilities consisted of the following (in thousands):

	December 31, 2017	December 31, 2016
Other long-term liabilities		
End of service benefits	$ 7,990	$ 7,541
Deferred revenue	4,985	12,266
Defined benefit obligation	2,324	2,685
Income taxes	2,248	2,455
Other	172	250
	$ 17,719	$ 25,197

Note 21 — 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, 2017	2016	2015
Decrease / (increase) in operating assets			
Accounts and other receivables, net	$ (7,029)	$ 41,443	$ 29,306
Other current assets	13,703	(7,757)	(27,984)
Other assets	(8,758)	429	27,164
(Decrease) / increase in operating liabilities			
Accounts payable and other current liabilities	21,823	(16,772)	(40,316)
Accrued interest	(7,374)	-	-
Accrued income taxes	4,822	(546)	(8,391)
Other long-term liabilities	3,588	4,426	2,248
	$ 20,775	$ 21,223	$ (17,973)

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Additional cash flow information was as follows (in thousands):

	Years ended December 31,		
	2017	2016	2015
Cash payments for			
Interest, net of amounts capitalized	$ 77,376	$ 72,997	$ 68,894
Income taxes	18,177	26,125	40,669

As part of the sale and leaseback agreements for the Newbuilds, contractual commitments totaling $74.1 million, $148.1 million and $55.5 million were paid by third party financial institution directly to the Builder during the years ended December 31, 2017, 2016 and 2015, respectively, and $3.1 million, $6.8 million and $0.6 million 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, 2017, 2016 and 2015.

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 consolidated statements of cash flows for the year ended December 31, 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):

	Years ended December 31,		
	2017	2016	2015
Regulatory and capital maintenance	$ 35,018	$ 37,960	$ 127,695
Contract preparation	13,741	22,353	65,232
Fleet spares and others	2,976	6,964	11,646
Reactivation projects	-	-	23,372
	$ 51,735	$ 67,277	$ 227,945
Rig acquisitions	253,230	-	-
Newbuilds	92,161	190,035	95,254
Total capital expenditures and deferred costs	$ 397,126	$ 257,312	$ 323,199

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):

	Years ended December 31,		
	2017	2016	2015
Cash payments for additions to property and equipment	$ 253,834	$ 53,541	$ 157,193
Net change in accrued but unpaid additions to property and equipment	4,578	(5,080)	(60,034)
	$ 258,412	$ 48,461	$ 97,159
Add: Asset addition related to sale and leaseback transactions	76,282	154,306	74,703
Total capital expenditures	$ 334,694	$ 202,767	$ 171,862
Changes in deferred costs, net	$ (2,232)	$ (37,218)	$ 70,353
Add: Amortization of deferred costs	64,664	91,763	80,984
Total deferred costs	$ 62,432	$ 54,545	$ 151,337
Total capital expenditures and deferred costs	$ 397,126	$ 257,312	$ 323,199

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Note 22 — Loss Per Share

The net loss is allocated to the three classes of common stock under the provisions of the Waterfall distribution set forth in the Articles until the Recapitalization date. See Note 17 – Shareholders' Equity. The Company presented the loss per share information into pre and post Recapitalization periods for the year ended December 31, 2017.

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

The (loss)/earnings per share during the year ended December 31, 2017 are calculated based on information prior to the recapitalization for the ordinary Class A, B, C and D shares and subsequent to Recapitalization for the new common shares.

	Year ended December 31, 2017				
	Four months ended April 30, 2017				Eight months ended December 31, 2017
	Class A	Class B	Class C	Class D	Common Shares
Numerator for loss per share					
Net income / (loss)	$ 458	$ -	$ -	$ -	$ (71,668)
Less: Preferred shares dividend	5,255	-	-	-	11,786
Net loss attributable to common and ordinary shares	$ (4,797)	$ -	$ -	$ -	$ (83,454)
Denominator for loss per share					
Weighted average shares:					
Basic outstanding per Class	444,594	18,555	5,110	-	81,572,999
Effect of stock options and other share-based awards	-	-	-	-	-
Diluted per Class	444,594	18,555	5,110	-	81,572,999
Basic loss per share per Class	$ (10.79)	$ -	$ -	$ -	$ (1.02)
Diluted loss per share per Class	$ (10.79)	$ -	$ -	$ -	$ (1.02)

