SHELF DRILLING

SHELF DRILLING, LTD.

(An exempted company, limited by shares and incorporated under the laws of the Cayman Islands)

Initial public offering of Securities with an indicative price range of NOK 64.47 to NOK 72.53 per Security

Listing of the Securities on the Oslo Stock Exchange, alternatively on Oslo Axess

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This prospectus (the "**Prospectus**") has been prepared in connection with the initial public offering (the "**Offering**") of depository receipts of Shelf Drilling, Ltd. ("**Shelf**" or the "**Company**", and together with its consolidated subsidiaries, the "**Group**"), an exempted company, limited by shares and incorporated under the laws of the Cayman Islands, and the related listing (the "**Listing**") of the Company's depository receipts, each with a par value of USD 0.01 (the "**Securities**" and each a "**Security**", as further described below), on Oslo Børs, or alternatively on Oslo Axess, a stock exchange operated by Oslo Børs ASA (the "**Oslo Stock Exchange**"). Assuming that the Offer Price is set at the mid-point of the Indicative Price Range and that the USD/NOK exchange rate is 8.0588, the Offering comprises up to 29,411,679 new Securities issued by the VPS Registrar on behalf of the Company (the "**New Securities**") to raise gross proceeds of the NOK equivalent of minimum USD 200 million and maximum USD 250 million (based on a conversion from NOK to USD on the date of allocation of the New Securities, using the then prevailing exchange rate). The New Securities and, unless the context otherwise indicates, the Additional Securities (as defined below) are referred to herein as the "**Offer Securities**".

The Offering consists of: (i) a private placement to (a) investors in Norway, (b) institutional investors outside Norway and the United States of America (the "**U.S.**" or the "**United States**"), subject to applicable exemptions from applicable prospectus and registration requirements, and (c) "qualified institutional buyers" ("**QIBs**") in the United States as defined in, and in reliance on, Rule 144A ("**Rule 144A**") or another available exemption under the U.S. Securities Act of 1933 (the "**U.S. Securities Act**") (the "**Institutional Offering**") and (ii) a retail offering to the public in Norway (the "**Retail Offering**"). All offers and sales outside the United States will be made to non-U.S. persons in offshore transactions in compliance with Regulation S under the U.S. Securities Act ("**Regulation S**").

DNB Markets, a part of DNB Bank ASA ("**DNB Markets**") is acting as Global Coordinator and Joint Bookrunner, Clarksons Platou Securities AS ("**Clarksons**") is acting as Joint Bookrunner and Arctic Securities AS ("**Arctic**") and Sparebank 1 Markets AS ("**SPM**") are acting as Co-Managers in the Offering (collectively, the "**Managers**"). The Managers may elect to over-allot a number of additional Securities equaling up to 15% of the final number of New Securities sold in the Offering (the "**Additional Securities**"). In this respect, the Sponsors are expected to grant DNB Markets (the "**Stabilisation Manager**"), on behalf of the Managers, an option to borrow a number of Securities equal to the number of Additional Securities in order to facilitate such over-allotment (the "**Lending Option**"). The Stabilisation Manager, on behalf of the Managers, is expected to be granted an option by the Sponsors to purchase a number of Securities from the Sponsors equal to the number of Additional Securities, all at a price per Security equal to the Offer Price (the "**Greenshoe Option**"), exercisable, in whole or in part, within a 30-day period commencing at the time at which trading in the Securities commences on the Oslo Stock Exchange expected to be on or about 25 June 2018, on the terms and subject to the conditions described in this Prospectus. The Company will not receive any of the proceeds from any Additional Securities.

The price (the "**Offer Price**") at which the Offer Securities will be sold in the Offering is expected to be between NOK 64.47 and NOK 72.53 per Offer Security (the "**Indicative Price Range**"). The Offer Price may be set within, below or above the Indicative Price Range. The Offer Price will be determined following a bookbuilding process and will be set by the Company in consultation with the Managers. See Section 17.4.1 ("*Determination of the number of Offer Securities and the Offer Price*") for further information on how the Offer Price is set. The Offer Price, and the number of Offer Securities sold in the Offering, is expected to be announced through a stock exchange notice on or before 22 June 2018 at 08:00 hours (Central European Time, "**CET**"). The offer period for the Institutional Offering (the "**Bookbuilding Period**") will commence at 09:00 hours (CET) on 13 June 2018 and close at 14:00 hours (CET) on 21 June 2018. The application period in the Retail Offering (the "**Application Period**") will commence at 09:00 hours (CET) on 13 June 2018 and close at 12:00 hours (CET) on 21 June 2018. The Bookbuilding Period and the Application Period may, at the Company's sole discretion, in consultation with the Managers and for any reason, be shortened or extended beyond the set times, but will in no event be shortened to expire prior to 16:30 hours (CET) on 20 June 2018 or extended beyond 14:00 hours (CET) on 6 July 2018.

The Securities, being the depository receipts that represents the beneficial interests in the Company's common shares (the "**Common Shares**"), will be registered in the Norwegian Central Securities Depository (the "**VPS**") in book-entry form under the name of a "share" and will be listed and traded on the Oslo Stock Exchange in the form of depository receipts as "shares in Shelf Drilling, Ltd.". Accordingly, all references to "Securities" or "Offer Securities" in this Prospectus shall in the context of the securities to be listed and traded on the Oslo Stock Exchange refer to the depository receipts for the Common Shares. All Securities will rank in parity with one another and each carry one vote. Except where the context otherwise require, references in this Prospectus to the Securities will be deemed to include the Offer Securities.

Investing in the Offer Securities involves a high degree of risk. Prospective investors should read the entire Prospectus and, in particular, consider Section 2 ("*Risk Factors*") beginning on page 20 when considering an investment in the Company.

The Offer Securities or this Prospectus have not been, and will not be, registered under the U.S. Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States, and are being offered and sold: (i) in the United States only to persons who are QIBs in reliance on Rule 144A or another available exemption from registration requirements of the Securities Act; and (ii) outside the United States to non-U.S. persons in offshore transactions in compliance with Regulation S. Prospective investors are hereby notified that any seller of the Offer Securities may be relying on an exemption from the provisions of Section 5 of the U.S. Securities Act. The distribution of this Prospectus and the offer and sale of the Offer Securities may be restricted by law in certain jurisdictions. Accordingly, neither this Prospectus nor any advertisement or any other Offering material may be distributed or published in any jurisdiction, except under circumstances that will result in compliance with applicable laws and regulations. Persons in possession of this Prospectus are required by the Company and the Managers to inform themselves about and to observe any such restrictions. Any failure to comply with these regulations may constitute a violation of the securities laws of any such jurisdictions. See Section 18 ("Selling and Transfer Restrictions").

The Securities have been listed on the Norwegian OTC list ("**N-OTC**") since 5 May 2017 under the ticker code "SHLF". On or about 14 June 2018, the Company expects to apply for the Securities to be admitted for trading and listing on Oslo Børs, or alternatively Oslo Axess, and completion of the Offering is subject to the approval of the listing application by the board of directors of the Oslo Stock Exchange, the satisfaction of the conditions for admission to listing set by the Oslo Stock Exchange and certain other conditions as set out in Section 17.15 ("*Conditions for completion of the Offering – Listing and trading of the Offer Securities*"). The Securities will upon Listing be de-listed from the N-OTC. The Securities will be eligible for clearing through the facilities of the Oslo Stock Exchange.

The due date for the payment of the Offer Securities is expected to be on or about 26 June 2018 in the Institutional Offering and the due date for payment of the Offer Securities is expected to be on or about 25 June 2018 in the Retail offering. Delivery of the Offer Securities is expected to take place on or about 26 June 2018 through the facilities of the VPS. The Offering may at any point in time be withdrawn, resulting in all applications for Offer Securities being disregarded, any allocations made being deemed not to have been made and any payments made will be returned without any interest or other compensation. All dealings in the Securities prior to settlement and delivery are at the sole risk of the parties concerned.

Global Coordinator & Joint Bookrunner

DNB Markets, a part of DNB Bank ASA

Joint Bookrunner

Clarksons Platou Securities AS

Co-Manager

Arctic Securities AS SpareBank 1 Markets AS

The date of this Prospectus is 12 June 2018

IMPORTANT INFORMATION

This Prospectus has been prepared in connection with the Offering of the Offer Securities and the Listing of the Securities on the Oslo Stock Exchange.

This Prospectus has been prepared to comply with the Norwegian Securities Trading Act of 29 June 2007 no. 75 (the "**Norwegian Securities Trading Act**") and related secondary legislation, including the Commission Regulation (EC) no. 809/2004 implementing Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003 regarding information contained in prospectuses, as amended, and as implemented in Norway (the "**EU Prospectus Directive**"). This Prospectus has been prepared solely in the English language. The Financial Supervisory Authority of Norway (*Nw.: Finanstilsynet*) (the "**Norwegian FSA**") has reviewed and approved this Prospectus in accordance with Sections 7-7 and 7-8 of the Norwegian Securities Trading Act. The Norwegian FSA has not controlled or approved the accuracy or completeness of the information included in this Prospectus. The approval by the Norwegian FSA is dated 12 June 2018 and only relates to the information included in accordance with pre-defined disclosure requirements. The Norwegian FSA has not made any form of control or approval relating to corporate matters described in or referred to in this Prospectus.

For definitions of certain other terms used throughout this Prospectus, see Section 20 ("*Definitions and Glossary*").

The information contained herein is current as at the date hereof and subject to change, completion and amendment without notice. In accordance with Section 7-15 of the Norwegian Securities Trading Act, significant new factors, material mistakes or inaccuracies relating to the information included in this Prospectus, which are capable of affecting the assessment by investors of the Offer Securities between the time of approval of this Prospectus by the Norwegian FSA and the Listing, will be included in a supplement to this Prospectus. Neither the publication nor distribution of this Prospectus, nor the sale of any Offer Security, shall under any circumstances imply that there has been no change in the Group's affairs or that the information herein is correct as at any date subsequent to the date of this Prospectus.

No person is authorized to give information or to make any representation concerning the Group or in connection with the Offering or the sale of the Offer Securities other than as contained in this Prospectus. If any such information is given or made, it must not be relied upon as having been authorized by the Company or the Managers or by any of the affiliates, representatives, advisors or selling agents of any of the foregoing.

The distribution of this Prospectus and the offer and sale of the Offer Securities in certain jurisdictions may be restricted by law. This Prospectus does not constitute an offer of, or an invitation to purchase, any of the Offer Securities in any jurisdiction in which such offer or sale would be unlawful. Neither this Prospectus nor any advertisement or any other offering material may be distributed or published in any jurisdiction except under circumstances that will result in compliance with applicable laws and regulations. Persons in possession of this Prospectus are required to inform themselves about and to observe any such restrictions. In addition, the Securities are subject to restrictions on transferability and resale and may not be transferred or resold except as permitted under applicable securities laws and regulations. Investors should be aware that they may be required to bear the financial risks of this investment for an indefinite period of time. Any failure to comply with these restrictions may constitute a violation of applicable securities laws. See Section 18 ("*Selling and Transfer Restrictions*").

This Prospectus and the terms and conditions of the Offering as set out herein and any sale and purchase of Offer Securities hereunder shall be governed by and construed in accordance with Norwegian law. The courts of Norway, with Oslo as legal venue, shall have exclusive jurisdiction to settle any dispute which may arise out of or in connection with the Offering or this Prospectus.

In making an investment decision, prospective investors must rely on their own examination, and analysis of, and enquiry into the Group and the terms of the Offering, including the merits and risks involved. None of the Company or the Managers, or any of their respective representatives or advisers, is making any representation to any offeree or purchaser of the Offer Securities regarding the legality of an investment in the Offer Securities by such offeree or purchaser under the laws applicable to such offeree or purchaser. Each investor should consult with his or her own advisors as to the legal, tax, business, financial and related aspects of a purchase of the Offer Securities.

All Sections of the Prospectus should be read in context with the information included in Section 4 ("*General Information*").

NOTICE TO INVESTORS IN THE UNITED STATES

The Offer Securities have not been approved or disapproved by any United States federal or state securities commission or regulatory authority. Furthermore, the foregoing authorities have not passed upon the merits of the Offering or confirmed the accuracy or determined the adequacy of this Prospectus. Any representation to the contrary is a criminal offense under the laws of the United States.

The Offer Securities have not been, and will not be, registered under the U.S. Securities Act, or with any securities regulatory authority of any state or other jurisdiction in the United States, and may not be offered, sold, pledged or otherwise transferred within the United States, except pursuant to an exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in compliance with any applicable state securities laws.

Accordingly, the Offer Securities are being offered and sold: (i) in the United States only to QIBs in reliance upon Rule 144A or another available exemption from the registration requirements of the U.S. Securities Act; and (ii) outside the United States to non-U.S. persons in offshore transactions in compliance with Regulation S. For certain restrictions on the sale and transfer of the Offer Securities, see Section 18 ("*Selling and Transfer Restrictions*").

Prospective investors are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Offer Securities, and are hereby notified that sellers of Offer Securities may be relying on an exemption from the provisions of Section 5 of the U.S. Securities Act. See Section 18 ("*Selling and Transfer Restrictions*").

In the United States, this Prospectus is being furnished on a confidential basis solely for the purposes of enabling a prospective investor to consider purchasing the particular securities described herein. The information contained in this Prospectus has been provided by the Company and other sources identified herein. Distribution of this Prospectus to any person other than the offeree specified by the Managers or their representatives, and those persons, if any, retained to advise such offeree with respect thereto, is unauthorized, and any disclosure of its contents, without prior written consent of the Company, is prohibited. Any reproduction or distribution of this Prospectus in the United States, in whole or in part, and any disclosure of its contents to any other person is prohibited. This Prospectus is personal to each offeree and does not constitute an offer to any other person or to the public generally to purchase Offer Securities or subscribe for or otherwise acquire any Securities.

NOTICE TO INVESTORS IN THE UNITED KINGDOM

In the United Kingdom (the "**UK**"), this Prospectus is only being distributed to and is only directed at persons (i) who have professional experience in matters falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the "**Order**"); (ii) falling within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations etc.) of the Order; and/or (iii) to whom it may lawfully be communicated or caused to be communicated (all such persons together being referred to as "**Relevant Persons**"). The Offer Securities are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Securities will be engaged in only with, Relevant Persons. Any person who is not a Relevant Person should not act or rely on this Prospectus or any of its contents.

NOTICE TO INVESTORS IN THE EEA

In any member state of the European Economic Area (the "**EEA**"), other than Norway (each, a "**Member State**"), this communication is only addressed to and is only directed at persons who are "qualified investors" within the meaning of Article 2(1)(e) of the EU Prospectus Directive. The Prospectus has been prepared on the basis that all offers of Offer Securities outside Norway will be made pursuant to an exemption under the EU Prospectus Directive from the requirement to produce a prospectus for offer of securities. Accordingly, any person making or intending to make any offer within the EEA of Offer Securities which is the subject of the Offering contemplated in this Prospectus within any EEA member state (other than Norway) should only do so in circumstances in which no obligation arises for the Company or any of the Managers to publish a prospectus pursuant to Article 3 of the Prospectus Directive or supplement a prospectus pursuant to Article 16 of the EU Prospectus Directive, in each case, in relation to such offer. Neither the Company nor the Managers have authorized, nor do they authorize, the making of any offer of Securities in circumstances in which an obligation arises for either the Company or the Managers to publish or supplement a prospectus for such offer. Neither the Company nor the Managers have authorized, nor do they authorize, the making of any offer of Offer Securities through any financial intermediary, other than offers made by Managers which constitute the final placement of Offer Securities contemplated in this Prospectus.

Each person in a Member State other than, in the case of paragraph (a), persons receiving offers contemplated in this Prospectus in Norway, who receives any communication in respect of, or who acquires any Offer Securities under, the offers contemplated in this Prospectus will be deemed to have represented, warranted and agreed to and with the Managers and the Company that:

a) it is a "qualified investor" within the meaning of the law in that Member State implementing Article 2(1)(e) of the EU Prospectus Directive; and

b) in the case of any Offer Securities acquired by it as a financial intermediary, as that term is used in Article 3(2) of the EU Prospectus Directive, (i) such Offer Securities acquired by it in the Offering have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Member State other than qualified investors, as that term is defined in the EU Prospectus Directive, or in circumstances in which the prior consent of the Managers has been given to the offer or resale; or (ii) where such Offer Securities have been acquired by it on behalf of persons in any Member State other than qualified investors, the offer of those Offer Securities to it is not treated under the EU Prospectus Directive as having been made to such persons.

For the purposes of this provision, the expression an "offer to the public" in relation to any of the Offer Securities in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Securities to be offered so as to enable an investor to decide to purchase any of the Offer Securities, as the same may be varied in that Member State by any measure implementing the EU Prospectus Directive in that Member State, and the expression "**EU Prospectus Directive**" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Member State), and includes any relevant implementing measure in each Member State and the expression "**2010 PD Amending Directive**" means Directive 2010/73/EU.

See Section 18 ("*Selling and Transfer Restrictions*") for certain other notices to investors.

INFORMATION TO DISTRIBUTORS

Solely for the purposes of the product governance requirements contained within: (a) EU Directive 2014/65/EU on markets in financial instruments, as amended ("**MiFID II**"); (b) Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593 supplementing MiFID II; and (c) local implementing measures (together, the "**MiFID II Product Governance Requirements**"), and disclaiming all and any liability, which any "manufacturer" (for the purposes of the MiFID II Product Governance Requirements) may otherwise have with respect thereto, the Securities have been subject to a product approval process, which has determined that they each are: (i) compatible with an end target market of retail investors and investors who meet the criteria of professional clients and eligible counterparties, each as defined in MiFID II; and (ii) eligible for distribution through all distribution channels as are permitted by MiFID II (the "**Target Market Assessment**"). Notwithstanding the Target Market Assessment, distributors should note that: the price of the Securities may decline and investors could lose all or part of their investment; the Securities offer no guaranteed income and no capital protection; and an investment in the Securities is compatible only with investors who do not need a guaranteed income or capital protection, who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom. Conversely, an investment in the Securities is not compatible with investors looking for full capital protection or full repayment of the amount invested or having no risk tolerance, or investors requiring a fully guaranteed income or fully predictable return profile.

The Target Market Assessment is without prejudice to the requirements of any contractual, legal or regulatory selling restrictions in relation to the Offering.

For the avoidance of doubt, the Target Market Assessment does not constitute: (a) an assessment of suitability or appropriateness for the purposes of MiFID II; or (b) a recommendation to any investor or group of investors to invest in, or purchase, or take any other action whatsoever with respect to the Securities.

Each distributor is responsible for undertaking its own Target Market Assessment in respect of the Securities and determining appropriate distribution channels.

STABILISATION

In connection with the Offering, the Stabilisation Manager (DNB Markets), or its agents, on behalf of the Managers, may, in the event of over-allotment of Additional Securities, engage in transactions that stabilise, maintain or otherwise affect the price of the Securities for up to 30 days from the commencement of trading of the Securities on the Oslo Stock Exchange. Specifically, the Stabilisation Manager may effect transactions with a view to supporting the market price of the Offer Securities at a level higher than that which might otherwise prevail, through buying Securities in the open market at prices equal to or lower than the Offer Price. The Stabilisation Manager and its agents are not required to engage in any of these activities and, as such, there is no assurance that these activities will be undertaken; if undertaken, the Stabilisation Manager or its agents may end any of these activities at any time and they must be brought to an end at the end of the 30-day period mentioned above. Save as required by law or regulation, the Stabilisation Manager does not intend to disclose the extent of any stabilisation transactions under the Offering.

ENFORCEMENT OF CIVIL LIABILITIES

The Company is an exempted company, limited by shares and incorporated under the laws of the Cayman Islands and the Securities are issued by the VPS Registrar in accordance with the Registrar Agreement (both as defined below). As a result, the rights of holders of the Company's shares will be governed by Cayman Islands law and the Articles (as defined below), and the rights of holders of the Securities will be governed by Norwegian law, as further described in Section 14 ("Corporate Information and Description of the Share Capital"). The rights of shareholders under Cayman Islands law and the rights of holders of Securities under Norwegian law may differ from the rights of shareholders of companies incorporated in other jurisdictions or holders of similar instruments in other jurisdictions than Norway. With five exceptions, the members of the Company's board of directors (the "**Directors**" and the "**Board of Directors**", respectively) and the members of the Company's executive management (the "**Management**") are not residents of the United States, and a substantial portion of the Company's assets are located outside the United States. As a result, it may be difficult for investors in the United States to effect service of process on the Company or its Directors and members of Management in the United States or to enforce in the United States judgments obtained in U.S. courts against the Company or those persons, including judgments based on the civil liability provisions of the securities laws of the United States or any State or territory within the United States. Uncertainty exists as to whether courts in the Cayman Islands will enforce judgments obtained in other jurisdictions, including the United States, against the Company or its Directors or members of Management under the securities laws of those jurisdictions or entertain actions in the Cayman Islands against the Company or its Directors or members of Management under the securities laws of other jurisdictions. In addition, awards of punitive damages in actions brought in the United States or elsewhere may not be enforceable in the Cayman Islands. The United States and the Cayman Islands do not currently have a treaty providing for reciprocal recognition and enforcement of judgements (other than arbitral awards) in civil and commercial matters.

AVAILABLE INFORMATION

The Company has agreed that, for so long as any of the Offer Securities are "restricted securities" within the meaning of Rule 144(a)(3) under the U.S. Securities Act, it will during any period in which it is neither subject to Sections 13 or 15(d) of the U.S. Securities Exchange Act of 1934, as amended (the "**U.S. Exchange Act**"), nor exempt from reporting pursuant to Rule 12g3-2(b) under the U.S. Exchange Act, provide to any U.S. holder or beneficial owners of Securities, or to any prospective purchaser designated by any such registered holder, upon the request of such holder, beneficial owner or prospective owner, the information required to be delivered pursuant to Rule 144A(d)(4) of the U.S. Securities Act.

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APPENDICES

1 SUMMARY

Summaries are made up of disclosure requirements known as "Elements". These Elements are numbered in Sections A–E (A.1 – E.7) below. This summary contains all the Elements required to be included in a summary for this type of securities and the Company. Because some Elements are not required to be addressed, there may be gaps in the numbering sequence of the Elements. Even though an Element may be required to be inserted in the summary because of the type of securities and issuer, it is possible that no relevant information can be given regarding the Element. In this case a short description of the Element is included in the summary with the mention of "not applicable".

Section A – Introduction and Warnings

A.1	**Warning**	This summary should be read as introduction to the Prospectus; any decision to invest in the Securities should be based on consideration of the Prospectus as a whole by the investor; where a claim relating to the information contained in the Prospectus is brought before a court, the plaintiff investor might, under the national legislation of the Member States, have to bear the costs of translating the Prospectus before the legal proceedings are initiated; and civil liability attaches only to those persons who have tabled the summary including any translation thereof, but only if the summary is misleading, inaccurate or inconsistent when read together with the other parts of the prospectus or it does not provide, when read together with the other parts of the Prospectus, key information in order to aid investors when considering whether to invest in such securities.
A.2	**Warning**	Not applicable. No consent is granted by the Company for the use of this Prospectus for the subsequent resale or final placement of the Securities.

Section B - Issuer

B.1	**Legal and commercial name**	Shelf Drilling, Ltd.
B.2	**Domicile and legal form, legislation and country of incorporation**	The Company is an exempted company, limited by shares and incorporated under the laws of the Cayman Islands pursuant to the Cayman Islands Companies Law. The Company was incorporated in the Cayman Islands on 14 August 2012, and has registration number 271054.
B.3	**Current operations, principal activities and markets**	The Group is a leading international shallow water offshore drilling contractor engaged in the provision of equipment and services for the drilling, completion and well maintenance of shallow water offshore oil and natural gas wells. The Group is primarily engaged in development and workover activity on producing assets, with a sole focus on shallow water operations in water depths of up to 400 feet. The Group owns 38 independent-leg cantilever ("**ILC**") jack-up rigs and one swamp barge and is the world's largest owner and operator of jack-up rigs by number of rigs[1]. As of 31 March 2018, 26 of the rigs were under contract with various customers, one rig was under bareboat charter, nine rigs were marketable but uncontracted and two rigs and one swamp barge were stacked. The Group's corporate headquarters are in Dubai, United Arab Emirates, geographically close to its operations in the Middle East, South East Asia, India, West Africa and the Mediterranean. The Group's fleet operates in a single, global market for the provision of contract drilling services and its "fit for purpose" strategy enables the Group to offer a broad range of services in the shallow water drilling markets in which they operate. The Group believes that the long-term prospects for shallow water drilling are

[1] Measured by numbers of jack-up rigs owned as of 4 June 2018, pursuant to Rystad Energy

		positive given the expected growth in oil and gas consumption from developing nations, limited growth in crude oil supplies, high depletion rates of mature oil and gas fields and low break even costs compared to other segments within the oil and gas drilling industry. The diversified geographical focus of the Group's jack-ups and the allocation of resources to build or upgrade rigs will be determined by the activities and needs of its customers. Currently, the Group's main customers are national oil companies (NOCs), international oil companies (IOCs), and independent oil and gas companies, including Saudi Aramco, ONGC (as defined below), Adnoc Offshore (previously Adma-Opco), Chevron, ExxonMobil, Dubai Petroleum Establishment (DPE), TOTAL S.A. and ENI (or their affiliates), who contract the Group's rigs for varying durations.
B.4a	**Significant recent trends**	The Company has not experienced any changes or trends that are significant to the Company since 31 December 2017.
B.5	**Description of the Group**	The Company, the parent company of the Group, is a holding company. The operations of the Group are entirely carried out by the Group's operating subsidiaries. See Section 14.2 ("*Legal structure*") for an overview of the Company's significant subsidiaries.
B.6	**Interests in the Company and voting rights**	Shareholders owning 5% or more of the Securities will, following the Listing, have an interest in the Company's share capital, which is notifiable under the Norwegian Securities Trading Act. There are no differences in voting rights between the Securities. The Company is not aware of any arrangements the operation of which may at a subsequent date result in a change of control of the Company. As of 7 June 2018, the Company has 47 shareholders holding Common Shares, in which the top 20 largest shareholders are listed in the table below, and no shareholder other than Euroclear Bank S.A. / 25% CLIENTS (23.3%), Lime Rock Partners (20.7%), Castle Harlan (20.7%), CHAMP Private Equity (20.7%) (as defined in section 20 "*Definitions and Glossary*") and Clearstream Banking (8.0%) holds 5% or more of the issued Common Shares.

#	Shareholder Name	No. of shares	Percentage (%)
1	Euroclear Bank S.A./ 25% CLIENTS	19,357,474	23.3%
2	Lime Rock Partners	17,195,797	20.7%
3	Castle Harlan	17,195,797	20.7%
4	CHAMP Private Equity	17,195,797	20.7%
5	Clearstream Banking	6,625,000	8.0%
6	John K. Castle as Voting Trustee	3,403,003	4.1%
7	Banque Pictet & Cie	591,874	0.7%
8	ODIN Energi	424,000	0.5%
9	State Street Bank an A/C CLIENT OMNIBUS F	174,999	0.2%
10	Skeie Technology AS	150,000	0.2%
11	JPMorgan Chase Bank, NORDEA TREATY ACCOUNT	149,710	0.2%
12	UBS AG London br. A/C CLIEN	119,000	0.1%
13	Momentum Investments	71,500	0.1%
14	Stavern Helse og Forvaltning AS	65,000	0.1%
15	Jag Holding AS	65,000	0.1%
16	Barøfoss Invest AS	40,000	<0.1%
17	ALFA GLOBAL ENER	35,000	<0.1%
18	Pål Krantz AS	30,000	<0.1%
19	PONGO AS	25,000	<0.1%
20	Compass Capital Ltd	25,000	<0.1%
Top 20		**82,938,951**	**99.8%**

Other	**176,443**	**0.2%**
Total	**83,115,394**	**100%**

B.7	**Selected historical key financial information**	The following selected financial information has been extracted from the Group's audited consolidated financial statements as at and for the years ended 31 December 2017, 2016 and 2015 (the Financial Statements) and the Company's unaudited consolidated interim financial information as at and for the three months' period ended 31 March 2018 (with comparable figures for the three months' period ended 31 March 2017) (the Interim Financial Information). The Financial Statements have been prepared in accordance with US GAAP. The Interim Financial Information has been prepared in accordance with US GAAP Interim based on accounting policies consistent with those applied in the preparation of the Financial Statements. The selected financial information included in the Prospectus should be read in connection with, and is qualified in its entirety by reference to, the Financial Statements and the Interim Information included in this Prospectus as Appendix B and Appendix C, respectively. Other than the Tap Issue, the anticipated repayment of the SDA Facility and the Sale and Leaseback Financing described under Section 11.9.6.1 and the New SDHL Revolver described under Section 11.9.6.6, there have been no material or significant changes in the financial or trading position of the Group since 31 March 2018.