	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	$ (29,836)	$ -	$ -	$ (180,002)	$ -	$ -
Less: Preferred shares dividend	-	-	-	-	-	-
Net loss attributable to ordinary shares	$ (29,836)	$ -	$ -	$ (180,002)	$ -	$ -
Denominator for earnings 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	-	-	-	-	-	-
Diluted per Class	445,386	17,500	5,119	446,525	15,142	5,133
Basic loss per share per Class	$ (66.99)	$ -	$ -	$ (403.12)	$ -	$ -
Diluted loss per share per Class	$ (66.99)	$ -	$ -	$ (403.12)	$ -	$ -

For the years ended December 31, 2017, 2016 and 2015, there were 93,947 dilutive class B, class C and common shares, 3,454 dilutive class B and C shares and 8,796 dilutive class B and C shares, respectively, 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 23 — 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 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 E&P companies and government owned or 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,		
	2017	**2016**	**2015**
Saudi Arabia	$ 170,822	$ 165,280	$ 184,653
India	114,080	193,202	159,754
Thailand	92,038	57,578	150,531
Nigeria	77,857	76,473	195,948
United Arab Emirates	50,743	78,279	33,349
Egypt	34,467	49,044	83,069
Other countries	31,957	64,461	223,994
Total revenue	$ 571,964	$ 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,	
	2017	**2016**
Thailand	$ 443,090	$ 227,400
United Arab Emirates	244,882	233,967
Saudi Arabia	207,125	228,331
Nigeria	183,959	55,660
India	110,752	140,180
Other countries	216,086	308,211
Total long-lived assets	$ 1,405,894	$ 1,193,749

The total long-lived assets are comprised of property and equipment and short-term and long-term deferred costs. A substantial portion of the Company's assets are mobile. In 2016, the assets in the UAE include $134.1 million relating to the Newbuilds under construction. 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.

Major Customers — The Company provides contract drilling services to government owned or controlled energy companies, publicly listed integrated oil companies and independent E&P companies.

Consolidated revenues by customer for the years ended December 31, 2017, 2016 and 2015 were as follows:

	Years ended December 31,		
	2017	2016	2015
A	30%	28%	18%
B	21%	24%	16%
C	18%	11%	14%
D	-	11%	-
Other	31%	26%	52%
	100%	100%	100%

In the above table, the customers presented in each year do not necessarily represent the same customers from the comparative periods presented.

Note 24— 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 $3.2 million, $3.3 million and $4.3 million during 2017, 2016 and 2015, respectively. The total liability recorded under accounts payable for such transactions were $0.6 million and $0.6 million as of December 31, 2017 and 2016, respectively.

The Company recorded $5.5 million, $5.2 million and $5.1 million during 2017, 2016 and 2015, respectively, for 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 $52 thousand and $0.2 million as of December 31, 2017 and 2016, respectively.

Note 25 — Subsequent Events

The Company has evaluated subsequent events through March 13, 2018, the date of issuance of the financial statements.

On February 7, 2018, SDHL completed the issuance of $600.0 million of new 8.25% Senior Unsecured Notes due 2025 ("8.25% Senior Unsecured Notes"). The net proceeds of $588.9 million, after $11.1 million of fees and expenses, of the 8.25% Senior Unsecured Notes were used to purchase and cancel or redeem $502.8 million of 9.5% Senior Secured Notes and $30.4 million of 8.625% Senior Secured Notes, or such notes redemption provisions. As a result, the Company paid a premium for the 9.5% Senior Secured Notes and the 8.625% Senior Secured Notes of $12.2 million and $10 thousand, respectively, plus accrued and unpaid interest, and will write off unamortized debt issuance costs of $6.1 million and $0.2 million, respectively, in the first quarter of 2018.

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.