Consolidated statement of operations

In USD thousand	**Three months ended 31 March**		**Years ended 31 December**		
	2018 (unaudited)	**2017** (unaudited)	**2017** *US GAAP* *(audited)*	**2016** *US GAAP* *(audited)*	**2015** *US GAAP* *(audited)*
Revenues					
Operating revenues	144,604	142,408	556,047	668,649	1,012,757
Other revenue	2,906	3,845	15,917	15,668	18,541
Total revenues	**147,510**	**146,253**	**571,964**	**684,317**	**1,031,298**
Operating costs and expenses					
Operating and maintenance	90,269	68,549	320,084	353,802	534,156
Depreciation	21,868	18,369	80,573	71,780	87,421
Amortization of deferred costs	19,008	16,844	64,664	91,763	80,984
General and administrative	12,607	9,086	43,726	46,889	139,722
Loss on impairment of assets	-	-	34,802	47,094	271,469
(Gain) / loss on disposal of assets	(120)	(138)	(839)	4,826	11,299
Gain on insurance recovery	-	-	-	-	(25,432)
Total operating costs and expenses	**143,632**	**112,710**	**543,010**	**616,154**	**1,099,619**
Operating income / (loss)	**3,878**	**33,543**	**28,954**	**68,163**	**(68,321)**
Other (expense) / income, net					
Interest income	183	147	1,062	356	102
Interest expense and financing charges	(38,960)	(30,360)	(83,995)	(80,120)	(80,537)
Other, net	1,040	(314)	(2,969)	1,522	(873)
Total other (expense) / income, net	**(37,737)**	**(30,527)**	**(85,902)**	**(78,242)**	**(81,308)**

(Loss) / income before income taxes	**(33,859)**	**3,016**	**(56,948)**	**(10,079)**	**(149,629)**
Income tax expense	4,658	4,550	14,262	19,757	30,373
Net loss	**(38,517)**	**(1,534)**	**(71,210)**	**(29,836)**	**(180,002)**
Less: Preferred shares dividend	4,495	3,805	17,041	-	-
Net loss attributable to common and ordinary shares[1]	**(43,012)**	**(5,339)**	**(88,251)**	**(29,836)**	**(180,002)**
Loss per share:					
Basic and Diluted – Common shares	(0.53)	-	(1.02)	-	-
Basic and Diluted – Class A shares	-	(12.01)	(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 and Diluted – Common Shares	81,651,566	-	81,572,999	-	-
Basic and Diluted – Class A shares	-	444,594	444,594	445,386	446,525
Basic and Diluted – Class B shares	-	18,147	18,555	17,500	15,142
Basic and Diluted – Class C shares	-	5,110	5,110	5,119	5,133
Basic and Diluted – Class D shares	-	-	-	-	-

1 For the year ended 31 December 2017, the loss per share is calculated based on information for four months ended 30 April 2017 for the ordinary Class A, B, C and D shares and based on information for eight months ended 31 December 2017 for the Common Shares.

Statement of comprehensive income

In USD thousand	Three months ended 31 March		Years ended 31 December		
	2018 (unaudited)	**2017** (unaudited)	**2017** *US GAAP* *(audited)*	**2016** *US GAAP* *(audited)*	**2015** *US GAAP* *(audited)*
Net loss	**(38,517)**	**(1,534)**	**(71,210)**	**(29,836)**	**(180,002)**
Other comprehensive income, net of tax					
Change in unrealized (losses) / gains on derivative financial instruments					
Changes in unrealized (losses) / gains	(568)	-	238	427	-
Reclassification of net loss / (gain) from other comprehensive income to net income	98	-	(238)	(427)	-
Total comprehensive loss	**(38,987)**	**(1,534)**	**(71,210)**	**(29,836)**	**(180,002)**

Consolidated balance sheets

In USD thousand	As at 31 March	As at 31 December		
	2018 *(unaudited)*	**2017** *US GAAP* *(audited)*	**2016** *US GAAP* *(audited)*	**2015** *US GAAP* *(audited)*
Assets				
Cash and cash equivalents	120,598	84,563	213,139	115,685
Accounts and other receivables, net	128,035	137,785	125,312	166,109
Other current assets	98,903	96,960	95,235	118,500
Total current assets	**347,536**	**319,308**	**433,686**	**400,294**
Property and equipment	1,625,456	1,620,830	1,326,361	1,175,054
Less accumulated depreciation	392,574	370,840	295,685	230,421

Property and equipment, net	**1,232,882**	**1,249,990**	**1,030,676**	**944,633**
Deferred tax assets	690	1,321	3,137	3,697
Other assets	107,194	112,331	118,441	135,259
Total assets	**1,688,302**	**1,682,950**	**1,585,940**	**1,483,883**
Liabilities and equity				
Accounts payable	76,465	95,098	70,605	89,968
Interest payable	7,446	8,399	15,773	15,773
Obligations under Sale and Leaseback Financing	35,115	35,115	15,977	-
Current maturities of debt	14,164	30,167	-	-
Accrued income taxes	5,878	4,822	-	546
Other current liabilities	22,536	36,681	32,665	46,672
Total current liabilities	**161,604**	**210,282**	**135,020**	**152,959**
Long-term debt	601,761	496,503	809,016	803,053
Obligations under Sale and Leaseback Financing	270,156	278,815	228,728	74,703
Deferred tax liabilities	4,257	4,407	8,525	8,788
Other long-term liabilities	18,580	17,719	25,197	33,601
Total long-term liabilities	**894,754**	**797,444**	**1,071,466**	**920,145**
Mezzanine equity, net of issuance costs	**165,978**	**165,978**	**-**	**-**
Commitments and contingencies				
Common Shares of USD 0.01 par value; 200,000,000 shares authorized at 31 March 2018 and 31 December 2017: 83,115,394 and 83,125,000 issued and outstanding at 31 March 2018 and 31 December 2017, respectively	831	831	-	-
Ordinary shares of USD 0.01 par value; 5,000,000 shares authorized at 31 December 2016 and 2015; issued and outstanding as follows:				
Class A shares: 444,594 and 446,445 at 31 December 2016 and 2015, respectively	-	-	5	5
Class B shares: 25,099 and 24,789 at 31 December 2016 and 2015, respectively	-	-	-	-
Class C shares: 6,075 and 6,092 at 31 December 2016 and 2015, respectively	-	-	-	-
Additional paid-in capital	658,797	663,090	462,914	464,403
Accumulated other comprehensive income	(470)	-	-	-
Accumulated losses	(193,192)	(154,675)	(83,465)	(53,629)
Total equity	**465,966**	**509,246**	**379,454**	**410,779**
Total liabilities and equity	**1,688,302**	**1,682,950**	**1,585,940**	**1,483,883**

Financial statement of cash flow

In USD thousand	**Three months ended 31 March**		**Years ended 31 December**		
	2018 (unaudited)	**2017** (unaudited)	**2017** *US GAAP* (audited)	**2016** *US GAAP* (audited)	**2015** *US GAAP* (audited)
Cash flows from operating activities					
Net loss	**(38,517)**	**(1,534)**	**(71,210)**	**(29,836)**	**(180,002)**
Adjustments to reconcile net loss to net cash (used in) / provided by operating activities					
Depreciation	21,868	18,369	80,573	71,780	87,421
Loss on impairment of assets	-	-	34,802	47,094	271,469

Loss / (gain) on derivative financial instruments, net	98	-	(238)	(427)	-
Gain on insurance recovery	-	-	-	-	(25,432)
Amortization of deferred revenue	(3,426)	(3,779)	(15,254)	(23,511)	(41,026)
Provision for / (reversal of) doubtful accounts, net	85	(2,316)	(5,444)	(401)	87,431
Amortization of drilling contract intangibles	-	-	-	-	(983)
Share based compensation expense, net of forfeitures	202	220	842	179	638
Non-cash portion of loss on debt extinguishment	6,320	4,371	4,371	-	-
Debt extinguishment costs (1)	12,505	9,785	-	-	-
Payment of original issue discount	-	(10,500)	(10,500)	-	-
Amortization of debt issue costs and discounts	822	1,070	3,705	7,663	9,232
(Gain) / loss on disposal of assets	(120)	(138)	(839)	4,826	11,299
Deferred tax expense / (benefit)	481	913	(2,302)	297	1,292
(Payments for) / proceeds from settlement of derivative financial instruments, net	(98)	-	238	427	-
Changes in deferred costs, net	6,723	11,554	2,232	37,218	(70,353)
Changes in operating assets and liabilities	(16,570)	(25,052)	20,775	21,223	(17,973)
Net cash (used in) / provided by operating activities	**(9,627)**	**2,963**	**41,751**	**136,532**	**133,013**
Cash flows from investing activities					
Additions to property and equipment	(9,309)	(7,423)	(253,834)	(53,541)	(157,193)
Proceeds from disposal of property and equipment	291	198	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(2)	-	-	(6,006)	(421)	(6,827)
Net cash used in investing activities	**(9,018)**	**(7,225)**	**(237,403)**	**(35,592)**	**(107,513)**
Cash flow from financing activities					
Proceeds from issuance of common shares	-	-	225,000	-	-
Payments for common and preferred shares issuance costs	-	(688)	(8,487)	-	-
Proceeds from short-term debt	2,159	-	-	-	-
Proceeds from issuance of debt	625,000	-	-	-	-
Payments for redemption of ordinary shares	-	-	-	(1,668)	(310)
Payments for obligations under sale and leaseback	(8,659)	(2,822)	(24,829)	(1,818)	-
Payments to retire long-term debt	(533,250)	(103,750)	(103,750)	-	-
Payments of debt issuance costs	(9,739)	(10,351)	(11,223)	-	(551)
Payments of debt extinguishment costs(1)	(12,505)	(9,785)	-	-	-
Preferred shares dividend paid	(8,906)	(957)	(9,635)	-	-
Net cash provided by / (used in) financing activities	**54,100**	**(128,353)**	**67,076**	**(3,486)**	**(861)**
Net (decrease) / increase in cash, cash equivalents and restricted cash (2)	**35,455**	**(132,615)**	**(128,576)**	**97,454**	**24,639**

Cash, cash equivalents and restricted cash at beginning of period / year (2)	**99,826**	**222,395**	**213,139**	**115,685**	**91,046**
Cash, cash equivalents and restricted cash at end of the period / year (2)	**135,281**	**89,780**	**84,563**	**213,139**	**115,685**

1 Effective 1 January 2018, the Company adopted ASU No. 2016-15 which the debt extinguishment costs of USD 12.5 million and USD 9.8 million as of 31 March 2018 and 2017, respectively, are now presented under cash flows from financing activities in the Q1 2018 statements of cash flows. The debt extinguishment costs of USD 9.8 million was previously reported under cash flows from operating activities in the Q1 2017 financial statements.

2 Effective 1 January 2018, the Company adopted ASU No. 2016-18 and have included restricted cash of USD 14.7 million and USD 8.7 million as part of cash, cash equivalents and restricted cash on the statements of cash flows for the three months ended 31 March 2018 and 31 March 2017, respectively.

B.9	**Profit forecast or estimate**	Not applicable. No profit forecasts or estimates are made.
B.10	**Audit report qualifications**	Not applicable. There are no qualifications in the audit reports.
B.31	**Information about the issuer of the underlying shares**	Information about the Company as the issuer of the underlying shares is included in B.1, B.2, B.3, B.4, B.5, B.6, B.7, B.9, B.10 and D.4.
B.32	**Information about the issuer of the depository receipts**	The VPS Registrar will issue and deliver the Securities to the Security holders. The VPS Registrar is DNB Bank ASA, Verdipapirservice with registered office at Dronning Eufemias Gate 30, N-0021 Oslo, Norway. DNB Bank ASA is a Norwegian public limited liability company, established and incorporated under the laws of Norway on 10 September 2002 and registered in the Norwegian Business Register under registration number 984 851 006.

Section C - Securities

C.1	**Type and class of securities admitted to trading and identification number**	The Company has two classes of shares in issue: Common Shares and Preferred Shares. Each of the Common Shares carries one vote at any general meeting of the Company. The Common Shares have been issued pursuant to the Cayman Islands Companies Law and the Articles and the beneficial interests pertaining to the Common Shares (i.e. the Securities) will be registered in book-entry form in the VPS under ISIN KYG236271055. The underlying Common Shares of the Company are recorded in the Company's shareholders' register in the Cayman Islands, maintained by Centralis Cayman Limited, under ISIN KYG236271055.
C.2	**Currency of issue**	The underlying Common Shares are issued in USD (as defined below). The Securities will be issued in NOK (as defined below).
C.3	**Number of shares in issue and par value**	As of the date of this Prospectus, the Company's authorized share capital is USD 2,010,000 (inclusive of preferred share capital) divided into 1,000,000 fully paid-in and subscribed Preferred Shares, each with a par value of USD 0.01 and 83,115,394 fully paid-in Common Shares, including 3,403,003 Common Shares held in trust, each with a par value of USD 0.01. Following approval of the new Articles (as further described in Section 14.11) and upon the new Articles becoming effective on the Listing date, the Company's authorized share capital will be USD 1,440,634.73, divided into 144,063,473 shares, each with a par value of USD 0.01.
C.4	**Rights attaching to the securities**	The Company has two classes of shares in issue: Common Shares and Preferred Shares. All Securities will carry the same rights as the underlying Common Shares, exercisable though the VPS Registrar, and each of the Securities will thus carry one vote. The rights attached to the Common Shares are further described in Section 14.11 ("*The Articles and certain aspects of Cayman Islands law*"). There are no voting rights attached to the Preferred Shares. The rights to the Preferred Shares are described in Section 12.1.1 ("*Overview of the Board* of Directors") and 14.3.1 ("*Preferred Shares*").

C.5	**Restrictions on transfer**	The Securities are freely transferable. The Articles of the Company do not provide for any restrictions on the transfer of Securities or a right of first refusal for the Securities. Security transfers are not subject to approval by the Board of Directors. See Section E.5 ("*Selling Shareholders and lock-up agreements*") and Section 17.18 ("*Lock-up*") for a description of lock-up agreements entered into by certain shareholders of the Company.
C.6	**Admission to trading**	The Company will on or about 14 June 2018 apply for admission to trading of the Securities on the Oslo Stock Exchange. It is expected that the board of directors of the Oslo Stock Exchange approves the listing application of the Company on or about 19 June 2018, conditional upon the Company obtaining a minimum of 500 shareholders, each holding Securities with a value of more than NOK 10,000 and there being a minimum free float of the Securities of 25%. The Company expects that these conditions will be fulfilled through the Offering. The Company currently expects commencement of trading in the Securities on the Oslo Stock Exchange on or around 25 June 2018.
C.7	**Dividend policy**	The Company does not intend to declare or pay any dividends to holders of Common Shares, including Securities, in the near future. The Company currently intends to retain future earnings, if any, to fund its operations and to develop and grow its business. The Company's future dividend policy is within the discretion of the Board of Directors, but should the market recover as expected, the Company will balance dividends to holders of Common Shares, including Securities, with other various factors that the Board of Directors deems relevant, including the Company's results of operations, financial condition, capital requirements and investment opportunities.
C.13	**Information about the underlying shares**	Information concerning the underlying shares is reflected in C.1, C.2, C.3, C.4, C.5, C.6 and C.7 above.
C.14	**Information about the depository receipts**	Information concerning the Securities is reflected in C.1, C.2, C.4 and C.5 above. Security holders have equal voting rights as shareholders of the Company's underlying Common Shares. The Security holders may instruct the VPS Registrar (as defined below) to vote the underlying shares, subject to any applicable provisions of Cayman Islands law. The Company will furnish voting materials to the VPS Registrar and the VPS Registrar will notify the Security holders of the upcoming vote and arrange to deliver the Company's voting materials to the Security holder. Otherwise, Security holders will not be able to exercise their voting rights unless the steps outlined in Section 15.3 ("*The VPS and transfer of Securities*") are followed. The VPS Registrar's notice will describe the information in the voting materials and explain how Security holders may instruct the VPS Registrar to vote the underlying shares. The VPS Registrar will only vote or attempt to vote as Security holders instruct. The VPS Registrar itself will not exercise any voting discretion. The VPS Registrar will not hold any right to share in profits and any liquidations surplus which are not passed on to the Security holders.

Section D - Risks

D.2	**Key risks specific to the issuer**	The following is a summary of key risks that relate to the Group. Investors should read, understand and consider all risk factors in this Prospectus, which should be read in their entirety, before making a decision to invest in the Offer Securities:

		Risks related to the business of the Company and the Industry in which it operates: • The current lower levels of activity in the shallow water offshore oil drilling industry has had and is likely to continue to have an adverse impact on the Group's business and results of operations. • The Group's 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 exploration, development and production industry and would be adversely affected if there is a decline in oil prices. • The industry is competitive and cyclical, and the Group might be unable to compete successfully with its competitors. • The Group's future contracted revenue, or contract backlog, for the Group's fleet of drilling rigs may not be ultimately realized. • The Group will continue to experience reduced profitability if the Group's customers reduce activity levels, terminate or continue to seek to renegotiate contracts or if the Group experiences downtime, operational difficulties or safety-related issues. • The Group relies on a relatively small number of customers for a substantial portion of future contracted revenue. • The Group's rigs are on average 33.3 years old and some customers may prefer newer and/or higher specification rigs. • The Group may be unable to secure new contracts, including contracts on dayrate basis and/or long-term contracts, for its fleet of rigs and/or on the renewal of existing contracts by the Group's customers. The Group's long-term (greater than one year) contracts are subject to the risk of cost increases and termination. • The Group's drilling contracts with NOCs may expose it to greater risks than the Group normally assumes in drilling contracts with non-governmental customers. • Changes to the supply of oil may change the demand for shallow water offshore drilling services and impact the Group's profitability. • The Group's purchases of existing jack-up rigs carry risks associated with the quality of those rigs. • The Group could be unable to successfully acquire and integrate additional rigs on economically acceptable terms. The Group depends upon the security and reliability of its technology, including data processing, systems and those of its service providers, and such systems are subject to malfunction, cybersecurity risks and threats. • Supplier capacity constraints or shortages in parts or equipment, supplier production disruptions, supplier quality and sourcing issues or price increases could increase the Group's operating costs and decrease revenues. • An over-supply of jack-up rigs or mobilization of rigs into the regions where the Group operates may lead to a reduction in dayrates. • Upgrade, refurbishment and repair projects are subject to risks, including delays and cost overruns. • There may be further asset impairments as a result of future declines in dayrates and utilization for shallow water drilling rigs. • The Group is exposed to the credit risks of key customers and certain other third parties.

		• There may be limits to the Group's ability to mobilize drilling rigs between geographic areas, and the duration, risks and costs of such mobilizations may be material to the Group's business. • The Group's business involves operating hazards and the Group's insurance and contractual indemnity rights may not be adequate to cover any losses resulting from accidents and other events. • The Group may not be able to keep pace with technological developments and to make adequate capital expenditures in response to higher specification rigs being deployed within the industry. Newbuild rig projects are subject to various risks which could cause delays or cost overruns. • The market value of the Group's drilling rigs and of any rigs the Group acquires in the future may decrease. • The Group's labor costs could increase. • The Group is dependent on key employees, including the Company's executive and senior management team, and the Group's business could be negatively impacted if it is unable to attract and retain personnel necessary for its success. The Company's interests in certain of its subsidiaries are subject to arrangements with local partners and the loss of their support could have a material adverse effect on the Group's business. • The Company is a holding company and is dependent upon cash flows from subsidiaries to meet its obligations. If the Company's operating subsidiaries experience sufficiently adverse changes in their financial condition or results of operations, or the Company otherwise becomes unable to pay its debts as they become due and obtain further credit, the Company may become subject to insolvency proceedings. • The Company is exposed to market risks, which could create the inability to secure financing on acceptable terms. • Despite the Company's current level of indebtedness, it may still be able to incur substantially more debt, which could exacerbate the risks associated with its current leverage. • The Company's existing indebtedness imposes significant operating and/or financial restrictions on the Company that may prevent it from pursuing certain business opportunities and restrict its ability to operate its business. • To service and refinance its indebtedness, fund its capital and liquidity needs or pay dividends, the Company will require a significant amount of cash, and the Company may not generate sufficient cash, or have access to sufficient funding, for such purposes. • The Group's international operations in the shallow water offshore drilling sector involve additional risks. • The Group's operations are capital intensive and requires the Group to have sufficient access to funding and working capital on a continuous basis. ***Risks related to laws and regulations:*** • The Group is subject to complex laws and regulations, including environmental laws and regulations that can adversely affect the cost, manner or feasibility of doing business. If the Group or its customers are unable to acquire or renew permits and approvals required for drilling operations, the Group may be forced to suspend or cease its operations.

		• Failure to comply with applicable anti-corruption laws, sanctions or embargoes, could result in fines, civil and/or criminal penalties, and drilling contract terminations. The Group may be subject to litigation and disputes. • The Company is exposed to regulatory and enforcement risks regarding taxes. U.S. tax authorities may treat the Company as a passive foreign investment company, causing potential adverse U.S. federal tax consequences to U.S. holders. • The movement of any part of the Group's operations to another jurisdictions and/or any relevant change in tax laws, regulations, or treaties, or relevant interpretations thereof, for any country in which the Group operates or earns income or is considered to be a tax resident, may result in a higher effective tax rate on the Group's worldwide earnings. • The loss of any major tax dispute, or a successful challenge to the Company's intercompany pricing policies or operating structures, or a taxable presence of the Company's key subsidiaries in certain countries could result in a higher effective tax rate on the Company's worldwide earnings. The Group is subject to laws and regulations in several jurisdictions, whereas failure to properly comply with such may adversely affect its operations.
D.3	**Key risks specific to the securities**	The following is a summary of key risks that relate to the Listing and the Securities. Investors should read, understand and consider all risk factors in this Prospectus, which should be read in their entirety, before making a decision to invest in the Offer Securities: **Risks related to the Listing and the Securities:** • The Sponsors' interest may conflict with those of the Group or other shareholders. • The Company does not expect to pay any dividends to the holders of the Securities in the foreseeable future and the availability and timing of future dividends, if any, is uncertain. • Shareholder rights and responsibilities will be governed by Cayman Islands law and will differ in some respects from the rights and responsibilities of shareholders under other jurisdictions, including Norway and the United States. • Preemptive rights with respect to the Common Shares are not available to holders of Securities. • Limited free float of the Securities may have a negative impact on the liquidity of and market price for the Securities. • The price of the Securities could fluctuate significantly. • Future sales, or the possibility for future sales, including by the Sponsors, of substantial numbers of Securities could affect the market price of the Securities. Future issuances of Securities or other securities could dilute the holdings of Security holders and could materially affect the price of the Securities. • Exchange rate fluctuations could adversely affect the value of the Securities and any dividends paid on the Securities for an investor whose principal currency is not USD. The transfer of Securities and their underlying assets is subject to restrictions under the securities laws of the United States and other jurisdictions. • Investors could be unable to recover losses in civil proceedings in jurisdictions other than the Cayman Islands and Norway. • Cayman Islands law could limit Security holders' ability to bring an action against the Company.

		• Risks related to the registration of the Securities in the VPS and the Registrar Agreement.
D.4	**Information on the issuer of the underlying shares**	The key risks that are specific to the Company as the issuer of the underlying shares are included in D.2 above.
D.5	**Information about the depository receipts**	The key risks about the Securities are included in D.3 above.

Section E - Offer

E.1	**Net proceeds and estimated expenses**	Subject to the completion of the Offering, the Company will receive the proceeds from the sale of the New Securities in the Offering. The Company's total costs and expenses of, and incidental to, the Listing and the Offering are estimated to amount to approximately NOK 105 million if the Company raises gross proceeds of NOK 2,015 million in the Offering.
E.2a	**Reasons for the Offering and use of proceeds**	The Company believes that the Offering and the Listing will: (i) enable access to specialized equity capital markets to fund further growth; (ii) enable the Company to capitalize upon expansion opportunities by implementing its investment plan in order to pursue business opportunities within the industry; (iii) enhance the Company's financial position; (iv) enhance the Company's profile with investors, business partners, vendors and customers; (v) facilitate the use of shares or Securities as currency in M&A transactions; and (vi) facilitate a liquid market for the Securities in the European capital market going forward. In the event that the maximum amount of gross proceeds (i.e. USD 250 million) is raised by the Company through the Offering, the Company will use approximately USD 175 million of the net proceeds from the New Securities to redeem the Preferred Shares in full, including accrued but unpaid dividend. In the event that a lower amount of gross proceeds is raised by the Company through the Offering, the Company may, but will not necessarily, reduce the redemption down to a minimum of 50% of the Preferred Shares through a payment of approximately USD 87.5 million including accrued but unpaid dividend to the holders of the Preferred Shares and maintain the remaining 50% of the Preferred Shares outstanding on the terms as further described in Section 14.3.1 ("*Preferred Shares*"). In addition, the Company intends to use the remaining portion of the net proceeds from the New Securities to acquire one or two premium jack-up rigs, as further described in Section 11.9.7.4 ("*Principal future planned/committed investments*").
E.3	**Terms and conditions of the Offering**	The Offering consists of an offer of New Securities to raise gross proceeds of the NOK equivalent of minimum USD 200 million and maximum USD 250 million (based on a conversion from NOK to USD on the date of allocation of the New Securities, using the then prevailing exchange rate), by the sale of from 22,221,977 New Securities up to 31,250,194

		New Securities (assuming that the USD/NOK exchange rate is 8.0588), each with a par value of USD 0.01. In addition, the Managers may elect to over-allot a number of Additional Securities equaling up to 15% of the final number of New Securities sold in the Offering. In this respect, some or all of the Sponsors are expected to grant to the Stabilisation Manager (DNB Markets), on behalf of the Managers, a Lending Option to borrow a number of Securities equal to the number of Additional Securities in order to facilitate such over-allotment. Further, the Sponsors are expected to grant to the Stabilisation Manager, on behalf of the Managers, a Greenshoe Option to purchase a number of Securities up to the number of Additional Securities at a price per Securities equal to the Offer Price in order to facilitate re-delivery of the borrowed Securities. The Greenshoe Option is expected to give the Stabilisation Manager, on behalf of the Managers, the right to purchase a number of Securities equal to the number of Additional Securities. See Section 17.8 ("*Over-allotment and stabilisation activities*") for further details in this regard. The Offering consists of: • An Institutional Offering, in which Offer Securities are being offered to (a) institutional and professional investors in Norway, (b) investors outside Norway and the United States, subject to applicable exemptions from any prospectus and registration requirements, and (c) in the United States to QIBs, as defined in, and in reliance on Rule 144A of the U.S. Securities Act or another available exemption from registration under the U.S. Securities Act. The Institutional Offering is subject to a lower limit per application of NOK 2,000,000. • A Retail Offering, in which Offer Securities are being offered to the public in Norway subject to a lower limit per application of an amount of NOK 10,500 and an upper limit per application of NOK 1,999,999 for each investor. Investors who intend to place an order in excess of NOK 1,999,999 must do so in the Institutional Offering. Multiple applications by one applicant in the Retail Offering will be treated as one application with respect to the maximum application limit. All offers and sales outside the United States will be made to non-U.S. persons in offshore transactions in compliance with Regulation S of the U.S. Securities Act. The Bookbuilding Period in the Institutional Offering will take place from 13 June 2018 at 09:00 hours (CET) to 21 June 2018 at 14:00 hours (CET). The Application Period for the Retail Offering will take place from 13 June 2018 at 09:00 hours (CET) to 21 June 2018 at 12:00 hours (CET). The Company, in consultation with the Managers, reserve the right to shorten or extend the Bookbuilding Period and the Application Period at any time and at their sole discretion. Any shortening of the Bookbuilding Period and/or the Application Period will be announced through the Oslo Stock Exchange's information system on or before 09:00 hours (CET) on the prevailing expiration date of the Bookbuilding Period, provided, however, that in no event will the Bookbuilding Period and/or the Application Period expire prior to 16:30 hours (CET) on 20 June 2018. Any extension of the Bookbuilding Period and/or the Application Period will be announced through the Oslo Stock Exchange's information system on or before 09:00 hours (CET) on the first business day following the then prevailing expiration date of the Bookbuilding Period and/or the Application Period. An extension of the Bookbuilding Period and/or the Application Period can be made one or several times provided, however, that in no event will the Bookbuilding Period and/or

		the Application Period be extended beyond 14:00 hours (CET) on 6 July 2018. In the event of a shortening or an extension of the Bookbuilding Period and/or the Application Period, the allocation date, the payment due dates and the dates of delivery of Offer Securities will be changed accordingly, but the date of the Listing and commencement of trading on the Oslo Stock Exchange may not necessarily be changed. The Company has, together with the Managers, set an Indicative Price Range for the Offering from NOK 64.47 to NOK 72.53 per Offer Security. Assuming that the Offer Price is set at the mid-point of this range and that 29,411,679 New Securities are sold in the Offering, the gross proceeds from the New Securities will be NOK 2,015 million. The Company, in consultation with the Managers, will determine the number of Offer Securities and the Offer Price on the basis of the bookbuilding process in the Institutional Offering and the number of applications received in the Retail Offering. The bookbuilding process, which will form the basis for the final determination of the number of Offer Securities and the Offer Price, will be conducted only in connection with the Institutional Offering. The Indicative Price Range may be amended during the Bookbuilding Period. Any such amendments to the Indicative Price Range will be announced through the Oslo Stock Exchange's information system. DNB Markets, acting as settlement agent for the Retail Offering, expects to issue notifications of allocation of Offer Securities in the Retail Offering on or about 22 June 2018, by issuing allocation notes to the applicants by mail or otherwise. Any applicant wishing to know the precise number of Offer Securities allocated to it, may contact one of the application offices listed above on or about 22 June 2018 during business hours. Applicants who have access to investor services through an institution that operates the applicant's account with the VPS for the registration of holdings of securities ("**VPS Account**") should be able to see how many Offer Securities they have been allocated from on or about 22 June 2018.
E.4	**Material and conflicting interests**	The Managers or their affiliates have provided from time to time, and may provide in the future, investment and commercial banking services to the Company and its affiliates in the ordinary course of business, for which they may have received and may continue to receive customary fees and commissions. The Managers do not intend to disclose the extent of any such investments or transactions otherwise than in accordance with any legal or regulatory obligation to do so. The Managers will receive a management fee in connection with the Offering, which will be based on the amount of gross proceeds received from investors. See Section 17.17 ("*Expenses of the Offering and the Listing*") for information on fees to the Managers in connection with the Offering. The Sponsors will receive the proceeds from the sale of any Securities sold pursuant to the Greenshoe Option. Beyond the above-mentioned, the Company is not aware of any interest, including conflicting ones, of any natural or legal persons involved in the Offering.
E.5	**Selling shareholder and lock-up agreements**	There are no selling shareholders in the Offering, provided, however that the Sponsors may sell Securities pursuant to the Greenshoe Option. *Sponsors* Pursuant to a lock-up undertaking to be included in the Placement Agreement, the Sponsors are expected to undertake that they will not, and that they will procure that none of their subsidiaries will, without the prior written consent of DNB Markets, during the period up to and

		including the date falling 180 days from the first day of trading of the Securities on the Oslo Stock Exchange, (1) sell, offer to sell, contract or agree to sell, pledge, grant any option to purchase or otherwise dispose of or agree to dispose of, directly or indirectly any Securities or Common Shares or any securities convertible into or exercisable or exchangeable for Securities or Common Shares, or warrants or other rights to purchase Securities, (2) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Securities or Common Shares or any securities convertible into or exercisable or exchangeable for Securities or Common Shares, or warrants or other rights to purchase Securities, whether any such transaction is to be settled by delivery of Securities or Common Shares or such other securities, in cash or otherwise, or (3) publicly announce an intention to effect any transaction specified in clause (1) or (2), provided, however, that the foregoing shall not apply to: (A) the transfer of Securities or Common Shares to any of the Managers pursuant to the share lending agreement entered into with the Managers, (B) any of the Preferred Shares, (C) any action (including, for the avoidance of doubt, pre-accepting such offer) in connection with a takeover offer for all Securities or Common Shares in accordance with chapter 6 of the Norwegian Securities Trading Act or a legal merger, (D) any transfer of Securities or Common Shares to (i) any entity that is directly or indirectly controlled by, controls or is under common control with the Sponsor or (ii) any of the Sponsor's affiliates or any of its affiliates' directors and officers, in each case who assume the same lock-up obligations as undertaken by the transferring Sponsor, (E) any Securities acquired following the completion of the Offering or (F) the transfer of any Securities or Common Shares held by the Sponsor upon exercise of the Greenshoe Option. *Company* Pursuant to a lock-up undertaking to be included in the Placement Agreement, the Company is expected to undertake that it will not, without the prior written consent of DNB Markets, during the period up to and including the date falling 12 months from the first day of trading of the Securities on the Oslo Stock Exchange, issue any further shares unless in relation to (1) the sale and issue of Securities in the Offering, (2) granting of options or subscription rights or issuance of shares or Securities under ordinary employee incentive programmes or (3) the issue of new Securities as consideration in connection with acquisitions of companies and businesses (including rigs) or in connection with the redemption of all or parts of the Company's Preferred Shares, provided that the Securities are issued at a price above the Offer Price. *Senior management and Directors* Pursuant to additional lock-up undertakings, the primary insiders, including the senior management and Directors of the Group will undertake that they will not, without the prior written consent of the Managers, during the period up to and including the date falling 12 months from the first day of trading of the Securities on the Oslo Stock Exchange, directly or indirectly, (1) offer, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, pledge or otherwise transfer or dispose of any Securities or Common Shares or any securities convertible into or exercisable or exchangeable for Securities or Common Shares or (2) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Securities or Common Shares, whether any such

		transaction described in clause (1) or (2) above is to be settled by delivery of Securities in the Company or such other securities, in cash or otherwise, or (3) agree or publicly announce an intention to effect any transaction specified in clause (1) or (2), provided, however, that the foregoing shall not apply to: (A) any (including, for the avoidance of doubt, pre-accepting such offer) in connection with a takeover offer for all Securities and/or Common Shares in accordance with chapter 6 of the Norwegian Securities Trading Act or (B) any transfer of Securities or Common Shares to any entity directly or indirectly controlled by the shareholder who assume the same lock-up obligations as undertaken by the shareholder.
E.6	**Dilution resulting from the Offering**	Following completion of the Offering, the immediate dilution for existing holders of Securities, or underlying Common Shares, is estimated to be approximately 26.14%, based on the assumption that the Company allocates 29,411,679 New Securities.
E.7	**Estimated expenses charged to investor**	Not applicable. The expenses related to the Offering will be paid by the Company.

2 RISK FACTORS

An investment in the Offer Securities involves inherent risk. Before making an investment decision with respect to the Offer Securities, investors should carefully consider the risk factors and all information contained in this Prospectus, including the financial statements and related notes. The risks and uncertainties described in this Section 2 are the principal known risks and uncertainties faced by the Group as of the date hereof that the Company believes are the material risks relevant to an investment in the Offer Securities. An investment in the Offer Securities is suitable only for investors who understand the risks associated with this type of investment and who can afford to lose all or part of their investment. The absence of negative past experience associated with a given risk factor does not mean that the risks and uncertainties described herein should not be considered prior to making an investment decision in respect of the Offer Securities. If any of the following risks were to materialize, individually or together with other circumstances, they could have a material and adverse effect on the Group and/or its business, results of operations, cash flows, financial condition and/or prospects, which may cause a decline in the value of the Company's shares and thus the value and trading price of the Offer Securities, resulting in the loss of all or part of an investment in the same.

The order in which the risks are presented does not reflect the likelihood of their occurrence or the magnitude of their potential impact on the Group's business, results of operations, cash flows, financial condition and/or prospects. The risks mentioned herein could materialize individually, simultaneously or cumulatively. The information in this Section 2 is as of the date of this Prospectus.

2.1 Risks related to the business of the Group and the industry in which it operates

2.1.1 The current lower levels of activity in the shallow water offshore oil drilling industry has had and is likely to continue to have an adverse impact on the Group's business and results of operations

The shallow water offshore oil drilling industry has recently experienced a severe and prolonged commodity price down-cycle, and even though, the price of Brent crude oil has increased from a low of USD 27.88 on 20 January 2016 to USD 76.71 per barrel on 3 June 2018, the current industry activity level is still low compared to before the commodity price down-cycle. The Company expects this reduced activity level, if it persists or if there are further demand declines, to continue to reduce many of the Group's customers' demand for the Group's services. Declines in capital spending levels, coupled with additional newbuild rig supply, have and are likely to continue to put significant pressure on dayrates and utilization. The decline and the perceived risk of a decline in oil prices could cause oil companies to further reduce their overall level of activity or spending, in which case demand for the Group's services may further decline and revenues may continue to be adversely affected through lower drilling rig utilization and/or lower dayrates.

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

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

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

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

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

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

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

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

- the worldwide political and military environment, including uncertainty or instability resulting from an escalation or additional outbreak of armed hostilities or other crises in the Middle East or other geographic areas or further acts of terrorism in the regions in which the Group operates, or elsewhere.

2.1.3 The industry is competitive and has historically been cyclical and subject to price competition. If the Group is unable to compete successfully with its competitors, its revenues and profitability may be reduced

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

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

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

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

2.1.4 The Group's future contracted revenue, or contract backlog, for the Group's fleet of drilling rigs may not be ultimately realized

As of 31 March 2018, the Group had a total contract backlog of USD 1.2 billion. The amount of contract backlog does not necessarily indicate future earnings, and the Group's contract backlog may be adjusted up or down depending on award of new contracts or extensions or the exercise by the customer of extension options, early cancellation of existing contracts (for which the Group may not be entitled to compensation in many cases), renegotiation of contract dayrates, failure by customers to complete existing contracts or to pay amounts owed or the unavailability of equipment to fulfil a contract due to repairs, maintenance or inspections. In addition, certain of the Group's existing contracts provide for, and the Group may enter into contracts in the future that provide for, yearly renegotiation of contract dayrates. Such yearly renegotiations may result in downward adjustments to the Group's contract backlog each year.

Other factors can affect the Group's contract backlog. The contract drilling dayrate used in the calculation of contract backlog may be higher than the actual dayrate the Group ultimately receives 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 the Group ultimately receives 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. The Group's 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.

2.1.5 The Group will continue to experience reduced profitability if the Group's customers reduce activity levels, terminate or continue to seek to renegotiate contracts or if the Group experiences downtime, operational difficulties or safety-related issues

During periods of depressed market conditions, including the current market, the Group is subject to an increased risk of its customers seeking to renegotiate or terminate their contracts, including through claims of non-performance. The Group 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. The Group's customers' ability to perform their obligations under their drilling contracts with the Group may also be negatively impacted by continuing global economic uncertainty. If the Group's customers terminate some of its contracts with the Group, and the Group is unable to secure new contracts on a timely basis and on substantially similar terms, or if payments due under the Group's contracts are suspended for an extended period of time or if a number of the Group's contracts are renegotiated, the Group's financial condition, results of operations or cash flows, could be materially adversely affected. In the past, some of the Group's customers have renegotiated the terms of their existing drilling contracts during periods of depressed market conditions, which has resulted in reduced profitability.

2.1.6 The Group relies on a relatively small number of customers for a substantial portion of future contracted revenue

The Group's customer base includes national oil companies ("**NOCs**") and international oil companies ("**IOCs**"), together with a small number of independent oil and gas companies. The contract drilling business is subject to the usual risks associated with having a limited number of customers. As at 31 March 2018, 19 of the Group's 29 drilling contracts, regarding 27 of the Group's drilling units, were with its top five customers. The Group's top five customers accounted for 88.3% of contract backlog as of 31 March 2018, and for 80.6% of revenue for the three months period ended 31 March 2018. The Group's business, financial condition and results of operations could be materially and adversely affected if any of these customers were to reduce its contractual commitments to the Group, or suspend or withdraw its approval for the Group to provide services for them.

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

2.1.7 The Group's rigs (including the Group's swamp barge) are on average 33.3 years old and some customers may prefer newer and/or higher specification rigs

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

2.1.8 The Group's future business performance depends on its ability to secure new contracts for its fleet of rigs and/or on the renewal of existing contracts by the Group's customers

The Group's ability to win bids and tenders for new contracts, as well as contract renewals where the Group is the incumbent rig provider, is affected by a number of factors beyond the Group's 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 the Group or drilling contracts for the Group's rigs. If the Group is not selected or if the contracts the Group enters into are delayed, work flow may be interrupted and the Group's business, financial condition and results of operations may be materially adversely affected.

If an existing customer decides not to renew its contract, the Group must then secure a new contract for that rig. Of 29 customer contracts in place as of 31 March 2018, eight are scheduled to expire during 2018 and ten are scheduled to expire during 2019. While the Group actively markets its rigs' availability prior to the expiry of a contract, the Group may not be able to renew or extend existing contracts or secure new arrangements before the original contract lapses. Re-contracting a rig may involve participation in either a direct renegotiation with the customer or in a new tender process, the length and complexity of which could lead to a rig being stacked and/or having to enter into a new contract at lower dayrates, shorter terms or in geographical areas requiring transport of the rig and could materially adversely affect the Group's business, financial condition and results of operations.

2.1.9 The Group may enter into short-term (one year or less) drilling contracts, which may reduce the Group's profitability

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

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

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

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

2.1.11 The Group's long-term (greater than one year) contracts are subject to the risk of cost increases and termination, which could adversely impact the Group's profitability

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

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

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

2.1.12 The Group's drilling contracts with NOCs may expose it to greater risks than the Group normally assumes in drilling contracts with non-governmental customers

As of 31 March 2018, 19 of the Group's rigs were contracted with NOCs or NOC joint ventures. The terms of these contracts are often non-negotiable and may expose the Group to greater commercial, political and operational risks than the Group assumes in other contracts, such as exposure to materially greater environmental liability and other claims for damages (including consequential damages) and personal injury related to the Group's operations, or the risk that the contract may be terminated by the Group's customer without cause on short-term notice, contractually or by governmental action, for which the Group may not be entitled to compensation. The Group may increase the number of rigs contracted to NOCs with commensurate additional contractual risks. The increased risk exposure from NOC contracts may have an adverse impact on the Group's future operations.

2.1.13 Changes to the supply of oil may change the demand for shallow water offshore drilling services and impact the Group's profitability

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

2.1.14 The Group's purchases of existing jack-up rigs carry risks associated with the quality of those rigs

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

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

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

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

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

2.1.16 Compared to companies with greater resources, the Group may be at a competitive disadvantage

Certain of the Group's competitors in the shallow water offshore contract drilling industry have more diverse fleets and greater financial and other resources and assets than the Group does. Similarly, some of these competitors may be significantly better capitalized than the Group is, which may make them preferable to the Group 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 the Group is. In addition, competitors that are significantly better capitalized than the Group is, may be preferable to the Group to the extent the customer is concerned about counterparty credit risk or the Group's 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 the Group, may be better positioned to withstand unfavorable market conditions. As a result, the Group's competitors may have competitive advantages that may adversely affect the Group's efforts to contract its drilling rigs on favorable terms, if at all, and correspondingly negatively impact the Group's financial condition, results of operations and cash flows. Additionally, the Group 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.

2.1.17 The Group depends heavily upon the security and reliability of its technology systems and those of its service providers, and such systems are subject to cybersecurity risks and threats

The Group depends heavily on technologies, systems and networks that the Group manages, and others that are managed by the Group's third-party service and equipment providers, to conduct its 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 the Group's service or equipment providers' security systems for protecting against cybersecurity breaches or failures proves to be insufficient, the Group could be adversely affected by having its business and financial systems compromised, its companies', employees', vendors' or customers' confidential or proprietary information altered, lost or stolen, or its 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, the Group's assets, harm to the environment, reputational damage, breaches of laws or regulations, litigation and other legal liabilities. In addition, the Group 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 the Group's systems could adversely and materially impact the Group's business, financial condition, results of operations and cash flows.

2.1.18 Supplier capacity constraints or shortages in parts or equipment, supplier production disruptions, supplier quality and sourcing issues or price increases could increase the Group's operating costs, decrease revenues and adversely impact the Group's operations

The Group's reliance on third-party suppliers, manufacturers and service providers to secure equipment used in its drilling operations exposes the Group to volatility in the quality, price and availability of such items. Certain specialized parts and equipment the Group uses in its 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 the Group's ability to meet its commitments towards its customers, adversely impact operations and revenues by resulting in uncompensated downtime, reduce dayrates or the cancellation or termination of contracts, or increase the Group's operating costs.

2.1.19 An over-supply of jack-up rigs or mobilization of rigs into the regions where the Group operates may lead to a reduction in dayrates and therefore may materially impact the Group's profitability

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

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

The Group incurs upgrade, refurbishment and repair expenditures for its 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. The Group also regularly make certain upgrades or modifications to its drilling rigs to meet customer or contract specific requirements. Upgrade, refurbishment and repair projects are subject to project management execution risks of delay or cost overruns, including costs or delays resulting from the following:

- unexpectedly long delivery times for, or shortages of, key equipment, parts and materials;
- shortages of skilled labor and other shipyard personnel necessary to perform the work;
- scope creep, unforeseen increases in the cost of equipment, labor and raw materials, particularly steel;
- unforeseen design and engineering problems;
- latent damages to or deterioration of hull, equipment and machinery in excess of engineering estimates and assumptions;
- unanticipated actual or purported change orders;
- health, safety and environmental, or health, safety and the environment ("**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 the Group's 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 the Group's rigs, could exceed the Group's 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. The Group could also be exposed to contractual penalties for failure to complete an upgrade, refurbishment or repair project and commence operations in a timely manner. When undergoing upgrade, refurbishment or repair, the Group's rigs generally do not earn a dayrate during the period they are out of service. Failure by the Group to minimize lost dayrates resulting from the immobilization of its rigs may adversely impact the Group's business, financial condition and results of operations.

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

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

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

2.1.22 The Group is exposed to the credit risks of key customers and certain other third parties, including if the Group acquires new rigs, which could adversely affect the Group's financial condition, results of operations and cash flows

The Group is subject to risks of loss resulting from non-payment or non-performance by third parties. Although the Group monitors and manages credit risks, some of its customers and other parties may be highly leveraged and subject to their own operating and regulatory risks. During more challenging market environments, the Group is subject to an increased risk of customers seeking to repudiate contracts. The Group's 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 the Group, the Group's business, financial condition and results of operations could be adversely affected. As of 31 March 2018, the Group's allowance for doubtful accounts was USD 2.6 million.

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

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

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

2.1.24 The Group's business involves numerous operating hazards and the Group's insurance and contractual indemnity rights may not be adequate to cover any losses resulting from accidents and other events

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

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

In addition, the Group's 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 the Group's operations, damaging rigs from high winds, turbulent seas, or unstable sea bottom conditions. Such occurrences could potentially cause the Group to curtail its operations for significant periods of time while repairs are effected.

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

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

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

The market for the Group's 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 the Group is unable to negotiate agreements for customer reimbursement for the cost of increasing the specification of the Group's drilling rigs, the Group 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 the Group's rigs is 33.3 years, the Group 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. The Group's future success and profitability will depend, in part, upon its ability to keep pace with technological developments. If, in response to technological developments or changes in standards in the industry, the Group is not successful in acquiring new equipment or upgrading existing equipment in a timely and cost-effective manner, the Group 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 the Group's services or equipment obsolete, which could have a material adverse effect on the Group's business, financial condition and results of operations.

2.1.26 Technology disputes could negatively impact the Group's operations or increase its costs

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

2.1.27 Newbuild rig projects are subject to various risks which could cause delays or cost overruns and have an adverse impact on the Group's results of operations

The Group could decide to increase the size of its fleet through the construction of newbuild rigs. Newbuild rig construction projects are subject to risks of delay and cost overruns inherent in any large construction project from numerous factors, including:

- unexpectedly long delivery times for, or shortages of, key equipment, parts and materials;
- unforeseen design and engineering problems leading to delays;
- labor disputes and work stoppages at the shipyard;
- HSE accidents/incidents or other safety hazards;
- disputes with the constructing shipyard or other suppliers;

- last minute changes to the customer's specifications;
- failure or delay in obtaining acceptance of the rig by customers;
- financial or other difficulties at shipyards;
- adverse weather conditions or any other force majeure events;
- inability or delay in obtaining flag-state, classification society or regulatory approvals or permits; and
- mobilization from shipyard to contract operating site.

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

2.1.28 The market value of the Group's drilling rigs and of any rigs the Group acquires in the future may decrease, which could result in impairments or changes or cause the Group to incur losses if it decides to sell them following a decline in the market values of the rigs

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

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

If the Group sells 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 the Group's business, financial condition and results of operations.

2.1.29 The Group's labor costs and the operating restrictions that apply to the Group could increase as a result of collective bargaining negotiations and changes in labor laws and regulations

Some of the employees in Egypt and Nigeria are represented by unions and may, from time to time, work under collective bargaining agreements. In addition, some of the Group's contracted labor may work under collective bargaining agreements. Efforts may be made from time to time to unionize additional portions of the Group's workforce. As part of the legal obligations in some of these agreements, the Group is required to contribute certain amounts to retirement funds and is restricted in its ability to dismiss employees. In addition, where the employees are represented by unions, the Group 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 the Group's business, financial condition and results of operations. The Group 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.

2.1.30 The Group is dependent on key employees, including the Company's executive and senior management team, and the Group's business could be negatively impacted if it is unable to attract and retain personnel necessary for its success

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

2.1.31 The Group is dependent on the availability and retention of skilled personnel and may be adversely affected by increases in labor costs

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

2.1.32 The Company's interests in certain of its subsidiaries are subject to arrangements with local partners and the loss of their support could have a material adverse effect on the Group's business

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

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

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

The inability to transfer cash from the Company's subsidiaries may mean that, even though the Company may have sufficient resources on a consolidated basis to meet its obligations, it may not be permitted to make the necessary transfers from its subsidiaries to meet its debt and other obligations. The terms of certain of the agreements governing the Company's existing indebtedness described under Section 11.9.6 ("*Financing arrangements*") also place restrictions on its cash balance and require it to maintain reserves of cash which could inhibit its ability to meet its obligations.

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

2.1.34 The Company is exposed to market risks, which could create the inability to secure financing on terms which are acceptable to the Company's management

The Company is exposed to market risks from changes in interest rates under its obligations under its revolver. Interest rates under these financing arrangements are determined with reference to a specified margin above LIBOR. If market interest rates increase, this could have an adverse impact on the Company's results of operations and cash flows. The Company has not entered into any hedging arrangements with respect to its interest rate exposure.

The Company's overall debt level and/or market conditions or any failure to make payments of interest on its outstanding indebtedness on a timely basis may result in a reduction of long-term corporate credit ratings. These downgrades in the Company's corporate credit ratings could impact its ability to issue additional debt by raising the cost of issuing new debt. Consequently, the Company may not be able to issue additional debt in reasonable amounts and terms. These could potentially limit the Company's ability to pursue business opportunities.

2.1.35 Despite the Company's current level of indebtedness, it may still be able to incur substantially more debt, which could exacerbate the risks associated with its current leverage

The Company may be able to incur substantial additional indebtedness in the future. Although its current indebtedness limits its ability to incur additional indebtedness, these restrictions are subject to a number of qualifications and exceptions and do not apply uniformly to the Company's subsidiaries, and under certain circumstances, debt incurred in compliance with these restrictions could be substantial. To the extent that the Company incurs additional indebtedness, the risks described below associated with the Company's substantial leverage, including the possible inability to service its debt, would increase.

2.1.36 The Company's existing indebtedness imposes significant operating and/or financial restrictions on the Company that may prevent it from pursuing certain business opportunities and restrict its ability to operate its business

As of 31 March 2018, the Company had a total indebtedness of USD 932.5 million. This included USD 600 million of 8.25% Notes, USD 25 million SDA Facility, USD 2.2 million under the Company's unsecured overdraft facility and USD 305.3 million in obligations under the Company's Sale and Leaseback Financing. As of 31 March 2018, the Company's SDHL Revolver had no cash borrowings outstanding and USD 3.5 million of surety bonds and guarantees issued, resulting in availability of USD 156.5 million. The level of the Company's indebtedness and the terms of the agreements governing the Company's existing indebtedness, including the USD 300 million Tap Issue and the New SDHL Revolver, may have important consequences for investors' investment and contain covenants that restrict the ability of the Company to take various actions, such as to:

- incur or guarantee additional indebtedness or issue certain preferred shares;
- pay dividends or make other distributions on, or redeem or repurchase, any equity interests or make other restricted payments;
- make certain acquisitions or investments;
- create or incur liens;
- transfer or sell assets;
- incur restrictions on the payments of dividends or other distributions from certain subsidiaries within the Group;
- 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 the Company's assets or certain of its subsidiaries' assets.

The Company's 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 the Group's drilling rigs and events beyond the Company's control, and the Company may not satisfy these or other covenants in its existing indebtedness. The Company's failure to comply with the obligations under the agreements governing its existing indebtedness could result in an event of default under such agreements, which could result in the acceleration of its indebtedness, in whole or in part. In addition, the Company's existing debt agreements contain cross-default provisions that would be triggered upon acceleration under other debt instruments. In the event of an acceleration or payment default by the Company under one of its debt agreements, the creditors under its other existing debt agreements could determine that the Company is in default under its other financing agreements. This could lead to an acceleration and enforcement of such agreements by the Company's creditors.

These restrictions will also limit the Company's ability to plan for, or react to, market conditions, meet capital needs or otherwise restrict the Company's activities or business plans and adversely affect its ability to finance its operations, enter into acquisitions or to engage in other business activities that would be in the Company's interest.

2.1.37 To service and refinance its indebtedness, fund its capital and liquidity needs or pay dividends (if any), the Company will require a significant amount of cash, and the Company may not generate sufficient cash, or have access to sufficient funding, for such purposes, and such failure would have a material adverse effect on the Company

To service and refinance its indebtedness, fund its capital and liquidity needs or pay dividends (if any), the Company will require a significant amount of cash. The Company's ability to raise capital is, to a certain extent, subject to economic, financial, competitive, legislative, regulatory and other factors that are beyond the Company's control. In addition, the Group's business may not generate sufficient cash flows from operations, and future borrowings or alternative financing may not be available to the Company on favorable terms, or at all, in an amount sufficient to enable the Company to service and refinance, at or before maturity, its indebtedness, fund its capital and liquidity needs or pay dividends (if any), which would have a material adverse effect on the Company. As of 31 March 2018, the Company's cash and cash equivalents was USD 120.6 million. As of 31 March 2018, the Company had USD 3.5 million of surety bonds and guarantees issued and no cash borrowings under its revolver.

2.1.38 The Group's international operations in the shallow water offshore drilling sector involve additional risks, which could adversely affect the Group's business

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

- terrorist acts, armed hostilities, geopolitical events, military action, war and civil disturbances, including in the Middle East;
- acts of piracy, which have historically affected ocean-going rigs, trading in regions of the world such as West Africa and the Strait of Malacca, which have increased significantly in frequency since 2008;
- significant governmental influence over many aspects of local economies;
- repudiation, nullification, modification or renegotiation of contracts;
- limitations on insurance coverage, such as war risk coverage, in certain areas;
- political unrest or revolutions;
- foreign and United States monetary policy and foreign currency fluctuations and devaluations;
- the inability to repatriate income or capital;
- complications associated with repairing and replacing equipment in remote locations;
- import-export quotas, wage and price controls and imposition of trade barriers;
- regulatory or financial requirements to comply with foreign bureaucratic actions;
- changing taxation policies, including confiscatory taxation;
- other forms of government regulation and economic conditions that are beyond the Group's 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 the Group operates, including laws and regulations relating to:

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

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

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

The factors mentioned above may adversely affect the Group's ability to compete in those regions. The Company is unable to predict future governmental regulations which could adversely affect the international drilling industry. The actions of foreign governments may adversely affect the Group's ability to compete effectively. As such, the Group 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 the Group's business.

2.1.39 Fluctuations in exchange rates and non-convertibility of currencies could result in losses to the Group.

The Group may experience currency exchange losses when revenues are received or expenses are paid in non-convertible currencies, when the Group does not hedge an exposure to a foreign currency or when the result of a hedge is a loss. The Group 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.

2.1.40 The Group's senior management team and key employees are important to the Group's continued success and the loss of one or more members of the Group's senior management team or one or more of the Group's key employees could have a material adverse effect on the Group's business

The Group's performance is to a large extent dependent on highly qualified personnel and management, and the Group's continued ability to compete effectively, implement its strategy and further develop it business depends on its ability to attract new and well qualified employees and retain and motivate existing employees, making it important that the Group is able to implement actions and offer a business model that continues to motivate existing and valuable employees, as well as attract new talents. The importance of having qualified personnel has proved especially important as the industry has developed and become more advanced. One of the key factors contributing to the Group's leading position and its global footprint has been its ability to retain qualified employees through the entire organizational structure. The loss of any member of the Group's senior management or other key personnel, with the failure of attracting a suitable replacement, may have a material adverse effect on the Group's business, results of operations and prospects.

Further, the competition for key employees within the oil and gas industry, including domestic and international competitors as well as businesses outside the ordinary oil and gas industry, is intense, as is competition for highly skilled senior management. The Group may not be able to retain its key employees or senior management personnel nor attract and retain new employees and senior management personnel in the future. The Group's competitors may actively seek to recruit its senior management personnel or other key employees and may succeed in such efforts. Further, financial difficulties and other factors might have negative impacts on the Group's ability to retain key employees or recruit new talents. Any loss of the services of key employees, particularly to competitors, or the inability to attract and retain highly skilled personnel could have a material adverse effect on the Group's business, results of operation, financial condition and/or prospects.

2.1.41 The Group relies on the proper functioning of its computer and data processing systems that must be regularly upgraded or replaced, and a larger-scale malfunction could result in material and adverse disruptions to its business

The Group relies primarily on globally and locally functioning information technology systems across its value chain, including for management and financial information and various other processes and transactions. The Company's ability to effectively manage its business depends on the security, reliability and capacity of these systems. An attack on or other problems with the Group’s systems could also result in the disclosure of proprietary information about its business or confidential information concerning its customers or employees, which could result in significant damage to its business and its reputation.

The Group has put in place security measures designed to protect against the misappropriation or corruption of its systems, intentional or unintentional disclosure of confidential information, or disruption of its operations. However, these security measures may prove ineffective. Current employees have, and former employees may have, access to a significant amount of information regarding the Group’s operations, which could be disclosed to its competitors or otherwise used to harm the business. Any breach of the Group’s security measures could result in unauthorized access to and misappropriation of its information, corruption of data or disruption of operations or transactions, any of which could materially adversely affect the Group’s business, financial condition, results of operations and prospects.

The Group has and will continue to expend resources, and dedicate personnel, to upgrade and maintain its information technology systems to protect against threatened or actual security breaches. In addition, the Group could be required to expend significant amounts to respond to unanticipated information technology issues. Failure to implement these measures that could protect against all significant risks could materially adversely affect the Group’s business, financial condition, results of operations and prospects.

2.1.42 Insurance coverage may be unavailable for the Group's operations

The Group is exposed to natural hazards that may affect its normal operations, such as storms, high tides, tsunamis, seismic events, volcanic eruptions, currents, floods, avalanches, landslides and/or submarine currents. Because insurers in general struggle with eliminating risks of events that lead to correlated losses through insurance pooling, such as natural hazards, many insurers refrain from insuring these risks. The severity of correlated risks is also difficult to predict, leading to high-priced and unfavorable insurance premiums and/or deductibles with those insurers who do offer coverage for such loss.

2.1.43 Liquidity risk

The Group's business faces liquidity risks, meaning that the Group may be in a situation where it does not have sufficient liquidity to cover its financial obligations. Liquidity risk is the risk that the Group has trouble with meeting financial obligations that must be settled in cash or with other financial assets Liquidity risk arises from possible mismatches between the needs of funds, for investments in assets, operating expenses, financial expenses, payments of maturity debts and dividends committed against sources of funds, such as revenue from sales of products, collection of customer accounts, rescue of financial loans and access to financing. If the Group does not have sufficient liquidity to cover its obligations as they come due, its business, results of operations, financial position and/or future prospects may be materially and adversely affected.

2.1.44 The Company is the parent company of the group and a significant portion of the Group's operations are carried out by the Subsidiaries

The Company is a parent company of several Subsidiaries, through which a significant part of the Group's business is carried out, and the operational results and financial situation depends largely on the same. Any significant deterioration of the business and of the results of the Subsidiaries and affiliates could have a negative impact on the business and on the operational results of the Group.

2.2 Risks related to laws and regulations

2.2.1 The Group is subject to complex laws and regulations, including environmental laws and regulations that can adversely affect the cost, manner or feasibility of doing business

The Group's 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 the Group's drilling rigs operate or are registered, which can, directly or indirectly, significantly affect the ownership and operation of the rigs. These requirements include, but are not limited to, the International Convention for the Prevention of Pollution from Ships, as amended ("**MARPOL**"), the International Convention on Civil Liability for Oil Pollution Damage, as amended ("**CLC**"), the International Convention on Civil Liability for Bunker Oil Pollution Damage, as amended ("**Bunker Convention**"), 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, the Group's operations. Furthermore, the United Nations' International Maritime Organization (the "**IMO**"), at the international level, or national or regional legislatures in the jurisdictions in which the Group operates, including the European Union, may pass or promulgate new environmental laws or regulations. Compliance with such laws, regulations and standards, where applicable, may require installation of costly equipment or operational changes and may affect the resale value or useful lifetime of the drilling rigs. The Group is required to obtain HSE permits from governmental authorities for its operations, and the Group may have difficulty in obtaining or maintaining such permits.

The Group 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 the Group was 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 the Group's business, financial condition, results of operations and cash flows. In addition, existing or future laws could increase costs for the Group's customers, the Group's vendors or the Group's service providers, and thereby have a material adverse effect on the Group's 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 the Group to liability without regard to whether it was 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. The Group is 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 the Group could face liability for cleanup costs at third-party disposal locations. Environmental claims against the Group could result in a material adverse effect on the Group's business, financial condition, results of operations and cash flows.

Although some of the Group's 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 the Company could be subject to liability upon a judgment against it or any one of its subsidiaries.

The Group's 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 the Group's 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 the Group's financial condition, results of operations and cash flows. Although the Group's contracts generally provide for indemnification from its customers for some of these costs, the inability or other failure of the Group's customers to fulfill any indemnification obligations they have, or the unenforceability of the Group's contractual protections could have a material adverse effect on the Group's financial condition, results of operation and cash flows. Moreover, these releases may result in customers or governmental authorities suspending or terminating the Group's operations in the affected area, which could have a material adverse effect on the Group's business, financial condition and results of operations.

If a major incident were to occur in the industry in which the Group operates, 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 the industry in which the Group operates. Any changes to existing laws in the jurisdictions in which the Group operates prompted by such a future event could increase the Group's operating costs and future risk of liability. In addition, the Group may be required to post additional surety bonds to secure performance, tax, customs and other obligations relating to the Group's rigs in jurisdictions where bonding requirements are already in effect and in other jurisdictions where the Group may operate in the future. These requirements would increase the cost of operating in these countries, which could materially adversely affect the Group's business, financial condition, results of operations and cash flows.

2.2.2 Regulation of greenhouse gases and climate change could have a negative impact on the Group's 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 the Group's operations, especially given that the Group's 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 the Group's business.

In addition, because the Group's 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 the Group's business, financial condition, results of operations and cash flows.

2.2.3 If the Group or its customers are unable to acquire or renew permits and approvals required for drilling operations, the Group may be forced to suspend or cease its operations, which may adversely affect the Group's profitability

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

2.2.4 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 the Group's business

The Group operates 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, the Group 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. The Group is 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 the Group has 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 the Group's acts or omissions or due to the acts or omissions of others, including the Group's employees, agents joint venture partners, local sponsors or others, the Group 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 the Group's rigs and other assets, and might as a result materially adversely affect the Group's business, financial condition and results of operations. The Group's customers in relevant jurisdictions could seek to impose penalties or take other actions adverse to the Group's interests. In addition, actual or alleged violations could damage the Group's reputation and ability to do business and could cause investors to view the Group negatively and adversely affect the market for the Securities. Furthermore, detecting, investigating and resolving actual or alleged violations are expensive and can consume significant time and attention of executive and senior management regardless of the merit of any allegation. The Group may also be subject to competitive disadvantages to the extent that its competitors are able to secure business, licenses or other preferential treatment by making payments to government officials and others in positions of influence or using other methods that U.S. and foreign laws and regulations and the Group's own policies prohibit it from using.

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

The shipment of equipment and materials required for shallow water offshore drilling operations across international borders subjects the Group to extensive import and export laws and regulations governing the Group's assets, equipment and materials, including those enacted by the United States and/or other countries in which the Group operates. 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 the Group's operations. Materials shipments and rig import/export may be delayed and denied for a variety of reasons, some of which are outside the Group's control, and including the Group's 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.

2.2.6 The Group may be subject to litigation and disputes that could have a material adverse effect on the Group's business, financial condition, prospects, results of operations and cash flows

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

2.2.7 The Company is exposed to regulatory and enforcement risks regarding taxes. U.S. tax authorities may treat the Company as a passive foreign investment company, causing potential adverse U.S. federal tax consequences to U.S. holders

A non-U.S. corporation will be classified as a PFIC for U.S. federal income tax purposes for any taxable year if either (i) 75% or more of its gross income for such year consists of certain types of “passive” income or (ii) 50% or more of the value of its assets (determined on the basis of a quarterly average) during such year produce or are held for the production of passive income. Passive income generally includes dividends, interest, royalties, rents, annuities, net gains from the sale or exchange of property producing such income and net foreign currency gains. For this purpose, cash is categorized as a passive asset and the company’s unbooked intangibles associated with active business activity are taken into account as a non-passive asset. The Company will be treated as owning a proportionate share of the assets and earning a proportionate share of the income of any other corporation in which it owns, directly or indirectly, 25% or more (by value) of the stock.

Based on the Company's income and assets, and the value of the Offer Securities or Common Shares, the Company does not believe that it was a PFIC, for U.S. federal income tax purposes, for the taxable year ended December 31, 2017, and does not anticipate becoming a PFIC for the current taxable year or for the foreseeable future. Nevertheless, because PFIC status is a factual determination made annually after the close of each taxable year on the basis of the composition of the Company's income and assets, there can be no assurance that the Company will not be a PFIC for the current taxable year or any future taxable year.

Although there is significant legal authority supporting the Company's position, including relevant statutory provisions, legislative history, case law and various pronouncements from the United States Internal Revenue Service (the "**IRS**"), there is a possibility that the Company's income from offshore drilling service contracts may be characterized as "passive" income in light of a recent case characterizing income from the time chartering of vessels as rental income as opposed to services income for other tax purposes. The IRS has formally announced that it does not agree with the decision in that case. Despite this IRS announcement, the IRS or a relevant court may not accept that the Company is not a PFIC.

If the Company was to be treated as a PFIC for any relevant period, its U.S. Holders (as defined in "Taxation—United States taxation") may face significant adverse U.S. tax consequences. Under the PFIC rules, a U.S. Holder 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 the Securities, plus certain interest and penalties. Although Security Holders can make certain elections to mitigate the application of the PFIC rules, these elections may not be available to a U.S. Holder and, even if available, can themselves cause other adverse tax consequences.

2.2.8 Any relevant change in tax laws, regulations, or treaties, or relevant interpretations thereof, for any country in which the Group operates or earns income or is considered to be a tax resident, may result in a higher effective tax rate on the Group's worldwide earnings, which could have a material impact on the Group's earnings and cash flows from operations

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

For example, if Norwegian shareholders control a company (i.e. directly or indirectly own or control at least 50% of the shares or the capital of a company) that is resident in a low tax jurisdiction, such Norwegian shareholders may be subject to Norwegian taxation according to the Norwegian Controlled Foreign Corporations regulations (Norwegian CFC regulations). Such taxation could apply with respect to the Company and certain subsidiaries of the Group, if the Group becomes subject to the control of Norwegian shareholders. If the Norwegian shareholders of the Company are subject to Norwegian CFC taxation, such Norwegian shareholders are taxed in Norway on their proportionate share of the net profits generated by the relevant foreign company, calculated according to Norwegian tax regulations. The income will be subject to Norwegian taxation, currently at a rate of 23%.

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

The Company is an exempted company, limited by shares and incorporated under the laws of the Cayman Islands that operates through many subsidiaries in various countries throughout the world. Income taxes are based upon the relevant tax laws, regulations, and treaties that apply to the various countries in which the Company operates or earn income or is deemed to be a tax resident.

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

Transactions taking place between the companies in the Group and related companies must be carried out in accordance with arm's length principles in order to avoid adverse tax consequences. There can be no assurance that the tax authorities will conclude that the Group's transfer pricing policies calculates correct arm's length prices for intercompany transactions, which could lead to an adjustment of the agreed price, which would in turn lead to increased tax cost for the Group.

2.2.10 If any part of the Group's business is moved outside of its current operative jurisdictions its overall tax exposure may change, which may affect its alleged compliance with applicable tax law, hence its profitability

The Company and most of its subsidiaries are incorporated in the Cayman Islands. The Company also has subsidiaries in various other jurisdictions. The overall tax charge is dependent on where profits are accumulated and taxed, whereas different countries have different tax systems and tax rates. Different jurisdictions have different legal systems with different laws for tax residency, tax credits and tax exemption rules. If the Group moves some of its operations into a new jurisdiction or acquire companies in jurisdictions in which it does not already operate, the overall tax charge of the Group may be affected. Further, the Group may also become exposed to changes of tax policies and amendments of tax legislations, proactively and/or retroactively, in all these jurisdictions.

Tax authorities are not bound by the Group's judgement and there can be no assurance that they will agree with it. If the relevant tax authority is of a different opinion and challenges the Group's perception, losses and increasing tax charges may materialize. This is not only topical for the Group's current situation, but also in the future if the Group expands its operations and establishes entities outside of its current operative jurisdictions. Any changes in the Group's tax exposure may affect its alleged compliance with applicable tax law, and any non-compliance may have a material adverse effect on the Group's business, results of operations, financial condition and/or prospects.

2.2.11 The Group is subject to laws and regulations in several jurisdictions, whereas failure to properly comply with such may adversely affect its operations

The Company is an exempted company, limited by shares with a certain number of Securities traded on the N-OTC and certain Securities to be traded on the Oslo Stock Exchange. In addition, the Group has established operations in various other jurisdictions. Having international business activities means that the Company, and the Group as such, is subject to laws and regulations in multiple jurisdictions. Laws and regulations are subject to continual changes, whereas some legislative changes may be either directly disadvantageous to the Group's business or could oblige the Group to change its course of business or amend its business strategy to a less profitable strategy. Any failure to comply with applicable national and/or international laws could lead to costly litigations, penalties and other sanctions, and thus adversely affect the overall performance of the Group.

2.2.12 After the Listing the Company's financial statements will be subject to both Cayman Islands regulatory requirements and the requirements applicable for companies listed on the Oslo Stock Exchange, and may be subject to review by the relevant authorities and potential change

From the time of Listing, the Company intends to prepare its financial statements both in accordance with the Cayman Islands regulatory requirements and the requirements applicable for companies listed on the Oslo Stock Exchange. For the purpose of complying with rules and guidelines set out by the Norwegian FSA, the Company has developed a valuation model that incorporates the recommendation from the Norwegian FSA in notes to its financial statements. The Company has been given indications that providing additional information in notes might not be considered sufficient and as such may be the subject for a control of the financial information by the Norwegian FSA, with a potential resolution to change the financial statements. Also other items in the financial statements may be subject to review by the relevant authorities, and potential change.

2.3 Risks related to the Listing and the Securities

2.3.1 The Sponsors will continue to own a significant proportion of the Securities after the Listing, and their interests may conflict with those of the Group or other shareholders

The Sponsors are expected to continue to beneficially own, collectively, a significant proportion of the Securities immediately after the Listing. Accordingly, the Sponsors will be able to exercise significant influence over the Group's affairs. In addition, the Sponsors' appointees will continue to constitute a majority of the Directors on the Board of Directors as a result of contractual provisions and the Company's Articles. See Section 14 ("*Corporate Information and Description of the Share Capital*).

If circumstances arise where the interests of Sponsors conflict with the interests of other shareholders, the other shareholders could be disadvantaged by the Sponsors' ability to influence actions contrary to the other shareholders' interests. This level of voting influence of the Sponsors may impact other shareholders' ability as minority shareholders to have an influence on the result of special resolutions which shall be required for certain types of transactions, such as the reduction of the Group's share capital, the repurchase of shares or the approval for a merger, or that involve an actual or potential change of control of the Group, including transactions in which shareholders might receive a premium for their shares over prevailing market prices.

2.3.2 *The Company does not expect to pay any dividends to the holders of the Common Shares, including Securities, in the near future and the availability and timing of future dividends, if any, is uncertain*

The Group currently intends to retain future earnings, if any, to finance expansion of its business, acquisitions, repay its debt, and does not expect to declare or pay any dividends on the Securities (by way of dividend on the Common Shares) in the near future. Agreements governing the Group's existing indebtedness place certain restrictions on the ability of the Company and of the restricted subsidiaries within the Group to pay dividends. In addition, the terms of the Preferred Shares prohibit the Company from paying cash dividends on its Common Shares as long as any Preferred Shares remain outstanding. Consequently, the only opportunity to achieve a return the investment in the Company will be to sell the Security at a price greater than paid for it. The price of the Securities in the market may never exceed the price in the Offering. In addition, the Group may amend the agreements governing the Group's existing indebtedness or enter into new debt arrangements that also prohibit or restrict the Company's and/or the Group's ability to pay dividends on Common Shares or even further restrict the Company's ability to pay dividends.

Subject to such prohibitions and restrictions, the Board of Directors will determine the amount and timing of shareholder dividends, if any, that the Company may pay in future periods. In making this determination, the Board of Directors will consider all relevant factors, including the amount of cash available for dividends, capital expenditures, covenants, prohibitions or limitations with respect to dividends, applicable law, general operational requirements and other variables. The Company cannot predict the amount or timing of any future dividends, and if the Company does commence the payment of dividends, the Company may be unable to pay, maintain or increase dividends over time. Therefore, investors may not be able to realize any return on their investment in the Securities for an extended period of time, if at all.

2.3.3 *Shareholder rights and responsibilities will be governed by Cayman Islands law and will differ in some respects from the rights and responsibilities of shareholders under other jurisdictions, including Norway and the United States, and the Company's shareholder rights under Cayman Islands law may not be as clearly established as shareholder rights are established under the laws of other jurisdictions*

The Company's corporate affairs are governed by the Company's Articles and by the laws governing companies incorporated in the Cayman Islands. The rights of the Company's shareholders and the responsibilities of members of the Board of Directors under Cayman Islands law may not be as clearly established as under the laws of other jurisdictions. In addition, the rights of shareholders as they relate to, for example, the exercise of shareholder rights, are governed by Cayman Islands law and the Company's Articles and differ from the rights of shareholders under other jurisdictions, including Norway and the United States. The holders of the Securities may have more difficulty in protecting their interests in the face of actions by the Board of Directors than if it were incorporated in the United States or Norway.

More specifically, under the Articles, Common Shares held by the Sponsors entitle them to elect a number of the Directors, as described in Section 12.1.1 ("*Overview of the Board of Directors*").

If not redeemed as part of the Offering, the holders of Preferred Shares have certain preferential rights over the holders of Common Shares as described in Section 14.3.1 ("*Preferred Shares*").

2.3.4 *Preemptive rights with respect to the Common Shares are not available to holders of Securities*

Under Cayman Islands law and the Company's Articles, holders of Securities do not have preemptive rights that maintain their relative ownership percentages prior to the issuance of any new Common Shares. Without preemptive rights, future issuances of Common Shares or other securities may result in substantial dilution in the percentage of, and may have the effect of diluting the value of, the Securities, and might have an adverse effect on any trading market for the Securities.

2.3.5 *Limited free float of the Securities may have a negative impact on the liquidity of and market price for the Securities*

After completion of the Offering, and provided that 29,411,679 New Securities are issued in connection with Offering, 45.8% of the Company's Common Share capital is expected to be held by the Sponsors. Limited free float may have a negative impact on the liquidity of the Securities and result in a low trading volume of the Securities, which could have an adverse effect on then prevailing market price for the Securities and could result in increased volatility of the market price for the Securities.

2.3.6 *The price of the Securities could fluctuate significantly*

The trading volume and price of the Securities could fluctuate significantly. The securities markets in general have been volatile in recent years. Some of the factors that could negatively affect the price of the Securities or result in fluctuations in the price or trading volume of the Securities include, for example, changes in the Company's actual or projected results of operations or those of its competitors, changes in earnings projections or failure to meet investors' and analysts' earnings expectations, investors' evaluations of the success and effects of the strategy described in this Prospectus, as well as the evaluation of the related risks, changes in general economic conditions, changes in shareholders and other factors. Volatility has had a significant impact on the market price of securities issued by many companies. Those changes may occur without regard to the operating performance of these companies. The price of the Securities may therefore fluctuate based upon factors that are not specific to the Company, and these fluctuations may materially affect the price of the Securities.

2.3.7 *Future sales, or the possibility for future sales, including by the Sponsors, of substantial numbers of Securities could affect the market price of the Securities*

The Company cannot predict what effect, if any, future sales of the Securities, or the availability of Securities for future sales, will have on the market price of the Securities. Sales of substantial amounts of the Securities in the public market following the Offering, including by the Sponsors, or the perception that such sales could occur, could adversely affect the market price of the Securities, making it more difficult for Security holders to sell their Securities or the Company to sell equity securities in the future at a time and price that they deem appropriate. As of the date of this Prospectus, the Sponsors are subject to an agreement with the Managers that, subject to certain conditions and exceptions, restrict their ability to sell or transfer Securities for a period of 180 days after the date of the Placement Agreement. The representatives of the Managers may, in their sole discretion and at any time, waive the restrictions on sales or transfer during this period. Additionally, following this period, all Securities owned by the Sponsors will be eligible for sale or other transfer in the public market, subject to applicable securities laws restrictions.

2.3.8 *The Company will incur increased costs as a result of being a publicly traded corporation on the Oslo Stock Exchange*

As a publicly traded corporation with the Securities listed on the Oslo Stock Exchange, the Company will be required to comply with the reporting and disclosure requirements and with corporate governance requirements applicable for companies listed on the Oslo Stock Exchange as set out in the Corporate Governance Code. The Company will incur additional legal, accounting and other expenses to comply with these and other applicable rules and regulations. The Company anticipates that its incremental general and administrative expenses as a publicly traded corporation on the Oslo Stock Exchange will include, among other things, costs associated with annual and quarterly reports, general meetings, investor relations, incremental director and officer liability insurance costs, officer and director compensation, and any other information communicated to investors. Any such increased costs, individually or in the aggregate, could have an adverse effect on the Company's business, financial condition, results of operations and cash flows.

2.3.9 *Future issuances of Securities or other securities could dilute the holdings of Security holders and could materially affect the price of the Securities*

The Company may in the future decide to offer additional Securities or other securities in order to finance, among other needs, new capital-intensive projects, in connection with unanticipated liabilities, as currency in M&A transactions, regulatory requirements, or expenses or for any other purposes. In addition, to the extent the Preferred Shares are not fully redeemed in connection with the Offering, the conversion right attached to the Preferred Shares may, if exercised by the holder(s) of the Preferred Shares, result in the issue a significant number of Common Shares.

There can be no assurance that the Company will not decide to conduct further offerings of securities in the future. Depending on the structure of any future offering, certain Security holders may not have the ability to purchase additional equity securities. If the Company raises additional funds by issuing additional equity securities, or of the Preferred Shares are converted into Common Shares, holdings and voting interests of Security holders could be diluted and the market price of the Securities could be affected in a material adverse manner.

2.3.10 *Exchange rate fluctuations could adversely affect the value of the Securities and any dividends paid on the Securities for an investor whose principal currency is not USD*

The Securities will be priced and traded in NOK on the Oslo Stock Exchange and any future payments of dividends on the Securities will be denominated in the currency of the bank account of the relevant Security holder, and will be paid to the Security holders through DNB Bank ASA ("**DNB**"), being the Company's VPS registrar (the "**VPS Registrar**"). Security holders registered in the VPS who have not supplied their VPS account operator with details of their bank account, will not receive payment of dividend unless they register their bank account details of their VPS account, and thereafter inform the VPS Registrar about said account. The exchange rate(s) that is applied when denominating any future payments of dividends to the relevant Security holder's currency will be the VPS Registrar's exchange rate on the payment date. Exchange rate movements of USD will therefore affect the value of these dividends and distributions for investors whose principal currency is not USD. Further, the market value of the Securities as expressed in foreign currencies will fluctuate in part as a result of foreign exchange fluctuations. This could affect the value of the Securities and of any dividends paid on the Securities for an investor whose principal currency is not USD.

2.3.11 Market yield rates could influence the price of the Securities

One of the factors that could influence the price of the Securities is its annual dividend yield as compared to yields on other financial instruments. As such, an increase in market interest rates will result in higher yields on other financial instruments, which could adversely affect the price of the Securities.

2.3.12 The transfer of Securities and their underlying assets is subject to restrictions under the securities laws of the United States and other jurisdictions

The Securities or underlying assets have not been registered under the U.S. Securities Act or any U.S. state securities laws or any other jurisdiction outside Norway and the Cayman Islands, respectively, and are not expected to be registered in the future. As such, the Securities or underlying assets may not be offered or sold in the United States except pursuant to an exemption from the registration requirements of the U.S. Securities Act and applicable securities laws. See Section 18 ("*Selling and Transfer Restrictions*"). In addition, Security holders residing or domiciled in the United States and/or other jurisdictions may be able to participate in future capital increases.

2.3.13 Investors could be unable to recover losses in civil proceedings in jurisdictions other than the Cayman Islands and Norway

The Company is an exempted company, limited by shares and incorporated under the laws of the Cayman Islands. The Directors and the members of the Management reside in the United States of America, Saudi Arabia, Australia and United Arab Emirates. As a result, it may not be possible for investors to effect service of process in other jurisdictions upon such persons or the Company, it may be difficult to enforce against such persons or the Company judgments obtained in non-Cayman Islands or non-Norwegian courts, or to enforce judgments on such persons or the Company in other jurisdictions.

2.3.14 Cayman Islands law could limit Security holders' ability to bring an action against the Company

The rights of Security holders are governed by Cayman Islands law and by the Articles. These rights may differ from the rights of shareholders in other jurisdictions, including Norway. In addition, it could be difficult to prevail in a claim against the Company under, or to enforce liabilities predicated upon, securities laws in other jurisdictions.

2.3.15 Risks related to the registration of the Securities in the VPS and the Registrar Agreement

In connection with the Company's listing of the Securities on the Oslo Stock Exchange, the Company has established a facility for the registration of the Securities in the VPS. The Company has appointed DNB as its VPS Registrar in the VPS in accordance with the Registrar Agreement (as defined below). The VPS Registrar will be recorded as the shareholder in the Company's shareholders' register. The VPS Registrar has registered the Securities in the VPS which following such registration reflects the beneficial shareholders, personally or through nominee registrations. Security holders must exercise their organizational and economic rights through the VPS Registrar. In order to exercise full shareholder rights, the Security holders must transfer their holding in the VPS to a registered holding of shares in the Company's shareholders' register. The Company cannot guarantee that the VPS Registrar will be able to execute its obligations under the Registrar Agreement. Any such failure may, inter alia, limit the access for, or prevent, investors from exercising their organizational or economic rights attached to the underlying shares. The VPS Registrar may terminate the Registrar Agreement pursuant to a prior written notice of termination. Furthermore, the VPS Registrar may terminate the Registrar Agreement with immediate effect if the Company does not fulfil its payment obligations to the VPS Registrar or commits any other material breach of the Registrar Agreement. In the event of a termination of the Registrar Agreement, there can be no assurance that it would be possible for the Company to enter into a new registrar agreement on substantially the same terms or at all. A termination of the Registrar Agreement could, therefore, materially and adversely affect the Company and the Security holders. The VPS Registrar disclaims any liability for any loss attributable to circumstances beyond the VPS Registrar's control, including, but not limited to, errors committed by others. The VPS Registrar is liable for direct losses incurred as a result of the VPS Registrar's breach of contract. Accordingly, the Company and the Security holders may not be able to recover its entire loss if the VPS Registrar does not perform its obligations under the Registrar Agreement.

Holders of the Securities are not able to exercise direct shareholder rights. As nominee for the Security holders, the VPS Registrar will be the registered shareholder in the Company's shareholders' register and the Security holders may only exercise their rights with respect to the shares in accordance with the terms and conditions set out in this Prospectus. There are no provisions under Cayman Islands law or under the Company's Articles that limit the Security holders' in exercising their rights in respect of the Securities through the VPS Registrar. In order to exercise their rights, Security holders must instruct the VPS Registrar as to the voting in the shares represented by their Securities.

3 RESPONSIBILITY FOR THE PROSPECTUS

This Prospectus has been prepared in connection with the Offering described herein and the Listing of the Securities on the Oslo Stock Exchange.

The Board of Directors of Shelf Drilling, Ltd. accepts responsibility for the information contained in this Prospectus. The members of the Board of Directors confirm that, after having taken all reasonable care to ensure that such is the case, the information contained in this Prospectus is, to the best of their knowledge, in accordance with the facts and contains no omission likely to affect its import.

12 June 2018

The Board of Directors of Shelf Drilling, Ltd.

____________________ David Mullen *Director*	____________________ Graham Brooke *Director*
____________________ John K. Castle *Director*	____________________ Ernie Danner *Director*
____________________ J. William Franklin, Jr. *Director*	____________________ David Pittaway *Director*
____________________ John Reynolds *Director*	____________________ Benjamin Sebel *Director*
____________________ Tyson Smith *Director*	____________________ Usama Trabulsi *Director*

____
David Williams
Director

4 GENERAL INFORMATION

4.1 Other important investor information

The Company has furnished the information in this Prospectus. The Managers make no representation or warranty, whether express or implied, as to the accuracy, completeness or verification of the information set forth herein, and nothing contained in this Prospectus is, or shall be relied upon, as a promise or representation in this respect, whether as to the past or the future. The Managers disclaim, to the fullest extent permitted by applicable law, any and all liability whether arising in tort, contract or otherwise which they might otherwise be found to have in respect of this Prospectus or any such statement.

The Managers are acting exclusively for the Company and no-one else in connection with the Offering. They will not regard any other person (whether or not a recipient of this document) as their respective clients in relation to the Offering and will not be responsible to anyone other than the Company for providing the protections afforded to their respective clients nor for giving advice in relation to the Offering or any transaction or arrangement referred to herein.

The information contained herein is current as of the date hereof and subject to change, completion and amendment without notice. In accordance with Section 7-15 of the Norwegian Securities Trading Act, significant new circumstances, material errors or inaccuracies relating to the information included in this Prospectus, which are capable of affecting the assessment by investors of the Offer Securities between the time of approval of this Prospectus by the Norwegian Financial Supervisory Authority of Norway and the listing of the Offer Securities on the Oslo Stock Exchange, will be included in a supplement to this Prospectus. Neither the publication nor distribution of this Prospectus, nor the sale of any Offer Securities, shall under any circumstance imply that there has not been any change in the Group's affairs or that the information herein is correct as of any date subsequent to the date of this Prospectus.

No person is authorized to give information or to make any representation concerning the Group or in connection with the Offering or the sale of the Offer Securities other than as contained in this Prospectus. If any such information is given or made, it must not be relied upon as having been authorized by the Company or the Managers or by any of the affiliates, representatives, advisers or selling agents of any of the foregoing.

None of the Company or the Managers, or any of their respective affiliates, representatives, advisers or selling agents, is making any representation, express or implied, to any offeree or purchaser of the Offer Securities regarding the legality of an investment in the Offer Securities. Each investor should consult with his or her own advisors as to the legal, tax, business, financial and related aspects of a purchase of the Offer Securities.

Investing in the Offer Securities involves a high degree of risk. See Section 2 ("*Risk Factors*") beginning on page 20.

In connection with the Offering, each of the Managers and any of their respective affiliates, acting as an investor for its own account, may take up Offer Securities in the Offering and in that capacity may retain, purchase or sell for its own account such securities and any Offer Securities or related investments and may offer or sell such Offer Securities or other investments otherwise than in connection with the Offering. Accordingly, references in the Prospectus to Offer Securities being offered or placed should be read as including any offering or placement of Offer Securities to any of the Managers or any of their respective affiliates acting in such capacity. None of the Managers intends to disclose the extent of any such investment or transactions otherwise than in accordance with any legal or regulatory obligation to do so. In addition, certain of the Managers or their affiliates may enter into financing arrangements (including swaps) with investors in connection with which such Managers (or their affiliates) may from time to time acquire, hold or dispose of Securities.

4.2 Presentation of financial and other information, including currencies

4.2.1 Financial information

The Group's audited consolidated financial statements as at and for the years ended 31 December 2017, 2016 and 2015 (hereinafter jointly referred to as the "**Financial Statements**"), included in Appendix B to this Prospectus, have been prepared in accordance with US GAAP. The Company's unaudited consolidated interim financial information as at and for the three months' period ended 31 March 2018 (with comparable figures for the three months' period ended 31 March 2017) (hereinafter jointly referred to as the "**Interim Financial Information**"), included in Appendix C to this Prospectus, have been prepared in accordance with US GAAP for interim financial information ("**US GAAP Interim**"). The Financial Statements and the Interim Financial Information are hereinafter jointly referred to as the "**Historical Financial information**".

The Financial Statements have been audited by PricewaterhouseCoopers Dubai branch ("**PwC**"), as set forth in their auditor's report included herein. The Interim Financial Information has been reviewed by PwC in accordance with US GAAP, whereas such review is substantially less in scope than an audit.

The Company present the Financial Statements and the Interim Financial Information in USD, as its functional currency.

4.2.2 Non-US GAAP measures

This Prospectus contains financial measures and ratios, including Adjusted EBITDA, that are not required by, or presented in accordance with US GAAP. The Company refers to these measures as "non-GAAP financial measures".

"**Adjusted EBITDA**" is defined as net loss plus interest, taxes, depreciation, amortization, losses on disposals of assets, loss on impairment of assets, sponsors' fee, acquired rig reactivation costs and share-based compensation expense, less gains on disposal of assets. For a reconciliation of net (loss)/income to Adjusted EBITDA and more information about how these financial measures are calculated, see Section 11.2 ("*Operations and reporting segments*").

The Company presents non-GAAP financial measures because it believes that they and other similar measures are widely used by certain investors, securities analysts and other interested parties as supplemental measures of performance and liquidity. The Company believes Adjusted EBITDA provides meaningful information about the performance of its business and therefore uses it to supplement its US GAAP reporting. The Company believes that Adjusted EBITDA improves the comparability of year-to-year results and is representative of the Company's underlying performance. The non-GAAP financial measures may not be comparable to other similarly titled measures of other companies and have limitations as analytical tools and should not be considered in isolation or as a substitute for analysis of the Company's operating results as prepared under US GAAP. Non-GAAP financial measures and ratios are not measurements of the Company's performance, financial condition or liquidity under US GAAP and should not be considered as alternatives to operating profit or profit or as alternatives to cash flow from operating, investing or financing activities for the period, or any other performance measures, derived in accordance with US GAAP or any other generally accepted accounting principles.

4.2.3 Industry and market data

In this Prospectus, the Company has used industry and market data obtained from independent industry publications, market research, and other publicly available information, including information from DNB Markets Equity[2] Research and Rystad Energy[3].

The Company confirms that where information has been sourced from a third party, such information has been accurately reproduced and that as far as the Company is aware and is able to ascertain from information published by that third party, no facts have been omitted that would render the reproduced information inaccurate or misleading. Where information sourced from third parties has been presented, the source of such information has been identified, however, source references to websites shall not be deemed as incorporated by reference to this Prospectus.

Industry publications or reports generally state that the information they contain has been obtained from sources believed to be reliable, but the accuracy and completeness of such information is not guaranteed. The Company has not independently verified and cannot give any assurances as to the accuracy of market data contained in this Prospectus that was extracted from these industry publications or reports and reproduced herein. Market data and statistics are inherently predictive and subject to uncertainty and not necessarily reflective of actual market conditions. Such statistics are based on market research, which itself is based on sampling and subjective judgments by both the researchers and the respondents, including judgments about what types of products and transactions should be included in the relevant market.

The Company cautions prospective investors not to place undue reliance on the above mentioned data. Unless otherwise indicated in the Prospectus, any statements regarding the Group's competitive position are based on the Group's own assessment and knowledge of the market in which it operates. While the Company has compiled, extracted and reproduced industry and market data from external sources, the Company has not independently verified the correctness of such data.

[2] Information from this source in the Prospectus is available at https://www.dnb.no/bedrift/markets.

[3] Information from this source in the Prospectus is available at https://www.rystadenergy.com/Products

As a result, prospective investors should be aware that statistics, data, statements and other information relating to markets, market sizes, market shares, market positions and other industry data in this Prospectus (and projections, assumptions and estimates based on such information) may not be reliable indicators of the Company's future performance and the future performance of the industry in which it operates. Such indicators are necessarily subject to a high degree of uncertainty and risk due to the limitations described above and to a variety of other factors, including those described in Section 2 ("*Risk Factors*") and elsewhere in this Prospectus.

4.2.4 Other information

In this Prospectus, all references to "**NOK**" are to the lawful currency of Norway and "**USD**" or "**U.S. dollar**" are to the lawful currency of the United States.

4.2.5 Rounding

Certain figures included in this Prospectus have been subject to rounding adjustments (by rounding to the nearest whole number or decimal or fraction, as the case may be). Accordingly, figures shown for the same category presented in different tables may vary slightly. As a result of rounding adjustments, the figures presented may not add up to the total amount presented.

4.3 Cautionary note regarding Forward-looking Statements

This Prospectus includes Forward-looking Statements that reflect the Company's current views with respect to future events and financial and operational performance. These Forward-looking Statements may be identified by the use of forward-looking terminology, such as the terms "anticipates", "assumes", "believes", "can", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "should", "will", "would" or, in each case, their negative, or other variations or comparable terminology. These Forward-looking Statements are not historic facts. They appear in the following Sections in this Prospectus, Section 7 ("*Industry and Market Overview*"), Section 8 ("*Business of the Group*") and Section 11 ("*Operating and Financial Review*"), and include statements regarding the Company's intentions, beliefs or current expectations concerning, among other things, financial strength and position of the Company, operating results, liquidity, prospects, growth, the implementation of strategic initiatives, as well as other statements relating to the Company's future business development and financial performance, and the industry in which the Company operates, such as, but not limited to, with respect to the Group's expansion in existing and into new markets.

Prospective investors are cautioned that Forward-looking Statements are not guarantees of future performance and that the Company's actual financial position, operating results and liquidity, and the development of the industry in which the Company operates, may differ materially from those made in, or suggested, by the Forward-looking Statements contained in this Prospectus. The Company cannot guarantee that the intentions, beliefs or current expectations upon which its Forward-looking Statements are based will occur.

By their nature, forward-looking statements involve, and are subject to, known and unknown risks, uncertainties and assumptions as they relate to events and depend on circumstances that may or may not occur in the future. Because of these known and unknown risks, uncertainties and assumptions, the outcome may differ materially from those set out in the Forward-looking Statements. Important factors that could cause those differences include, but are not limited to:

- the Group's 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 the Group's drilling rigs, including the preferences of some of its 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 the Group's 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 the Group's products and services;
- sufficiency and availability of funds and adequate liquidity for required capital expenditures and deferred costs, working capital and debt service;
- the Group's levels of indebtedness, covenant compliance and access to future capital;

- the level of reserves for accounts receivables;
- the disproportionate changes in operating and maintenance costs compared to changes in operating revenues;
- downtime and other risks associated with offshore rig operations or rig relocations, including rig or equipment failure, damage and other unplanned repairs;
- the expected completion of shipyard projects including the timing of construction and delivery of newbuild rigs and the return of idle rigs to operations;
- the cost and timing of acquisitions and integration of additional rigs;
- future capital expenditures and deferred costs, refurbishment, reactivation, transportation, repair and upgrade costs;
- the Group's strategies and their effects and results;
- the Group's ability to reactivate rigs;
- complex laws and regulations, including environmental, anti-corruption and tax laws and regulations, that can adversely affect the cost, manner or feasibility of doing business;
- litigation, investigations, claims and disputes and their effects on the Group's 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 the Group's drilling rigs and of any rigs it acquires in the future may decrease;
- effects of customer interest or inquiries;
- the global number of contracted rigs, and the Group's ability to benefit from any increased activity;
- the Group's ability to attract and retain skilled personnel on commercially reasonable terms, whether due to labor regulations, unionization or otherwise;
- the security and reliability of the Group's technology systems and service providers;
- adverse changes in foreign currency exchange rates;
- changes in general economic, fiscal and business conditions in jurisdictions in which the Group operates and elsewhere;
- the Group's ability to obtain financing and pursue other business opportunities may be limited by the Group's debt levels, debt agreement restrictions and the credit ratings assigned to the Group's debt by independent credit rating agencies;
- a significant reduction by the Sponsors of their respective ownership interests in the Company;
- the costs associated with being a public company, including compliance with the Norwegian securities laws;
- incorporation under the laws of the Cayman Islands and the limited rights to relief that may be available compared to Norwegian laws; and
- the competitive nature of the business the Group operates in and the pressure and changes to the competitive environment in general;
- earnings, cash flow, dividends and other expected financial results and conditions;
- technological changes and new products and services introduced into the Group's market and industry;
- changes in general economic and industry conditions;
- political, governmental, social, legal and regulatory changes;
- dependence on and changes in Management and failure to retain and attract a sufficient number of skilled personnel;

- access to funding; and
- legal proceedings.

The information contained in this Prospectus, including the information set out under Section 2 ("*Risk Factors*"), identifies additional factors that could affect the Group's business, financial condition, results of operations, cash flows, liquidity and performance. Prospective investors in the Securities are urged to read all Sections of this Prospectus and, in particular, Section 2 ("*Risk Factors*") for a more complete discussion of the factors that could affect the Group's future performance and the industry in which it operates when considering an investment in the Group.

These Forward-looking Statements speak only as at the date on which they are made. The Group undertakes no obligation to publicly update or publicly revise any Forward-looking Statement, whether as a result of new information, future events or otherwise. All subsequent written and oral Forward-looking Statements attributable to the Group or to persons acting on the Group's behalf are expressly qualified in their entirety by the cautionary statements referred to above and contained elsewhere in this Prospectus.

4.4 Exchange rates

The following table sets forth, for the previous five years as indicated, information regarding the average, high and low reference rates for the Norwegian kroner, expressed in NOK per USD, in each case rounded to the nearest four decimal places, based on the daily exchange rate announced by the Central Bank of Norway:

Fiscal year	**Average**	**High**	**Low**	**Period end**[1]
2013	5.87534	6.13320	5.55580	6.13320
2014	6.30109	7.27180	5.93500	7.27180
2015	8.06365	8.70080	7.54840	8.70080
2016	8.40138	8.83090	8.16420	8.56200
2017	8.27123	8.58040	7.82900	8.31470
Q1 2017	8.44260	8.66760	8.19530	8.57570
Q1 2018	7.83580	7.90920	7.76550	7.76550

1 31 December is the last recorded date by the Central Bank of Norway for the financial period ending 31 December 2013, 2014 and 2015. 30 December is the last recorded date by the Central Bank of Norway for the financial period ending 31 December 2016. 29 December is the last recorded date by the Central Bank of Norway for the financial period ending 31 December 2017.

5 REASONS FOR THE OFFERING AND THE LISTING

The Company believes that the Offering and the Listing will:

(i) enable access for the Company to specialized equity capital markets to fund further growth;

(ii) enable the Company to capitalize upon expansion opportunities by implementing its investment plan in order to pursue business opportunities within the industry, such as further fleet expansion;

(iii) enhance the Company's financial position;

(iv) enhance the Company's profile with investors, business partners, vendors and customers;

(v) facilitate the use of shares or Securities as currency in M&A transactions; and

(vi) facilitate a liquid market for the Securities in the European capital market going forward.

The gross proceeds from the sale of the New Securities in the Offering are expected to amount to minimum NOK 1,612 million and maximum NOK 2,015 million and the net proceeds are expected to amount to minimum NOK 1,531 million (based on estimated transactions costs of approximately NOK 81 million) and maximum NOK 1,910 million (based on estimated total transaction costs of approximately NOK 105 million). The estimated transaction costs are costs to be paid by the Company in connection with the Offering and the Listing.

In the event that the maximum amount of gross proceeds (i.e. USD 250 million) is raised by the Company through the Offering, the Company will use approximately USD 175 million of the net proceeds from the New Securities to redeem the Preferred Shares in full, including accrued but unpaid dividend. In the event that a lower amount of gross proceeds is raised by the Company through the Offering, the Company may, but will not necessarily, reduce the redemption down to a minimum of 50% of the Preferred Shares through a payment of approximately USD 87.5 million including accrued but unpaid dividend to the holders of the Preferred Shares and maintain the remaining 50% of the Preferred Shares outstanding on the terms as further described in Section 14.3.1 ("*Preferred Shares*").

In addition, the Company intends to use the remaining portion of the net proceeds from the New Securities to acquire one or two premium jack-up rigs, as further described in Section 11.9.7.4 ("*Principal future planned/committed investments*").

6 DIVIDENDS AND DIVIDEND POLICY

6.1 Dividend policy

The Company does not intend to declare or pay any dividends to holders of Common Shares, including Securities, in the near future. The Company currently intends to retain future earnings, if any, to fund its operations and to develop and grow its business. The Company's future dividend policy is within the discretion of the Board of Directors, but should the market recover as expected, the Company will balance dividends to holders of Common Shares, including Securities, with other various factors that the Board of Directors deems relevant, including the Company's results of operations, financial condition, capital requirements and investment opportunities.

In addition, the Group's existing indebtedness and the Preferred Shares, to the extent not fully redeemed in connection with the Offering, place restrictions on the Company's ability to pay dividends. Furthermore, since the Company is a holding company with no material assets other than the shares of its subsidiaries through which it conduct its operations, the Company's ability to pay dividends will depend on distributions from its subsidiaries based on their earnings and cash flows.

See Section 2.3.2 of the risk factors ("*The Company does not expect to pay any dividends to the holders of the Common Shares, including Securities, in the near future and the availability and timing of future dividends, if any, is uncertain*").

The Company has not distributed any dividends on the Common Shares for the financial years ended 31 December 2017, 2016 and 2015.

6.2 Legal constraints on the distribution of dividends

The holders of Securities are entitled to such dividends, as may be declared by the Board of Directors on the Common Shares in accordance with the Articles. In addition, subject to the Cayman Islands Companies Law and the Articles, and except as otherwise provided by the rights and restrictions attached to any shares, the Company's shareholders may by ordinary resolution declare a dividend (including interim dividends), provided that no dividend shall exceed the amount recommended by the Board of Directors.

As further discussed under Section 14.3.1 ("*Preferred Shares*"), so long as there are any Preferred Shares issued and outstanding at any time, the Company shall not declare a dividend in respect of any Common Shares unless such dividend is approved by holders of at least 75% of the issued and outstanding Preferred Shares voting as a single class.

Under Cayman Islands law, a Cayman Islands exempted company may pay dividends on its shares provided there are no restrictions (either express or implied) in its articles of association, and such dividends must be paid only out of funds legally available therefor, namely out of either profit, share premium account or distributable reserves, provided that in no circumstances may a dividend be paid if this would result in the Company being unable to pay its debts as they fall due in the ordinary course of business. Subject to the provisions in the Articles relating to the Preferred Shares, the Board of Directors may declare that any dividend should be paid wholly or partly by the distribution of the Company's shares or other specific assets.

6.3 Manner of dividend payments

Any future payments of dividends on the Securities will be denominated in the currency of the bank account of the relevant Security holder, and will be paid to the Security holders through the VPS Registrar. Security holders registered in the VPS who have not supplied their VPS account operator with details of their bank account, will not receive payment of dividends unless they register their bank account details on their VPS account, and thereafter inform the VPS Registrar about said account, or request their VPS account operator to register bank details in the VPS system. The exchange rate(s) that is applied when denominating any future payments of dividends to the relevant Security holder's currency will be the VPS Registrar's exchange rate on the payment date. Dividends will be credited automatically to the VPS registered Security holders' accounts, or in lieu of such registered account, at the time when the Security holder has provided the VPS Registrar with their bank account details, without the need for Security holders to present documentation proving their ownership of the Securities.

7 INDUSTRY AND MARKET OVERVIEW

The Company has used industry and market data obtained from independent industry publications, market research, and other publicly available information, including information from DNB Markets Equity Research[4] and Rystad Energy[5] in order to prepare the following overview of the offshore drilling industry. While the Company has compiled, extracted and reproduced data from external sources, the Company has not independently verified the correctness of such data. The Company therefore cautions investors not to place undue reliance on the above mentioned data. Unless otherwise indicated, the basis for any statements regarding the Group's competitive position is based on the Company's own assessment and knowledge of the market in which it operates.

The Company confirms that, where information has been sourced from a third party, such information has been accurately reproduced. As far as the Company is aware and is able to ascertain, no facts have been omitted that would render the reproduced information inaccurate or misleading. Where information sourced from third parties is presented, the source of such information is identified.

Industry publications or reports generally state that the information they contain has been obtained from sources believed to be reliable, but that the accuracy and completeness of such information is not guaranteed. The Company has not independently verified and can thus not give any assurances as to the accuracy of market data, which has been extracted from such publications or reports and reproduced herein. Market data and statistics are inherently predictive and subject to uncertainty and do not, necessarily, reflect actual market conditions. Such statistics are based on market research, which, itself, is based on sampling and subjective judgments by both the researchers and the respondents, including judgments about what types of products and transactions should be included in the relevant market.

As a result, investors should be aware that statistics, statements and other information relating to markets, market sizes, market shares, market positions and other industry data set forth in the following (and projections, assumptions and estimates based on such data) may not be reliable indicators of the Group's future performance and the future performance of the offshore drilling industry.

The following discussion contains Forward-looking Statements, see Section 4.3 ("Cautionary note regarding Forward-looking "). The Forward-looking Statements in this section are not guarantees of future outcomes and these future outcomes could differ materially from current expectations. Numerous factors could cause or contribute to such differences, and such indicators are necessarily subject to a high degree of uncertainty and risk due to the limitations described above and to a variety of other factors, including those described in Section 2 ("Risk Factors") and elsewhere in this Prospectus.

7.1 Introduction

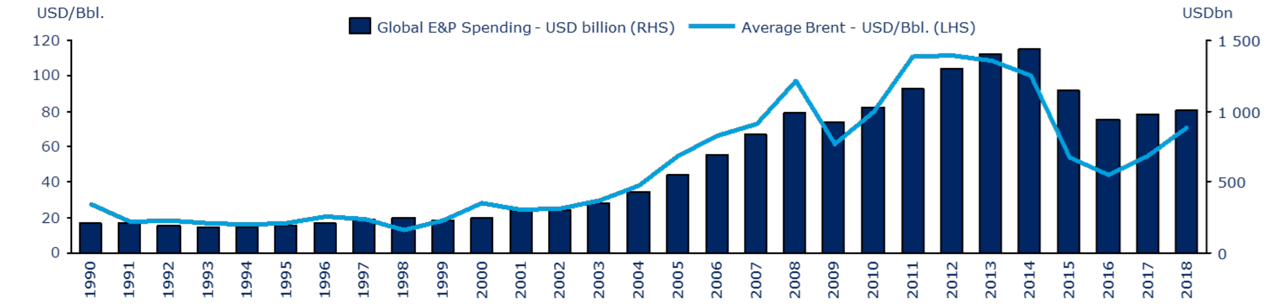
The Company operates in the offshore drilling market which is a part of the international oil service industry. The fundamental driver of oilfield services and offshore drilling activity is the level of investment and the E&P companies' exploration, development and production of crude oil and natural gas. Historically, the level of upstream capital expenditure has been driven by future oil and natural gas price expectations. This correlation has recently been observed following the decline in crude oil prices in 2014, which had a negative impact on the demand for services across the oil service industry in general. As oil prices fell from an average of USD 109/barrel (Unit of Brent oil – "Bbl") in H1 2014 to an average of USD 44/Bbl in 2016, the lower price along with uncertainty of future price development caused a material reduction in exploration and development spending, both in 2015 and in 2016. However, as the oil price has increased from the 2016 trough, exploration and development spending increased by 4.2% from 2016 to 2017. The figure below shows the correlations between global E&P spending on exploration and production and the oil price from 1990 to 2018e[6].

[4] Information from this source in the Prospectus is available at https://www.dnb.no/bedrift/markets.

[5] Information from this source in the Prospectus is available at https://www.rystadenergy.com/Products.

[6] Rystad Energy UCube, 30 May 2018

Figure 7.1 Global E&P spending (USD billion 1990 – 2018e)



Source: Rystad Energy UCube, 30 May 2018

7.1.1 Offshore developments and value chain

The offshore oil and gas industry comprises extraction and production of oil and gas. However, offshore developments are highly complex — they are highly technical with many risk factors. Unlike onshore developments, where drilling and processing equipment can more easily be constructed onsite, often with access to existing infrastructure, offshore developments have additional engineering and logistical requirements in designing, transporting, installing and operating facilities in the remote offshore environment. Due to this, each production unit is often uniquely and specifically designed for the field's geological and environmental characteristics including hydrocarbon specifications, reservoir requirements (water/gas/chemical injection), well/subsea configuration, water depth, and weather conditions (above and below the water). Below is a brief overview of the key elements in offshore development.

Exploration

This phase can take from several months to a few years after the oil company wins the block, depending on the amount of information already provided by the government or other related parties. It typically involves seismic surveys (2D or 3D) of the block and then analysis to determine the hydrocarbon characteristics of the field. If the prospect is promising, this analysis would determine the location for an exploration (wildcat) well.

Drilling

To gain more information about the size and characteristics of the reservoir's hydrocarbons, exploratory and appraisal drilling is conducted. During this appraisal phase, wells may be drilled in different areas to determine the limits of the reservoir, where the oil, gas and water are located within the reservoir and how well the hydrocarbons flow within the reservoir. This could be conducted in a single drilling campaign, but is often conducted in multiple campaigns, in order to allow time to analyze the results and provide additional information for the development phase. The drilling phase and general market dynamics are described in greater detail in Sections 7.1.2 ("*Overview*"), 7.1.3 ("*Types of rigs*") and 7.1.4 ("*Industry fragmentation*").

Field Development

This phase is complex and involves multiple parties. During this period, the field operator and its partners evaluate various options for economic development of the field. The planning stage typically involves making commercial and strategic decisions (based on the information gathered on the field's characteristics during the previous two phases). Technical assessments and commercial estimates are made and reviewed in an iterative process until an optimum solution is selected. This may be done in the planning stage, or in the final design stage, depending on the complexity of the development and level of detail. Based on several criteria, such as expected product volume, necessary investments, economic feasibility, and operating costs, the most suitable concept for development is chosen. There are several possibilities for developing a crude oil or natural gas field, for instance a stand-alone platform, subsea tie-back with an FPSO or linked to an already existing platform facility.

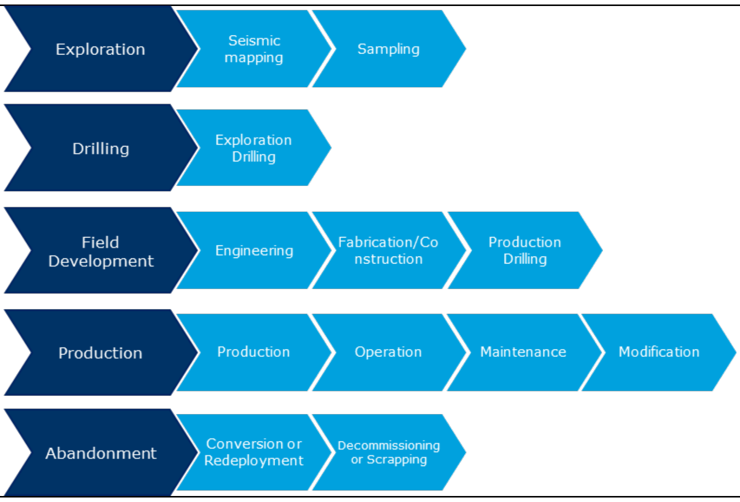
Production

Once the production facilities and surrounding infrastructure are built, the field is set for production. The service life of the fields varies, and depending on the field characteristics, a field can normally remain productive for between 10 and 40 years.

Abandonment

Once the field production declines to a point where it is no longer economic, the field is shut-in. The license holders are typically required to deliver an abandonment plan between two and five years before production ceases. Decommissioning requires a large capital commitment which is important to consider when determining the profitability of a petroleum field.

7.1.1 Offshore developments life cycle schematic



Source: Shelf Drilling, 1 April 2017

7.1.2 Overview

The offshore contract drilling industry provides drilling, workover and well construction services to oil and gas exploration and production, or E&P, companies primarily using jack-up rigs, semi-submersible rigs and drillships. The type of drilling unit, or rig, utilized typically depends primarily on the water depth and the depth of the well to be drilled. Generally, jack-up rigs operate in shallow waters of 400 feet or less, while semi-submersibles and drillships, or floaters, operate in mid to deepwaters. In addition, mobile barges can be used in very shallow water environments of 25 feet or less. Water depths range between 400 and 3,000 feet for midwater rigs and greater than 3,000 feet for deepwater rigs, respectively. According to Rystad Energy, as of 30 May 2018, the global jack-up and floater fleet totaled 753 units, excluding rigs under construction, 499 of which are jack-up rigs and 254 of which are floaters[7].

Offshore contract drilling services are marketed globally, as drilling rigs can move on a self-propelled basis or be towed from one region to another. In some cases, the cost of relocating a rig may result in significant short-term variations in regional supply and demand, but these variations are typically short-lived in comparison to contract duration and are generally less significant for jack-up rigs. The global shallow water drilling market is characterized by diverse fleet requirements, customer needs and established hydrocarbon-producing regions. Drilling rigs must be suited to the environment in which they operate, limiting the utility of transporting rigs between certain markets, effectively creating regional markets within the global shallow water drilling market. For example, rigs in the North Sea may require harsh environment modifications, whereas rigs in the Middle East do not.

Offshore drilling contractors typically operate their rigs under term contracts entered into following either a competitive tender process along with other contractors or direct negotiations with E&P companies. These contracts typically range in duration from a few months or weeks to several years. The rate of compensation specified in each contract depends on the number of available rigs capable of performing the work, the nature of the operations to be performed, the duration of the work, the amount and type of equipment and services provided, the geographic areas involved, market conditions and other variables. Generally, contracts specify dayrates, which are determined based on operational and other factors.

[7] Rystad Energy RigCube, 30 May 2018

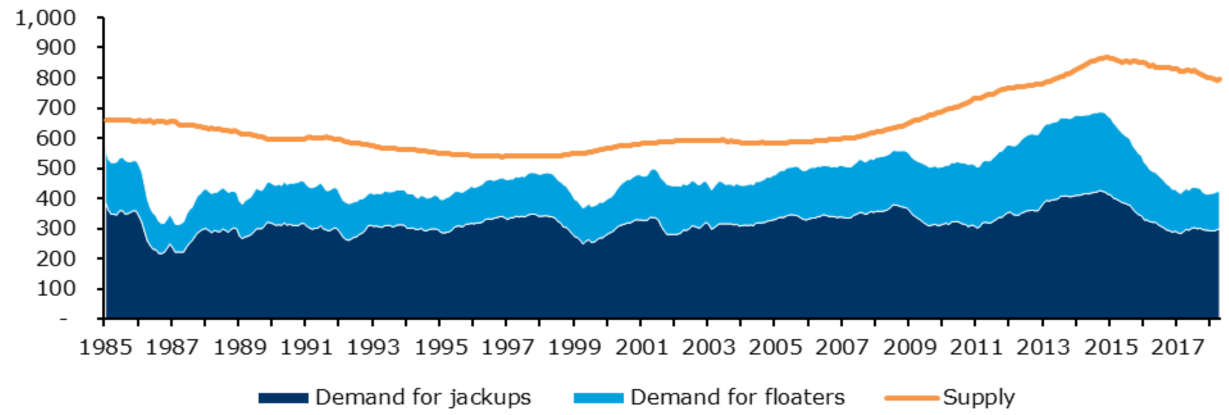
The profitability of the offshore drilling industry is largely determined by the balance between supply and demand for rigs. Offshore drilling contractors can mobilize rigs from one region of the world to another, or reactivate cold stacked rigs in order to meet demand in various markets.

The shallow water segment of the drilling industry is particularly competitive with no single contractor having a dominant market share. Competitive factors include price, rig availability, rig operating features, workforce experience, operating efficiency, condition of equipment, safety record, contractor experience in a specific area, reputation and customer relationships.

Offshore drilling contractors typically operate their rigs under contracts received either by submitting proposals in competition with other contractors or following direct negotiations. The rate of compensation specified in each contract depends on the number of available rigs capable of performing the work, the nature of the operations to be performed, the duration of work, the amount and type of equipment and services provided, the geographic areas involved and other variables. Generally, contracts for drilling services specify a daily rate of compensation and can vary significantly in duration, from weeks to several years.

Global offshore drilling expenditure increased significantly in the period from 2004 to 2013 (with a temporary drop in 2009 and 2010). Approximately USD 478 billion was spent on offshore drilling services from 2000 to 2014 according to Rystad Energy's estimates. North America and North West Europe represented the major share of this. The significant decline in oil and gas prices during the latter part of 2014, and throughout 2015 and 2016, led to an abrupt reduction in demand for rigs in 2015 and onwards. The graphic below illustrates the development in supply and demand in the offshore drilling market. The category "Demand" reflects the number of rigs actually working at any given time.

7.1.2 Supply and demand of offshore drilling rigs



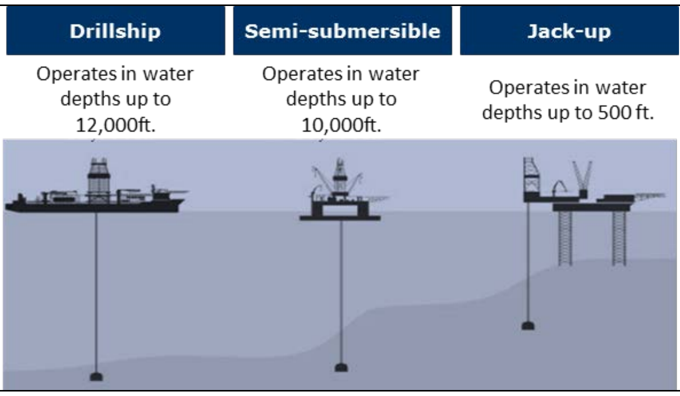
Source: DNB Markets Equity Research, 25 May 2018
Excluding state-owned jack-ups not marketed for hire

Periods of high demand are typically followed by a shortage of rigs and consequently higher day rates which, in turn, make it profitable for industry participants to place orders for new rigs. This was the case prior to the oil price decline in 2014, where several industry participants ordered new rigs in response to the high demand in the market. However, despite the deteriorating market conditions between 2015 and 2016, the number of rigs available in the market continued to increase due to rigs coming off contract with no follow on work and due to the inflow of new rigs (albeit at a slower rate than originally planned), turning an excess rig demand into an excess supply of rigs and, consequently reducing day rates.

7.1.3 Types of rigs

Most rigs can be classified as one of two types: jack-up rigs or floaters. As illustrated in Figure 7.1.3, the floater category is comprised of drillships and semi-submersibles.

7.1.3 Main rig categories by water depth



Source: Shelf Drilling, 1 April 2017

Jack-up rigs are bottom-supported and self-elevating units with three or four movable legs that can be extended, or "jacked", above or below the drilling deck, or hull. Jack-up rigs are mobile and their legs can be lowered to the ocean floor until a foundation is established for support. Jack-up rigs are towed to the offshore drill site with the hull, which is a water-tight barge that floats on the water's surface, lowered to the water level, and the legs extended above the hull. When the rig reaches the drill site, the crew jacks the legs downward through the water and into the sea floor. This anchors the rig and allows the hull and the drilling deck to be elevated to a height well above the waves. When the transit distances are long, the jack-up rig is placed on heavy-lift vessels for transport. Jack-up rigs are generally suited to working in shallow water environments.

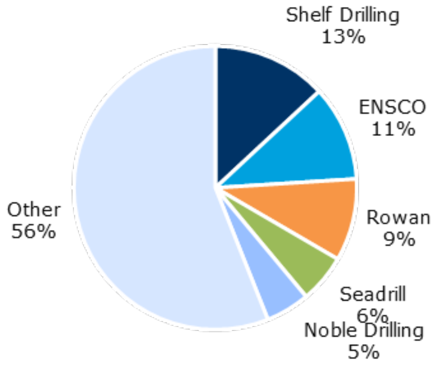
Floaters include semi-submersibles and drillships. A semi-submersible rig is a floating platform supported on pontoons and columns submerged below sea level while the operating deck is above sea level. The rig features a ballasting system that can vary the draft of the partially submerged hull from a shallow transit draft, to the required, deeper, operational draft. Semi-submersibles move on location by tugs or, if self-propelled, can relocate independent of such vessels. The rig stays in position either by a conventional mooring system, or by a computer-controlled system known as a dynamic positioning, or DP, system. A drillship is a self-propelled ship-shaped vessel including a drilling package and station-keeping equipment. Drillships are kept on location by either a conventional mooring system or dynamic positioning. Typically, drillships operate in deeper waters, and are suitable for operations in remote locations because of their mobility and large deck load capacity. Once on location the drillship utilizes either anchors or DP system to stay on location.

7.1.4 Industry fragmentation

The jack-up offshore contract drilling market is characterized by a highly-fragmented supplier landscape. According to Rystad Energy, there are 277 currently contracted jack-up rigs and 58 contract drilling companies that operate them, or 4.8 rigs per company on average[8]. Most large international offshore contract drilling companies have a mix of floaters and jack-up rigs. Figure 7.1.4 a) sets out the percentage of total contracted jack-up rig supply provided by each of the various offshore drilling contractors as of 30 May 2018 and Figure 7.1.4 b) shows the largest jack-up rig owners by number of rigs. Shelf is the largest owner of jack-up rigs globally. The graphics below set out the competitive jack-up operator landscape, and the companies in the below graphics are regarded as the Group's competitors.

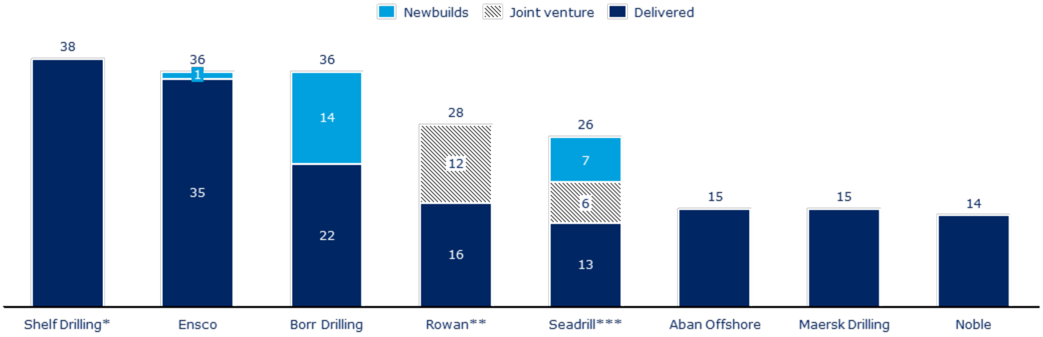
[8] Rystad Energy RigCube, 7 June 2018

7.1.4 a) May 2018 contracted jack-up supply by offshore drilling contractor



Source: Rystad Energy RigCube, 30 May 2018
Excluding state-owned jack-ups not marketed for hire

7.1.4 b) Largest jack-up rig owners by number of rigs



Source: Rystad Energy and Company filings, 30 May 2018
** Does not include swamp barge*
*** 12 rigs managed by ARO Drilling, owned by Rowan*
**** Includes 6 rigs owned by Sea-Mex, excludes rigs owned by North Atlantic Drilling*

7.2 Industry trends

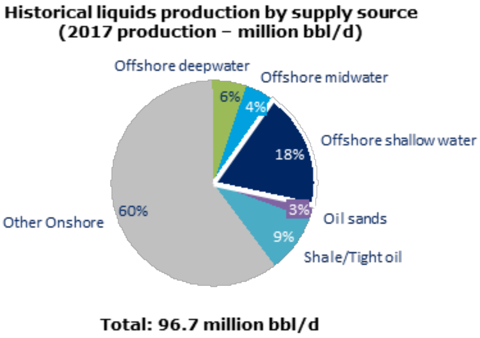
7.2.1 Shallow water is a key source of global liquids production

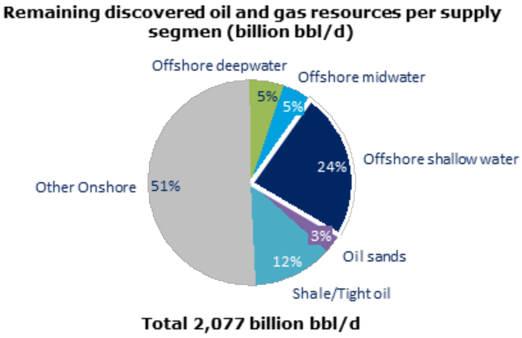
Shallow water production is a key source of global liquids production, representing 18% of total liquids production globally and 70.0% of total offshore production in 2017. While shale oil, also referred to as tight oil, has been increasing its share of global liquids production in recent years, in 2017, shallow water production was close to two times that of shale liquids production and four times that of deepwater liquids production. With 24% of the remaining discovered oil and gas resources globally, shallow water supply sources contain more than twice as much discovered resource as shale and tight oil supply sources and more than four times as much as offshore deepwater sources[9].

The graphics below set out the percentage of global liquids production and remaining discovered oil and gas resources represented by each of the various supply sources. The term "Bbl" means barrels and "Bbl/d" means barrels per day.

[9] Rystad Energy UCube, 30 May 2018

7.2.1 Historical liquids production by supply source and remaining discovered oil and gas resources per supply segment





Source: Rystad Energy UCube, 30 May 2018

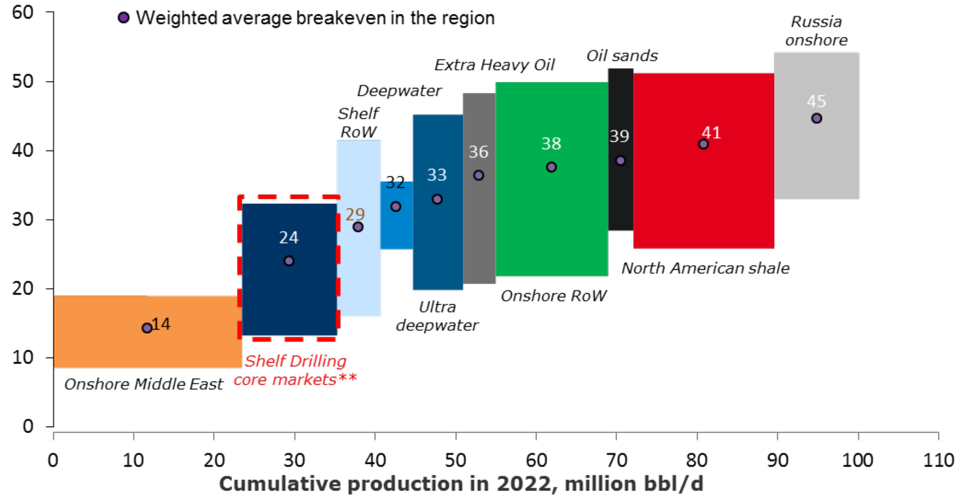
7.2.2 Shallow water basins offer attractive economics and are dominated by lower-risk brownfield projects

Shallow water projects offer relatively low breakeven prices and short cycle times. According to Rystad Energy, breakeven prices for shallow water projects in the Middle East and India are generally lower than those of North American shale and deepwater projects. Moreover, the Brent crude oil equivalent forward-looking breakeven prices for commercial shallow water projects in the Middle East and India are USD 35.2/Bbl and USD 49.2/Bbl, respectively, which are below the Brent crude oil price of USD 76.9/Bbl as of 7 June 2018 and, according to Rystad Energy, indicate an inventory of economically attractive shallow water projects in these regions for E&P companies.

The chart below illustrates the estimated breakeven prices in Brent crude oil equivalent for all projects from different sectors of potential global liquids production, and the cumulative liquids production in 2022 deliverable from these sectors. The breakeven prices in Brent crude oil equivalent are calculated based on Rystad Energy estimates on a project-by-project basis within each sector, and represent the Brent crude oil price required to generate a 10% rate of return for the project on a forward-looking basis (i.e., any activity before 2018 is disregarded). The projects are then aggregated by sector, and plotted below to illustrate the range of breakeven and weighted average breakeven price by sector. As shown below, the Company's core markets has a weighted average breakeven price of approximately USD 24/Bbl, USD 8/Bbl lower than deepwater and USD 17/Bbl lower than North American shale. These lower breakeven prices indicate that projects within these regions may be more likely than many projects from other sectors to be developed in the current commodity price environment, as their weighted average breakeven price is below the current Brent crude oil price[10].

[10] Rystad Energy UCube, 30 May 2018

7.2.2 Global liquids cost curve



Source: Rystad Energy UCube, 30 May 2018
** Break-evens calculated as of the current year. All historical cash flows are sunk, 10% discount rate*
*** Shelf Middle East, West Africa, Southeast Asia and India*

The comparatively low cost of drilling, proximate access to existing facilities or infrastructure and lower cost and complexity of production infrastructure have resulted in shallow water hydrocarbon basins being significantly more developed than deepwater basins. The generally mature nature of shallow water basins also implies that the majority of brownfield and short-cycle projects are located there, as these projects are more dependent on existing infrastructure. Conversely, the new standalone greenfield developments are more frequently located in deepwater, as are the majority of exploration projects. As a result, jack-up rigs are generally used more often in lower-risk, short-cycle brownfield projects that include infill drilling and workovers on currently producing projects, with existing production infrastructure in place. According to Rystad Energy, these brownfield projects comprise 70% of the work for the global jack-up market. Brownfield infill drilling and workover opportunities in shallow water represent very attractive breakeven economics, typically in the range USD 5-20/Bbl and USD 10-30/Bbl, respectively, and are expected to have stronger rig demand growth compared to greenfield exploration and development projects.

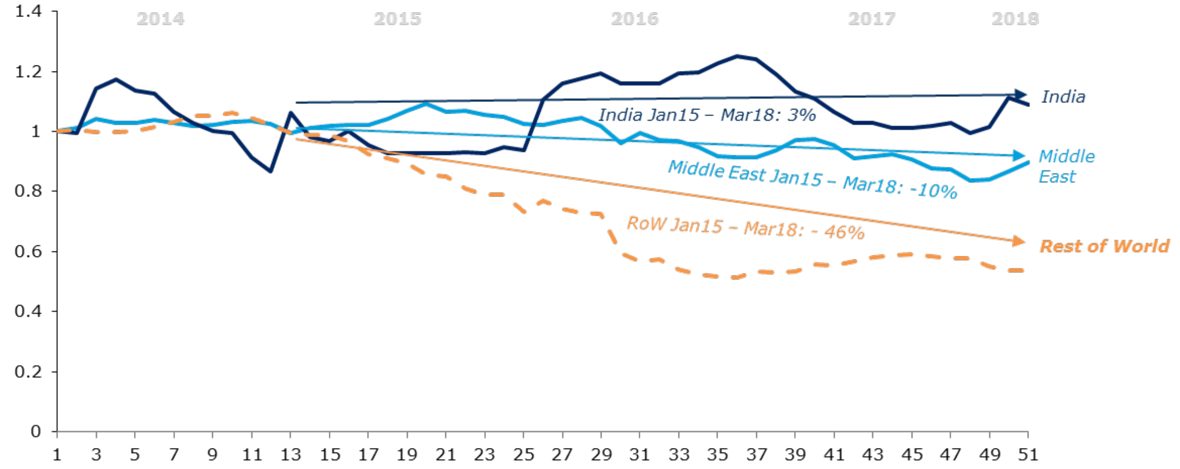
7.2.3 Resilience of Middle East and India through current commodity price down-cycle

According to Rystad Energy, and as shown in the chart below, while the contracted jack-up rig count in the rest of the world has fallen 46.0% from January 2015 to March 2018, Middle Eastern and Indian rig counts have remained relatively steady, with the Middle East experiencing a 10.0% decrease and India a 3.0% increase. Both of these regions represent an increasing share of the contracted jack-up rig market, increasing from a combined 39.0% in 2014 to 53.0% as of March 2018[11].

The chart below presents the change in contracted jack-up rigs in the Middle East, India and the rest of the world from January 2014 through March 2018.

[11] Rystad Energy RigCube, 30 May 2018

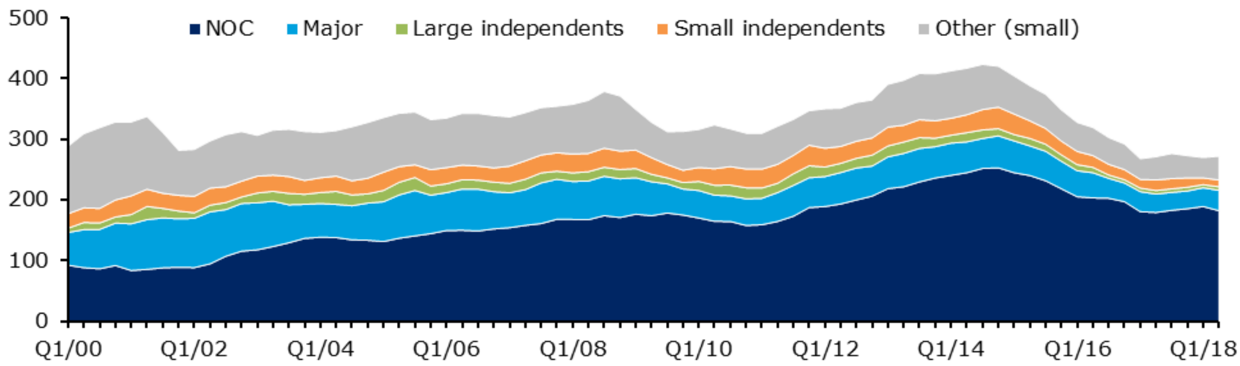
7.2.3 a) Contracted jack-up rigs worldwide per month (January 2014 – March 2018), reflected by region



Source: Rystad Energy RigCube, 30 May 2018
Indexed: January 2014=1, March 2018 = 51

NOCs comprise the vast majority of offshore spending in the Middle East and India. NOC spending tends to be more stable than that of other operator types. The graphic below illustrates the development in jack-up drilling rig demand by type of contractor.

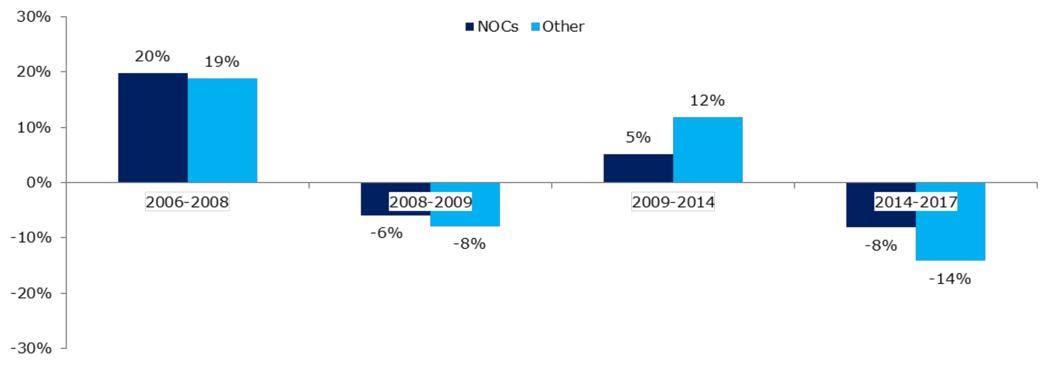
7.2.3 b) Jack-up drilling rig demand by operator



Source: DNB Markets Equity Research, 24 May 2018

The graphic below further illustrates spending by NOCs and other E&P companies for four different commodity price down-cycles shown as the average year-over-year percentage change in E&P spending, indicating that NOC spending tends to be less volatile and more stable than that of other operator types.

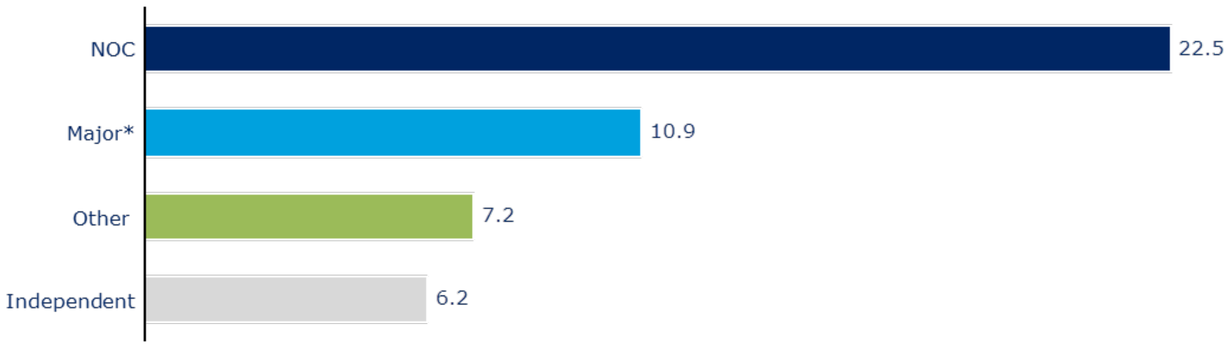
7.2.3 c) Change in E&P spending per operator*



Source: Rystad Energy UCube, 30 May 2018
** CAGR over period, includes capex opex and exploration capex*

Additionally, as illustrated in the graphic below, NOCs generally take longer-term views of jack-up rig contracting, as evidenced by their average contract duration of 22.5 months, more than double that of the major oil companies (10.9 months) and nearly four times that of independent oil & gas companies (6.2 months)[12].

7.2.3 d) Average contract duration by operator segment



Source: Rystad Energy RigCube, 30 May 2018
Based on competitive new mutual contracts, 2005-2017
* Includes Equinor and Petrobras

7.2.4 *Offshore brownfield spending and jack-up markets are less volatile and typically recover faster than offshore greenfield spending and floater markets*

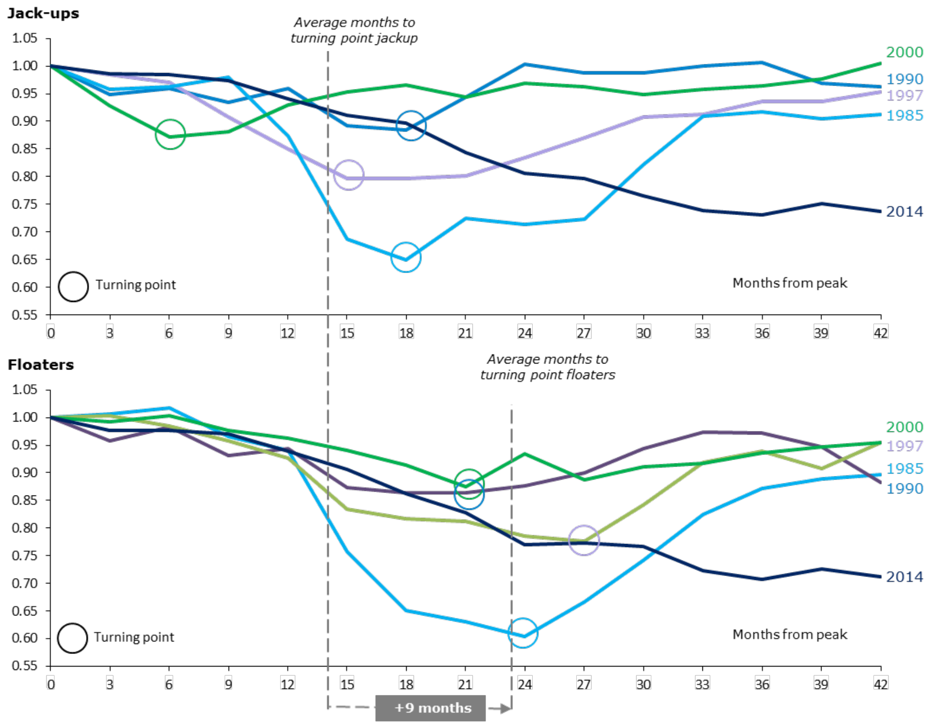
Given the short cycle times and relatively low breakeven prices for brownfield projects, spending on these projects has historically been less volatile and has recovered faster following commodity price down-cycles than greenfield projects.

The short-cycle nature and attractive economics of shallow water development have resulted in the jack-up market recovering on average nine months faster than the floater market in previous commodity price down-cycle.

The graphic below sets out the marketed utilization for jack-up rigs and floaters for five different commodity price down-cycles as a percentage change from the peak utilization (which is set as 100% at the start of the periods presented).

[12] Rystad Energy RigCube, 30 May 2018

7.2.4 a) Marketed utilization for five different commodity price down-cycles

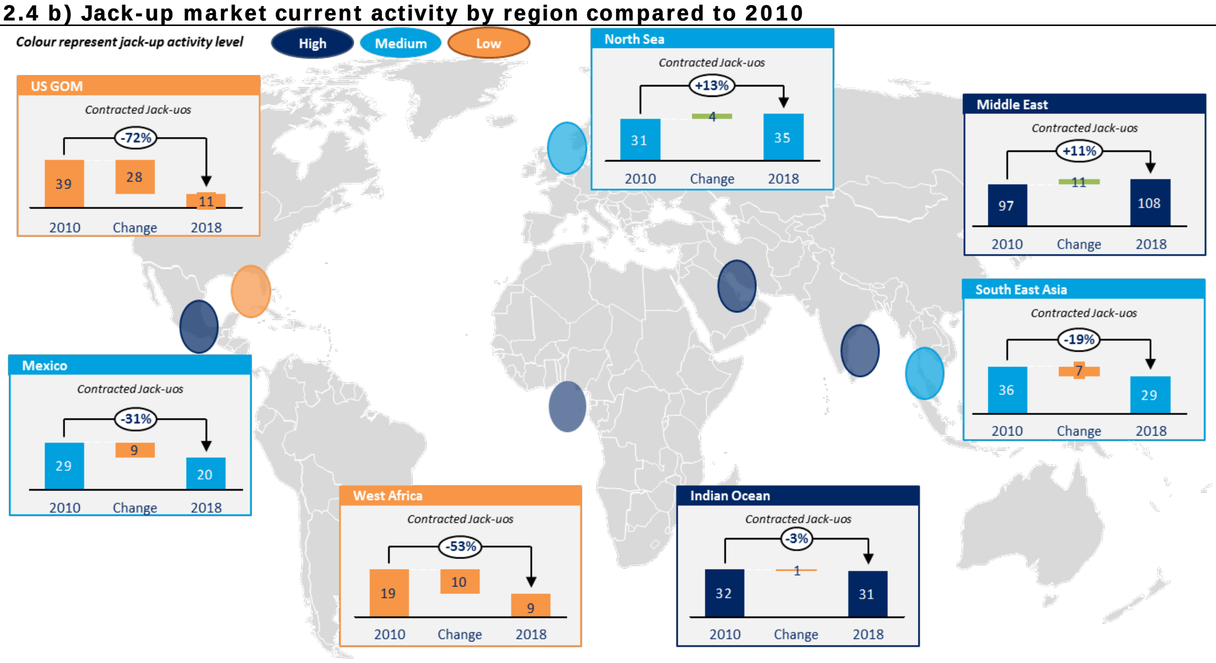


Source: Rystad Energy RigCube, 30 May 2018

Since 2010, the geographical location of the working jack-up drilling rig fleet has been the highest and most stable in the Middle East, the North Sea and South East Asia (representing more than 50% of the contracted fleet). These markets are still the most active and promising markets for premium rigs, with visible requirements developing in 2018 and beyond. The Middle East and South East Asian markets are also characterized by high NOC activity from E&P Companies that are owned wholly or with a majority share owned by national governments, and low breakeven costs relative to other regions. The development in activity in Mexico has been moderate, while the U.S. Gulf of Mexico has collapsed and is no longer considered a relevant market for jack-up rigs. The jack-up drilling rig demand in the Indian Ocean is covered mainly by standard rigs.

The figure below shows the jack-up drilling rig market by region today compared to 2010.

7.2.4 b) Jack-up market current activity by region compared to 2010



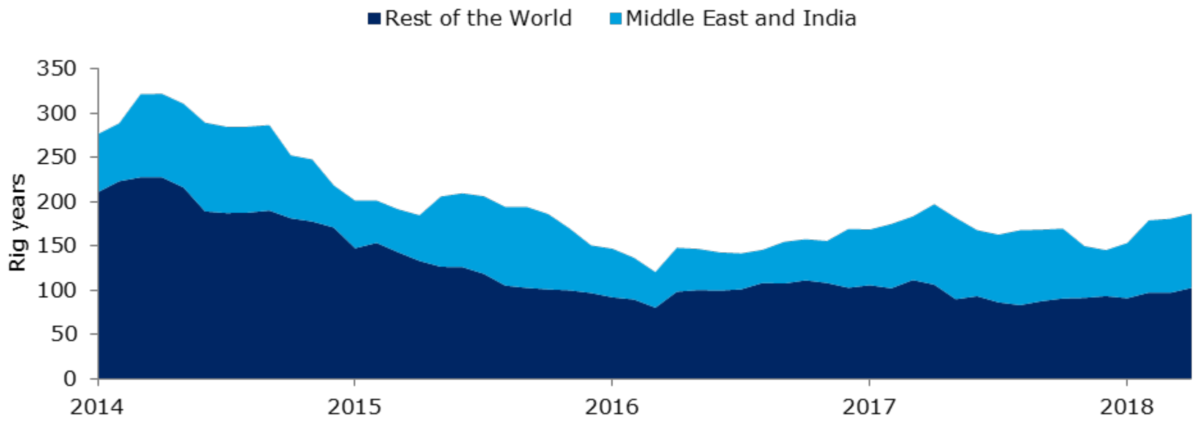
Source: Rystad Energy RigCube, 30 May 2018

7.2.5 Recovery in jack-up rig demand

In the current industry down-cycle, the global number of contracted jack-up rigs fell by 145 rigs from the peak of 457 rigs in April 2014 to a low of 312 rigs in January 2017. During that period, the drilling markets in India increased by 7 rigs while the Middle East decreased by 11 rigs, substantially less than overall jack-up markets. However, the global number of contracted rigs increased by 22 rigs from January 2017 to May 2018. According to Rystad Energy, there has been a rise in tendering activity in 2018, which has the potential to continue the trend of increasing the global number of contracted rigs. The majority of the identified jack-up tender volumes are for work offshore India and the Middle East, but tendering in other markets has also seen increases.

The graphic below illustrated pre-tendering and tendering activity since 2014 measured in rig years. As the graph illustrates, while tendering activity has had a relatively modest uptick for the rest of the world in 2018, India and Middle East have seen a more significant increase in activity.

7.2.5 Jack-up pre-tender and tender activity, 2014 – 2018 YTD



Source: DNB Markets Equity Research, 24 May 2018

8 BUSINESS OF THE GROUP

8.1 Introduction

The Group is a leading international shallow water offshore drilling contractor engaged in the provision of equipment and services for the drilling, completion and well maintenance of shallow water offshore oil and natural gas wells. The Group is primarily engaged in development and workover activity on producing assets, with a sole focus on shallow water operations in water depths of up to 400 feet. The Group owns 38 Independent-leg cantilever ("**ILC**") jack-up rigs and one swamp barge and is the world's largest owner and operator of jack-up rigs by number of rigs[13]. As of 31 March 2018, 26 of the rigs were under contract with various customers, one rig was under bareboat charter, nine rigs were marketable but uncontracted and two rigs and one swamp barge were stacked.

The Group's corporate headquarters are in Dubai, United Arab Emirates, geographically central to its operations in the Middle East, South East Asia, India, West Africa and the Mediterranean. The Group's fleet operates in a single, global market for the provision of contract drilling services and its "fit for purpose" strategy enables the Group to offer a broad range of services in the shallow water drilling markets in which they operate. The Group believes that the long-term prospects for shallow water drilling are positive given the expected growth in oil and gas consumption from developing nations, limited growth in crude oil supplies, high depletion rates of mature oil and gas fields and low break even costs compared to other segments within the oil and gas drilling industry. The diversified geographical focus of the Group's jack-ups and the allocation of resources to build or upgrade rigs will be determined by the activities and needs of its customers. Currently, the Group's main customers are national oil companies (NOCs), international oil companies (IOCs), and independent oil and gas companies, including Saudi Aramco, Oil and Natural Gas Corporation ("**ONGC**"), Adnoc Offshore (previously Adma-Opco), Chevron, ExxonMobil, Dubai Petroleum Establishment (DPE), TOTAL S.A. and ENI (or their affiliates), who contract the Group's rigs for varying durations.

The fundamental driver of the demand for the Company's services is the level of investment and the E&P companies' exploration, development and production of crude oil and natural gas. Historically, the level of upstream capital expenditure has been driven by future oil and natural gas price expectations. The profitability of the offshore drilling industry is largely determined by the balance between supply and demand for rigs, hence also important for the Company's profitability. In addition, rig and Company specific factors such as price, rig operating features, workforce experience, operational efficiency, condition of equipment, customer relationships and contractor experience in specifics areas plays an important role in determining the demand for the Company's services. Furthermore, the Group relies on certain suppliers for providing equipment, spare parts and after sales service to support their operations. The Group reviews the performance of their key suppliers and provides regular feedback to ensure that service and cost objectives are being met. Among the Company's competitors are jack-up owners operating in the same geographical regions as the Company. For more information about the demand for the Company's services, competitive landscape and market conditions, see Section 7 ("*Industry and Market Overview*").

The Company's largest shareholders are Castle Harlan, CHAMP Private Equity and Lime Rock Partners (jointly the "**Sponsors**") who each hold 20.7% of the total outstanding Common Shares immediately prior to the Offering. Castle Harlan and CHAMP Private Equity are also the holders of the Preferred Shares.

8.2 Competitive strengths

The Company believes that its competitive strengths include the following:

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

The Group is 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[14]. The Company believes that its sole focus on shallow water drilling allows the Group to optimize its size and scale in its core operating regions. In addition, the Company believes this focus allows it to concentrate its rigs in growing geographic markets, promoting operational efficiency and contributing to the Group's low cost structure.

Since the commodity price down-cycle that began in late 2014, the Middle East and India have been the most resilient shallow water drilling regions. According to Rystad Energy, while the contracted jack-up rig count in the rest of the world

[13] Measured by numbers of jack-up rigs owned as of 7 June 2018, pursuant to Rystad Energy
[14] Measured by numbers of jack-up rigs owned as of 7 June 2018, pursuant to Rystad Energy

declined by 46.0% from January 2015 to March 2018, Middle Eastern and Indian rig counts have remained comparatively steady, with the Middle East experiencing only a 10.0% decrease and India a 3.0% increase.

The Middle East and India are characterized by what the Company believes to be comparatively low breakeven points for its customers and are dominated by NOCs which tend to take a longer-term approach to project development through commodity price cycles. The Company believes focusing its operations and scale on these key markets and customers mitigated its exposure to the curtailment of development activities by other oil and gas companies in the lower commodity price environment in recent years. The Middle East and India comprised USD 501 million, or approximately 43.2%, and USD 139 million, or approximately 12.0%, of the Group's contract backlog, respectively, as of 31 March 2018, and comprised USD 78 million, or approximately 52.7%, and USD 25 million, or approximately 17.2%, of the Group's revenues, respectively, for the three months ended 31 March 2018.

Industry leading low cost structure, with high national content

The Group operates with a significantly lower cost structure compared to its peers. This lower cost structure promotes financial resilience through industry cycles and has supported operations and provided cash flow stability in excess of Rowan, Noble, Seadrill and Ensco (the "**US Public Company Competitors**") since the commodity price decline in 2014. According to Rystad Energy, the Group's daily operating and maintenance expenses per jack-up rig and daily cost per active jack-up rig is 56.0%[15] lower than comparable costs of the Company's US Public Company Competitors in the shallow water drilling services market. Since the Company's inception, it has focused on building high national content through hiring and developing nationals from the countries in which the Group operates, including across the Company's leadership teams, building local supply chain networks across geographies, standardizing equipment across the Group's fleet and centralizing management of the Group's supply chain and key maintenance activities, all of which are key drivers of the Company's industry leading low cost structure. The Company's strategically-positioned headquarters in Dubai is in close proximity to the Group's core operating regions and eliminates the need for numerous regional offices. The Company's focus on building high national content has resulted in national employees and contractors representing 84% of the Group's workforce as of 31 March 2018 across all of the Group's operating regions. In certain key markets, the percentage of the Group's national workforce exceeds this average, with Egypt employing near 100%, and India and Nigeria employing 99% and 97%, respectively, of local employees and contractors as of 31 March 2018. The Group's 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

The Group's fleet is comprised of well-maintained jack-up rigs with proven technologies and operating capabilities. Since the Company's inception, it has implemented a strategic fleet upgrade and renewal program. The Group has completed the reactivation and upgrade of five jack-up rigs and invested USD 566.1 million across 28 major projects related to the Group's original fleet, including the upgrade of 9 rigs. In addition, the Group has constructed two newbuild rigs, whereas one of the newbuilds (Shelf Drilling Chaophraya) was delivered in September 2016 and the other (Shelf Drilling Krathong) was delivered in June 2017 (the two delivered newbuild rigs are referred to as the "**Delivered Newbuild Rigs**") and, in 2017, the Group acquired three premium jack-up rigs (Shelf Drilling Mentor, Shelf Drilling Tenacious and Shelf Drilling Resourceful) (the three acquired rigs are referred to as the "**2017 Acquired Rigs**"). The Company believed that these rigs would be highly competitive in obtaining contracts, and, since these acquisitions, the Group has secured contracts for all 2017 Acquired Rigs, making a positive impact on future cash flow and backlog. The Group has continuously evaluated and enhanced its fleet with "smart upgrades" where appropriate to meet specifications for the markets in which the Group intends them to operate, in accordance with its "fit-for-purpose" strategy. For example, the Group has standardized equipment across a significant number of its rigs, which facilitates the delivery of consistent and predictable performance in the environments in which the Group operates. According to Rystad Energy, the Group's average marketed utilization rate of since 2015 is 9% above the shallow water drilling industry average. The Company believes this validates the suitability of its fleet and the operating performance that its rigs and crews have delivered.

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

The Company believes it has well-established relationships with its customers, which are primarily NOCs and IOCs, including Saudi Aramco, ONGC, ADNOC, Chevron, TOTAL, ExxonMobil, ENI and DPE. The Company believes that its customers prefer to work with drilling contractors who are well-established and have a strong track record of safety and

[15] Rystad Energy RigCube, 30 May 2018

operating uptime, such as the Company. Since its inception, the Company's operating uptime has been at least 98.5% per year and its safety performance has consistently exceeded the industry average (as measured by the Total Recordable Incident Rate (or TRIR) of the International Association of Drilling Contractors (IADC)). The Company works with its customers to improve drilling efficiencies, which frequently results in rig operations being completed ahead of plan and ultimately lowering the cost per well for the Company's customer. The Company is responsive and flexible in addressing its customers' specific needs and seeks collaborative solutions to achieve customer objectives. The Company believes that its strong operational performance and close alignment with its customers' interests provide the Company a competitive advantage and contributes to its contracting success and high fleet utilization. The Company has secured contracts and extensions with an aggregate value of more than USD 5.3 billion since its inception and, for jack-up rigs, USD 3.5 billion since 2014, which is more than any other contract drilling company added for jack-up rigs, according to Rystad Energy.

Experienced management team with successful track record of executing operational strategy

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

8.3 Strategy

The Company's strategy is focused on delivering returns on invested capital achieved through serving the Group's customers' needs in attractive markets and driving cost efficiencies through the Group's "fit-for-purpose" strategy. The Company expects to continue to achieve its objectives through the following strategies:

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

Given the Group's strong market positions, industry leading low cost structure and long-standing customer relationships in its core operating regions, the Group believes that it is well-positioned to benefit from a potential increase in shallow water drilling activity. During 2017 and the first three months of 2018, the Group experienced an increase in market and tender inquiries from its customers, particularly in the Middle East and other key markets, and it believes that it will have opportunities to redeploy uncontracted rigs in the near term. The growth in jack-up rig demand in the Group's 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

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

As of 31 March 2018, the Group had nine marketable but uncontracted rigs and eight rigs that are completing their contracts in 2018. The Group's marketable but uncontracted rigs can be reactivated quickly at relatively low cost and deployed rapidly to take advantage of opportunities in its core operating regions.

Selectively pursue acquisitions that suit the Group's operational model

The Company is focused on the disciplined investment in and growth of its active drilling fleet to maximize its profitability. We believe the most attractive returns on invested capital are in opportunistic acquisitions of premium jack-up rigs that are complementary to its fleet and such rigs are currently available at historically low acquisition prices due to the current industry downturn. For example, the Group acquired the 2017 Acquired Rigs in 2017 at a price of at least 50.0% below the cost of construction for comparable newbuild rigs, and subsequently secured contracts for all three rigs. The Company believes it is well-positioned to successfully deploy acquired premium jack-up rigs due to its strong market positions, long-standing customer relationships and proven track record of integrating jack-up rigs to its active fleet as demonstrated by the fact that the Group has secured commitments for all three of the 2017 Acquired Rigs. The Group expects to further pursue acquisitions that meet the operational requirements of its customers and core markets to the extent they are available on attractive terms.

Continue to deliver safe, efficient and reliable operations

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

As a newly formed company in 2012, the Company was not burdened with legacy systems, structures or management personnel. As a result, the Company believes that it was 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. The Company believes that this has significantly contributed to the safety, efficiency and reliability of its operations. The Company had a TRIR of 0.25 for the 12 months ended 31 December 2017, 54% below the IADC average of 0.54, and the Company's safety track record has consistently exceeded the industry benchmark since inception. In addition, the Company has consistently maintained an average fleet uptime of at least 98.5% since its inception in 2012. Through ongoing training, appropriate incentive structures at all levels and management oversight, the Company intends to continue improving its safety and operational performance as it strives to continue to reduce workplace incidents.

Maintain financial discipline to generate favorable returns on invested capital

The Company regularly explores opportunities to reduce its total cost of debt, ensure adequate liquidity and improve flexibility to operate its business and pursue growth projects. The Company focuses on financial returns when evaluating its growth initiatives and its expansion strategy. In the period from 2013 to 2015, the Company was able to achieve attractive returns on the reactivation and upgrades of its existing jack-up rigs. In 2014, the Company began building two new rigs, which were delivered in September 2016 and April 2017, respectively, and had a USD 562.0 million contract backlog prior to commencing the construction of these rigs. The Company believes that its approach has delivered greater returns on invested capital relative to its U.S. public company competitors. The Company intends 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.

The Company believes its balance sheet strength positions it well to compete in the current market and gives a competitive advantage, providing the Company with financial and operational flexibility to pursue different growth avenues, including attractive acquisition opportunities, such as the Company's acquisition of three premium jack-up rigs in 2017 and the rig or rigs to be acquired in conjunction with the Offering.

8.4 History and important events

8.4.1 Introduction

The Company was formed on 14 August 2012 to effectuate the 2012 Acquisition (as defined below). On 30 November 2012, the Group acquired, both directly and indirectly for a price of USD 1.1 billion from Transocean and certain of Transocean's affiliates, a total of 37 ILC jack-up drilling rigs and one swamp barge (the "**2012 Acquisition**"). The 2012 Acquisition was funded with equity contributions from the Sponsors totalling USD 450 million, debt financing, as well as a USD 195 million preferred share investment in Shelf Drilling Intermediate, Ltd. from Transocean. Said preferred shares were subsequently fully redeemed.

Since the inception in 2012, the Group has focused on developing long-term customer relationships by leveraging its strategy on being solely focused on the shallow water segment, with fit-for-purpose organization, processes and systems to deliver outstanding service to its customers. As a result of this highly focused strategy, the Group has generated significant contract backlog through several significant long-term contracts with core customers. The demonstration of customer endorsement of the Group's pure play, fit-for-purpose strategy was most clearly displayed in April 2014, when the Group signed 5-year contracts for multiple rigs in the Arabian Gulf with Saudi Aramco, totalling 20 rig years across 4 jack-up rigs, and in May 2014, when the Group signed 5-year contracts with Chevron for two new build jack-up rigs.

On 10 October 2015, two indirect wholly owned subsidiaries of the Company, 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 jack-up rigs under construction (the "Delivered Newbuild Rigs") entered into a combined minimum of USD 296.2 million and maximum of USD 330.0 million (the "**Purchase Price**") sale and leaseback financing transactions (the "**Sale and Leaseback Financing**") 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 (the "Delivered Newbuild Rigs") and to execute two drilling service contracts with Chevron for a period of 5 years.

On 12 January 2017 the Group completed a comprehensive refinancing of outstanding long-term debt facilities, reducing principal outstanding amounts from USD 825 million to USD 533 million, reducing near-term debt maturities from USD 825 million to USD 30 million and generating annual cash savings of approximately USD 10 million (inclusive of the expected dividends on the Preferred Shares). The refinancing enhanced the Group's competitive position and created significant value for the Group while retaining a strong liquidity position.

On 28 April 2017 the Group successfully completed an offering of 28,125,000 new Common Shares at a price of USD 8.00 per share for total gross proceeds of USD 225.0 million (the "**Private Placement**"). On 5 May 5 2017 the new Common Shares issued in the Private Placement began trading on the N-OTC market under the ticker "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 (the Common Shares). The proceeds were used to acquire the 2017 Acquired Rigs in line with Shelf's strategy to selectively pursue acquisitions that suit the Group's operational model.

On 21 December 2017, Shelf Drilling Asset III, Ltd, an indirect wholly owned subsidiary of the Company, entered into a USD 75.0 million senior secured credit facility (the "**SDA Facility**") which includes a USD 50.0 million guarantee line and a USD 25.0 million term loan facility. The SDA Facility matures on 31 March 2020.

In February 2018, the Group completed the issuance of USD 600.0 million of new 8.25% senior unsecured notes due 2025. The proceeds were used to purchase and cancel the USD 502.8 million of 9.5% senior secured notes due 2020 and USD 30.4 million of 8.625% senior secured notes due 2018.

The principal milestones in Shelf's history and the development of the Group since the 2012 Acquisition are set out in Section 8.4.2 ("*History and important events*") below.

8.4.2 History and important events

The table below provides an overview of important events in the history of the Group:

Date	**Event**
August 2012	Incorporation of the Company.
November 2012	Completion of the 2012 Acquisition.
April 2014	The Group signs five-year contracts for multiple rigs in the Arabian Gulf with Saudi Aramco.
May 2014	The Group enters into two five-year drilling contracts with Chevron.
October 2015	The Group enters into a Sale and Leaseback Financing with ICBC.
September 2016	The Group takes delivery of its first newbuild rig (one of the two Delivered Newbuild Rigs).
January 2017	The Group completes a comprehensive refinancing of outstanding long-term debt facilities.
April/May 2017	The Group completes a private placement with subsequent trading on the Norwegian OTC and acquires three premium jack-up rigs (the 2017 Acquired Rigs) with the proceeds.
June 2017	The Group takes delivery of its second newbuild rig (the second of the two Delivered Newbuild Rigs).
September 2017	The Group secures contracts for all three recently acquired premium jack-up rigs.
February 2018	The Group completes a refinancing of outstanding long-term debt facilities by the issuance of USD 600.0 million of new 8.25% senior unsecured notes due 2025.
June 2018	The Group launched and priced the USD 300 million Tap Issue (under the 8.25% senior unsecured notes due 2025).

8.5 Property, plant and equipment

8.5.1 Property

The Group has operating leases for its headquarters in Dubai, United Arab Emirates, and owns or leases office space and shore based facilities to support drilling operations in Indonesia, Malaysia, Vietnam, Singapore, Thailand, India, Egypt, Nigeria, Qatar, Bahrain, Italy and Saudi Arabia. Other than this, the Company does not lease or own any real property. The lease cost for the headquarters in Dubai was USD 692 thousand, USD 656 thousand and USD 627 thousand in the years ended 31 December 2017, 2016 and 2015 respectively. The lease cost for office space and shore based facilities in the Company's remaining operations were USD 2.3 million, USD 2.8 million and USD 3.3 million in the years ended 31 December 2017, 2016 and 2015, respectively. In addition, as of 31 December 2017 and 2016, the Company owned land and building in Nigeria with a net book value of USD 1.3 million and USD 1.2 million, respectively.

It is the Company's opinion that its premises and properties are sufficient both for its current business and for the foreseeable future.

8.5.2 The fleet

The Company's drilling fleet currently consists of 38 ILC jack-up rigs and one swamp barge.

The 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. The Company believes these design features provide greater operational flexibility, safety and efficiency than alternative designs. The Group's 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, the Company believes its jack-up rigs are well-suited for its customers' typical shallow water offshore drilling operations.

Since the Company's inception in 2012 through 31 December 2017, the Company has successfully reactivated five rigs and invested a total of USD 566.1 million in 28 major projects related to enhancing its original fleet, including "smart upgrades" to the Company's fleet based on long-term market trends and customer needs. This investment has enabled the Company to grow its business and increase the life expectancy of its rigs. In addition, the Company constructed two newbuild premium jack-up rigs (the "Delivered Newbuild Rigs") and acquired three premium jack-up rigs in 2017 (the "2017 Acquired Rigs"). In addition to these five premium jack-up rigs (the Delivered Newbuild Rigs and the 2017 Acquired Rigs), five of the Group's jack-up rigs are "standard with life enhancement". The Group's remaining 28 jack-up rigs are "standard". The Company defines "premium", "standard with life enhancement" and "standard" jack-up rigs as set out in the table below.

Specifications	Description
Standard	Built before 2000 with existing rig design. Conventional but proven drilling equipment with non-cyber specifications. 10,000 psi blow out preventer with a derrick hoisting capacity less than 1.3 million pounds. Fit for purpose in benign geographies with a proven track record with accommodations for 90-100 people. Several rigs with shallow draft capability. Operating region and environment dependent on technical specifications.
Standard with life enhancement	Built before 2000 with existing rig design. Conventional but proven new drilling equipment with non-cyber specifications. 10,000 or 15,000 psi blow out preventer with a derrick hoisting capacity of up to 1.5 million pounds. Cantilever envelope extended, high pressure pumping capacity increased. Fit for purpose in benign geographies with a proven track record with accommodations upgraded to up to 140 people. Several rigs with shallow draft capability. Operating region and environment dependent on technical specifications.
Premium	Built after 2000 with enhanced rig design. The latest most advanced conventional or cyber drilling equipment with some levels of automation. 10,000 or 15,000 psi blow out preventer with a derrick hoisting capacity of up to 2.0 million pounds. Cantilever envelope enhanced, greater high pressure pumping capacity with increased drilling mud storage. Accommodations for up to 140 people with one design for 160 people. Fit for purpose in benign geographies for more complex drilling applications. Several newbuilds with no operating history. Some are designed with enhanced off-line capability for reduced well construction time. Operating region and environment dependent on technical specifications.

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

Each of the Group's 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. The Group's 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. The Group's fleet is also subject to underwater inspections in lieu of drydocking, intermediate surveys and annual inspections between each SPS. While the marine equipment of the Group's 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 the Group's equipment as being qualified for international operations, the Group's equipment maintenance standards are governed by the guidelines, recommendations and standards provided by the American Petroleum Institute.

The total book value of the Group's 39 drilling units as at 31 March 2018 amounted to USD 1,611.5 million. The following table set forth the drilling units that the Group owns as at 30 April 2018. Drilling units that are "Available" drilling units have their class certification maintained (i.e. not in "Laid-Up" status) and typically have a limited crew assigned to perform essential maintenance activities. Available rigs can either be dockside or in sheltered locations. "Stacked" drilling units have no personnel assigned, will not maintain its class certification and may be in "Laid-Up" status.

Unit	Rig make	Year built/latest upgrade	Water depth (feet)	Drilling depth (feet)	Area of location	Month of contract expiry	Options to extend[1]
Compact Driller	MLT 116-C	1992/2013	300	25,000	Bahrain	Available	
Key Hawaii	Mitsui 300 C	1983/2004	300	25,000	Bahrain	Available	
Key Manhattan	MLT 116-C	1980/2010	350	25,000	Italy	Aug 2020	3 x 6 month
Comet	Sonat Cantilever	1980	250	20,000	Egypt	Available	
Rig 141	MLT 82-SD-C	1982	250	20,000	Egypt	Nov 2018	2 x 6 month
Rig 124	Modec 200-C45	1980	250	20,000	Egypt	Available	
Trident 16	Modec 300-C38	1982/2012	300	25,000	Egypt	Jun 2018	
Main Pass I	F&G L-780 Mod II	1982/2013	300	25,000	Saudi Arabia	Oct 2019	
High Island II	MLT 82-SD-C	1979/2011	270	20,000	Saudi Arabia	Nov 2019	
High Island IV	MLT 82-SD-C	1980/2011	270	20,000	Saudi Arabia	Oct 2019	
High Island V	MLT 82-SD-C	1981/2013	270	20,000	Saudi Arabia	Oct 2018	
High Island IX	MLT 82-SD-C	1983/2012	250	20,000	Saudi Arabia	Jun 2021	
Main Pass IV	F&G L-780 Mod II	1982/2012	300	25,000	Saudi Arabia	Nov 2019	
High Island VII	MLT 82-SD-C	1982/2016	250	20,000	UAE	Feb 2019	2 x 1 year
Key Singapore	MLT 116-C	1982/2015	350	25,000	UAE	Sep 2018	2 x 1 year
Shelf Drilling Tenacious	Baker Marine Pacific Class 375	2007	375	30,000	UAE	Jan 2020	2 x 1 year
Shelf Drilling Mentor	LeTourneau Super 116E	2010	350	30,000	UAE	Jan 2020	2 x 1 year
Adriatic X	MLT 116-C	1982/2006	350	30,000	UAE	Available	
C.E. Thornton	MLT 53-SC	1974/1984	300	21,000	India	Dec 2018	
F.G. McClintock	MLT 53-SC	1975/2002	300	21,000	India	Nov 2018	
Galveston Key	MLT 116-SC Mod	1978/2002	300	25,000	India	Available	
Harvey H. Ward	F&G L-780 Mod II	1981/2011	300	25,000	India	Feb 2021	
J.T. Angel	F&G L-780 Mod II	1982	300	25,000	India	Mar 2021	
Parameswara	Baker Marine BMC 300-IC	1983/2001	300	25,000	India	Feb 2019	
Ron Tappmeyer	MLT 116-C	1978	300	25,000	India	Available	
Trident II	MLT 84-SC Mod	1977/1985	300	21,000	India	Feb 2019	
Trident XII	Baker Marine BMC 300-IC	1982/1992	300	21,000	India	Jan 2021	
Adriatic I	MLT 116-C	1981/2014	350	25,000	Nigeria	Dec 2019	Option for one well
Trident XIV	Baker Marine BMC 300-IC	1982/2007	300	25,000	Nigeria	Feb 2019	2 x 1 year
Baltic	MLT Super 300	1983/2015	375	25,000	Nigeria	Sep 2018	1 x 6 month
Trident VIII	Modec 300-C35	1981	300	21,000	Nigeria	Available	
Shelf Drilling Resourceful	LeTourneau Super 116C	2008	350	30,000	Nigeria	Oct 2018	1 x 6 month
Trident 15	Modec 300-C38	1982/2014	300	25,000	Malaysia	Available	
Shelf Drilling Chaophraya	LeTourneau Super 116E	2016	350	30,000	Thailand	Nov 2021	
Shelf Drilling Krathong	LeTourneau Super 116E	2017	350	30,000	Thailand	May 2022	
Randolph Yost	MLT 116-C	1979	300	25,000	USA	Feb 2019	2 x 1 year
Hibiscus	Heavy Swamp Barge	1979/1993	21	20,000	Indonesia	Stacked	
Key Gibraltar	MLT 84-C Mod	1976/2004	300	25,000	Bahrain	Stacked	
Trident IX	Modec 400-C	1982/2009	400	21,000	Malaysia	Stacked	

1. Option for the customer to extend the contract

The Group's jack-up rigs are generally suitable for water depths of 400 feet or less and have living quarters for up to 160 personnel. All of the Group's jack-up rigs are of the ILC design, which have greater operational flexibility and are generally considered safer, more efficient and more capable than alternative designs such as the mat-slot, mat-cantilever and independent-slot designs. ILC is the jack-up design preferred by customers in each of the markets in which the Group operates and when tendering for contracts, the Group generally competes against other operators of ILC rigs, rather than operators of other types of jack-up rig. The Group also owns a heavy swamp barge which is capable of operating in very shallow waters of up to 21 feet in depth.

The average age of the Group's rigs is 33.3 years as of 31 March 2018. The average dayrate for the most recent year ended 31 December 2017 was USD 70,400. The Group updates its fleet status report on a regular basis and publishes it on the Company's website at www.shelfdrilling.com/investor-relations/.

The costs associated with reactivating a stacked rig include recertifying major equipment by the original equipment manufacturer, closing out any issues identified by the flag state or certifying authority, purchasing or modifying equipment to meet the specific requirements of the customer as defined in the contract, completing any outstanding maintenance defined in the company’s maintenance program, performing the necessary acceptance testing procedures as specified by the Group’s operations integrity procedure and the customer to ensure that the rig is ready to go back into operation.

8.6 Material contracts

8.6.1 Key Contracts

<u>Drilling contracts</u>

The Group's drilling rigs are contracted to customers either through competitive bidding or direct negotiation. The Group's drilling contracts and other arrangements provide services that are individually negotiated and vary in their terms and provisions. No single contract accounted for more than 10.0% of the Group's revenue for the 12 months ended 31 December 2017, provided however, that the Group has contract parties who accounted for more than 10.0% of the Group's revenue for the 12 months ended 31 December 2017.

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

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

The Group's drilling contracts may generally be terminated for cause by the customer (at their sole discretion), typically without any other payment than accrued and outstanding rate at the date of termination, under the following circumstances:

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

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

In addition, drilling contracts with certain customers may be cancellable without cause, with prior notice and without penalty or early termination payments and rights. Termination fees, if applicable, typically vary from 50.0% to 100.0% of the dayrate multiplied by the number of contract days remaining. During periods of depressed market conditions, the Group's customers may seek to renegotiate firm drilling contracts to reduce the term of their obligations or the average dayrate through term extensions, or may seek to repudiate their contracts. Suspension of drilling contracts will result in the reduction in or loss of dayrate for the period of the suspension. If the Group's customers cancel some of the contracts and the Group is unable to secure new contracts on a timely basis and on substantially similar terms, or if contracts are suspended for an extended period of time or if a number of contracts are renegotiated, it could adversely affect the Group's consolidated results of operations or cash flows. See Section 2.1.4 ("*The Group's future contracted revenue, or contract backlog, for the Group's fleet of drilling rigs may not be ultimately realized*").

The Group's drilling contracts typically contain, among others, the following commercial terms:

- payment by the Group for rig operating expenses, including labor and incidental rig supply costs, or capped replacement rig costs when terminated for cause;
- reimbursement of certain labor and operating costs from the Group's customers; and
- performance guarantees.

The Company considers the drilling contracts associated with the Delivered Newbuild Rigs described below as material for its business. The firm order backlog from these rig contracts amounted to USD 440 million as of 31 March 2018.

Newbuild Jack-up Rig Contracts with Chevron in Thailand (Delivered Newbuild Rigs)

In May 2014, the Company entered into drilling contracts for two newbuild jack-up rigs with Chevron for five years per rig. In connection with the contracts, the Company commissioned two fit-for-purpose newbuild jack-up rigs, named the Shelf Drilling Chaophraya and Shelf Drilling Krathong, based on the Marathon LeTourneau Super 116 E design with Lamprell plc ("**Lamprell**") in Sharjah, United Arab Emirates. Both newbuild jack-up rigs have been delivered by Lamprell (the "Delivered Newbuild Rigs"). The Shelf Drilling Chaophraya commenced operations in Thailand in December 2016 with the contract ending in November 2021, and the Shelf Drilling Krathong commenced operations in June 2017 with the contract ending in May 2022.

The Company estimates the total contracts value remaining as of 31 March 2018 to be approximately USD 440 million for the two rigs which is calculated based on the contractual dayrate of USD 154,000 per day per rig for the firm contract duration committed under the contracts. The contracts also contain an annual rate adjustment provision to cover potential change in the costs of insurance, catering, maintenance and labor.

<u>Suppliers</u>

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

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

8.6.2 Material contracts outside the ordinary course of business

Neither the Group nor any member of the Group has entered into any material contracts outside the ordinary course of business for the two years prior to the date of this Prospectus. Further, the Group has not entered into any other contract outside the ordinary course of business which contains any provision under which any member of the Group has any obligation or entitlement.

8.7 Employees

As of 31 March 2018, the Group had 1,917 employees with 1,602 working offshore and 315 working onshore. In addition, the Group engaged 1,156 qualified contractors, of which 1,078 work offshore and 78 onshore. These employees and contractors have extensive technical, operational and management experience in the jack-up segment of the shallow water offshore drilling industry.

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

The table below presents the Group's employees (including contractors) for the years ended 31 December 2017, 2016 and 2015, and as at 31 March 2018:

Total employees (including contracted-in staff)	**As at 31 March**	**Years ended 31 December**		
	2018	**2017**	**2016**	**2015**
Rig-Based	2,680	2,588	2,444	2,932
Shore based	247	236	236	254
Corporate	146	138	138	157
Total employees	**3,073**	**2,962**	**2,818**	**3,343**
Geographical location				
India	830	752	896	756
Saudi Arabia	632	634	635	631
UAE (incl. corporate)	564	530	340	462
Nigeria	348	331	245	365
Egypt	222	219	299	427
Thailand	265	267	218	391
Other	212	229	185	311
Total employees	**3,073**	**2,962**	**2,818**	**3,343**

The table below shows the employee mix in certain key markets as at 31 March 2018:

Nationalization (incl. contractors)	**National Employees**
India	99.2%
Nigeria	97.4%
Egypt	99.5%
Thailand	87.2%
Company wide	**84.1%**

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

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

8.8 Legal proceedings

From time to time, the Company and other companies in the Group, as a party, plaintiff or defendant, are involved in litigation, disputes and other legal proceedings arising in various jurisdictions for demurrage, damages, off-hire and other claims and commercial disputes arising from the construction or operation of its drilling units, in the normal course of its business or in connection with acquisition activities. The Company believes that the resolution of ongoing claims will not have a material adverse effect on the Group's operations or financial condition, either individually or in the aggregate. Accordingly, the Group has not been involved in any governmental, legal or arbitration proceedings (including any such proceedings which are pending or threatened of which the Company is aware), during a period covering the previous 12 months which may have, or have had in the recent past significant effects on the Company and/or the Group’s financial position or profitability.

8.9 Insurance

The Group maintains an amount of insurance coverage which the Company believes is common in the industry and is sufficient to adequately mitigate the principal risks to the Group's 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). The drilling rig fleet is insured for its estimated fair market value and the Group periodically evaluates risk exposures, insurance limits and self-insured retentions. As of 31 December 2017, the insured value of the Group's drilling rig fleet was USD 2 billion.

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

The above description of the Group's insurance program is only a summary as of the date of this Prospectus. The Group's insurance policies typically consist of twelve-month policy periods, and the next renewal date for a substantial portion of the Group's insurance program is scheduled for November 2018.

Hull and machinery coverage:

As of 31 December 2017, under the Company's hull and machinery insurance policies, the Company maintained a USD 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 USD 20 million (plus an additional USD 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 USD 250,000 deductible per occurrence (an additional USD 2.75 million in certain countries) and a limit of USD 175 million.

Excess liability coverage:

As of 31 December 2017, the Company carried USD 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 USD 1 million deductible per occurrence.

As of 31 December 2017, the Company also carried USD 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 USD 1 million per occurrence.

Directors' and officers' liability insurance:

The Company has purchased and maintain a directors' and officers' liability policy for the benefit of any director or officer in respect of any loss or liability attaching to him or her in respect of negligence, default, breach of duty or breach of trust.

8.10 Health, safety and environmental matters

The Company believes the Group to be an industry leader in HSE due to a commitment to develop, promote and sustain a culture which operates in a manner true to the Group's slogan "protect yourself, protect your team, protect your asset and environment". 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 Company workplaces. Information on the Group's focus areas in this regard is set out below.

The Group has 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). The Group believes it has put in place HSE policies, processes and systems which are in line with industry best practice. The Group tracks 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 Shelf Drilling named "HSE Dashboard".

The Group believes the Group's HSE programs are reflective of best practices in the industry. During the year ended 31 December 2017, the Group had a TRIR of 0.25.

The Company, on behalf of all the entities in the Group, is a member of the International Association of Drilling Contractors and participates in its Incident Statistics Program.

The Group's operations are subject to numerous comprehensive environmental laws and regulations in the form of international conventions and treaties, national, state and local laws and various multi-jurisdictional regulations in force where the Group's rigs operate or are registered.

These requirements include, but are not limited to, MARPOL, the CLC, the International Convention on Civil Liability for Bunker Oil Pollution Damage (the "Bunker Convention") 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 and hazardous substances. These laws govern the discharge of materials into the environment or otherwise relate to environmental protection. In certain circumstances, these laws may impose strict liability, rendering the Group liable for environmental and natural resource damages without regard to negligence or fault on its part. For example, the United Nations' IMO has adopted MARPOL, Annex VI which regulates harmful air emissions from ships, and which is applicable to offshore drilling rigs as well. Amendments to the Annex VI regulations which entered into force on July 1, 2010, 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. The Group may incur costs to comply with these revised standards. Drilling rigs must comply with MARPOL limits on sulfur oxide and nitrogen oxide emissions, chlorofluorocarbons, and the discharge of other air pollutants, except that the MARPOL limits do not apply to emissions that are directly related to drilling, production, or processing activities. The Group's drilling rigs are subject not only to MARPOL regulation of air emissions, but also to the Bunker Convention's strict liability for pollution damage caused by discharges of bunker fuel in jurisdictional waters of ratifying states. Management believes that all of the Group's drilling rigs are compliant in all material respects with all environmental, health and safety regulations to which they are subject.

The Group's operations are subject to various other international conventions, laws and regulations in various countries, including laws and regulations relating to the importation and operation of drilling rigs and equipment, currency conversions and repatriation, oil and natural gas exploration and development, environmental protection, 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.

While customers use the Group's drilling rigs to support activities that are inherently hazardous, the Group's liability for environmental damage resulting from an incident involving its rigs is limited. Customer contracts typically contain "knock-for-knock" provisions which restrict liability to damage to rigs and personnel.

The Group's rigs, employees and management have substantial experience operating in all of its core markets. With demonstrated strong operational metrics and a history of successful execution in major projects, the management believes the Group is well positioned as a provider of choice for shallow water offshore drilling services and is well positioned to compete effectively in the Group's core markets.

Management believes the Group's fleet is particularly well suited to meet customer specific demands in its target markets. This is evidenced by fleet operational uptime consistently above 98.5% from 2012 to 2017.

Management intends to continue to devote significant resources to HSE programs, reliability and operational excellence and to promote a performance-based culture which focuses on minimization of organizational risk. Management believes that a continued focus in these areas will strengthen relationships with stakeholders and with government agencies in local communities in which the Group operates.

8.11 Regulation

The Group's operations are subject to numerous laws and regulations in the form of international treaties and maritime regimes, flag state requirements, national and international environmental laws and regulations, navigation and operating permits requirements, local content requirements, and other national, state and local laws and regulations in force in the jurisdictions in which the Group's drilling units operate or are registered, which can significantly affect the ownership and operation of the Group's drilling units. Reference is made to Section 2.2 ("*Risks related to laws and regulations*") for information on key risk factors related to laws and regulations, including environmental laws and regulations, which may add costs to the Group, expose the Group's liability or limit its drilling activity.

Flag state requirements

All of the Group's drilling units are subject to regulatory requirements of the flag state where the drilling unit is registered. The flag state requirements are international maritime requirements and in some cases further interpolated by the flag state itself. These include engineering, safety and other requirements related to the maritime industry. In addition, each of the Group's drilling units must be "classed" by a classification society. The classification society certifies that the drilling rig is "in-class", signifying that such drilling rig has been built and maintained in accordance with the rules of the classification society and complies with applicable rules and regulations of the flag state and the international conventions of which that country is a member. Maintenance of class certification requires expenditure of substantial sums, and can require taking a drilling unit out of service from time to time for repairs or modifications to meet class requirements. The Group's drilling units must generally undergo a class survey once every five years and an intermediate survey every two and a half years. In addition, for some of the internationally-required class certifications, such as the Code for the Construction and Equipment of Mobile Offshore Drilling Units (the "**MODU Code**") certificate, the classification society will act on a flag state's behalf.

International maritime regimes

Applicable international maritime regime requirements include, but are not limited to, the International Convention for the Prevention of Pollution from Ships ("**MARPOL**"), the International Convention on Civil Liability for Oil Pollution Damage of 1969 (the "**CLC**"), the International Convention on Civil Liability for Bunker Oil Pollution Damage of 2001 (ratified in 2008), or the Bunker Convention, the International Convention for the Safety of Life at Sea of 1974 ("**SOLAS**"), the International Safety Management Code for the Safe Operation of Ships and for Pollution Prevention, or the ISM Code, MODU Code, and the International Convention for the Control and Management of Ships' Ballast Water and Sediments in February 2004 (the "**BWM Convention**"). These various conventions regulate air emissions and other discharges to the environment from the Group's drilling units worldwide, and the Group may incur costs to comply with these regimes and continue to comply with these regimes as they may be amended in the future. In addition, these conventions impose liability for certain discharges, including strict liability in some cases.

Annex VI to MARPOL sets limits on sulfur dioxide and nitrogen oxide emissions from ship exhausts and prohibits deliberate emissions of ozone depleting substances. Annex VI applies to all ships and, among other things, imposes a global cap on the sulfur content of fuel oil and allows for specialized areas to be established internationally with even more stringent controls on sulfur emissions. For vessels 400 gross tons and greater, platforms and drilling rigs, Annex VI imposes various survey and certification requirements. Moreover, recent amendments to Annex VI require the imposition of progressively stricter limitations on sulfur emissions from ships. Since January 1, 2015, these limitations have required that fuels of vessels in covered Emission Control Areas ("**ECAs**") contain no more than 0.1% sulfur, including the Baltic Sea, North Sea, North America and United States Sea ECAs. For non-ECA areas, the sulfur limit in marine fuel is currently capped at 3.5%, which will then decrease to 0.5% on 1 January 2020 subject to a feasibility review. The amendments also establish new tiers of stringent nitrogen oxide emissions standards for new marine engines, depending on their date of installation. All of the Group's rigs are in compliance with these requirements.

The BWM Convention calls for a phased introduction of mandatory ballast water exchange requirements (beginning in 2009), to be replaced in time with a requirement for mandatory ballast water treatment. The BWM Convention entered into force on 8 September 2017. Under its requirements, for units with ballast water capacity more than 5,000 cubic meters that were constructed in 2011 or before, only ballast water treatment will be accepted by the BWM Convention. All of the Group's units considered in operational status are in full compliance with the staged implementation of the BWM Convention by International Maritime Organization guidelines.

Environmental laws and regulations

Applicable environmental laws and regulations include the U.S. Oil Pollution Act of 1990, ("**OPA**"), the Comprehensive Environmental Response, Compensation and Liability Act, ("**CERCLA**"), the U.S. Clean Water Act, ("**CWA**"), the U.S. Clean Air Act, ("**CAA**"), the U.S. Outer Continental Shelf Lands Act ("**OCSLA**"), the U.S. Maritime Transportation Security Act of 2002, ("**MTSA**"), European Union regulations, including the EU Directive 2013/30 on the Safety of Offshore Oil and Gas Operations, and Brazil's National Environmental Policy Law (6938/81), Environmental Crimes Law (9605/98) and Federal Law (9966/2000) relating to pollution in Brazilian waters. These laws govern the discharge of materials into the environment or otherwise relate to environmental protection. In certain circumstances, these laws may impose strict liability, rendering the Group liable for environmental and natural resource damages without regard to negligence or fault on the Group's part. Implementation of new environmental laws or regulations that may apply to ultra-deepwater drilling units may subject the Group to increased costs or limit the operational capabilities of its drilling units and could materially and adversely affect its operations and financial condition. See information provided in Section 2.2.1 ("*The Group is subject to complex laws and regulations, including environmental laws and regulations that can adversely affect the cost, manner or feasibility of doing business*") for more information on risks inherent to environmental laws and regulations.

Safety requirements

The Group's operations are subject to special safety regulations relating to drilling and to the oil and gas industry in many of the countries where it operates. The United States undertook substantial revision of the safety regulations applicable to the Group's industry following the 2010 Deepwater Horizon incident, in which the Group was not involved, that led to the Macondo well blow-out situation. Other countries are also undertaking a review of their safety regulations related to the industry in which the Group operates. These safety regulations may impact the Group's operations and financial results by adding to the costs of exploring for, developing and producing oil and gas in offshore settings. For instance, in April 2016, the U.S. Department of the Interior's Bureau of Safety and Environmental Enforcement ("**BSEE**") published a final rule that sets more stringent design requirements and operational procedures for critical well control equipment used in offshore oil and gas drilling. The rule adds new requirements and amends existing ones to, among other things, set new baseline standards for the design, manufacture, inspection, repair and maintenance of blow-out preventers and the use of double shear rams. The rule contains a number of other requirements, including third-party verification and certifications, real-time monitoring of deepwater and certain other activities, and sets criteria for safe drilling margins. In December 2017, BSEE proposed to revise or eliminate certain of the requirements under the rule. To the extent these requirements remain in effect, they are likely to increase the costs of the Group's operations and may lead its customers to not pursue certain offshore opportunities because of the increased costs, delays and regulatory risks. In July 2016, U.S. Department of the Interior's Bureau of Ocean Energy Management ("**BOEM**") issued a final notice to lessees and operators substantially revising and making more stringent supplemental bonding procedures for the decommissioning of offshore wells, platforms, pipelines, and other facilities. In June 2017, BOEM announced that the implementation timeline would be extended, except in circumstances where there is a substantial risk of nonperformance of such obligations. In addition, in December 2015, BSEE announced that it is launching a pilot risk-based inspection program for offshore facilities. New requirements resulting from the program may cause the Group to incur costs and may result in additional downtime should these regulations be adopted by countries where the Group operates. Also, if material spill events similar to the Deepwater Horizon incident were to occur in the future, the United States or other countries could elect to again issue directives to temporarily cease drilling activities and, in any event, may from time to time issue additional safety and environmental laws and regulations regarding offshore oil and gas exploration and development. The EU has also undertaken a significant revision of its safety requirements for offshore oil and gas activity through the issuance of the EU Directive 2013/30 on the Safety of Offshore Oil and Gas Operations.

Navigation and operating permit requirements

Numerous governmental agencies issue regulations to implement and enforce the laws of the applicable jurisdiction, which often involve lengthy permitting procedures, impose difficult and costly compliance measures, particularly in ecologically sensitive areas, and subject operators to substantial administrative, civil and criminal penalties or may result in injunctive relief for failure to comply. Some of these laws contain criminal sanctions in addition to civil penalties.

Local content requirements

Governments in some countries have become increasingly active in local content requirements on the ownership of drilling companies, local content requirements for equipment utilized in the Group's operations, and other aspects of the oil and gas industries in their countries. These regulations include requirements for participation of local investors in the Company's local operating subsidiaries in countries such as Nigeria. Although these requirements have not had a material impact on the Group's operations in the past, they could have a material impact on the Group's earnings, operations and financial condition in the future.

Other laws and regulations

In addition to the requirements described above, the Group's international operations in the offshore drilling segment are subject to various other international conventions and laws and regulations in countries in which the Group operates, including laws and regulations relating to anti-corruption, the importation of, and operation of, drilling units and equipment, currency conversions and repatriation, oil and 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 units and other equipment. There is no assurance that compliance with current laws and regulations or amended or newly adopted laws and regulations can be maintained in the future or that future expenditures required to comply with all such laws and regulations in the future will not be material.

8.12 Information technology and intellectual property rights

The "Shelf Drilling" brand name, logo and domain are the Group's intellectual property.

As of the date of this Prospectus, the Group is not dependent on any owned or third-party intellectual property rights and is not involved in any disputes regarding intellectual property rights.

8.13 Dependency on contracts, patents, licenses etc.

It is the Company's opinion that the Group's existing business or profitability is not dependent upon any contracts other than the rig contracts, as further described in Section 8.6.1 ("*Key Contracts*") and the financing agreements, as further described in Section 11.9.6 ("*Financing arrangements*"). It is further the opinion of the Company that the Group's existing business or profitability is not dependent on any patents.

The Group is required to hold certain permits and approvals. For example, in most of the jurisdictions it operates certain governmental approvals are required to set up and maintain the entity or branch through which the Group contracts/operates, and work permits are also required for employees. In addition, there are various licenses applicable to the rigs that are required by customs authorities or the maritime registries of the flag states, e.g. minimum safe manning certificate, radio license, as well certain HSE licenses, permits, etc. The Group has all permits and approvals necessary to run the business in place.

9 CAPITALISATION AND INDEBTEDNESS

The information presented below should be read in conjunction with the other parts of this Prospectus, in particular Section 10 ("*Selected Financial and Other Information*") and Section 11 ("*Operating and Financial Review*"), and the Interim Financial Information and notes related thereto, included in Appendix C of this Prospectus.

This Section provides information about the Group's unaudited consolidated capitalisation and net financial indebtedness on an actual basis as at 31 March 2018 and, in the "As adjusted" columns, the Group's unaudited consolidated capitalisation and net financial indebtedness as at 31 March 2018, on an adjusted basis to give effect to the following adjustments as if the transactions in (i) to (iii) had happened on 31 March 2018:

(i) the USD 25 million contemplated repayment of the SDA Facility on or about 19 June 2018, see Section 11.9.6.1;

(ii) the USD 299.4 million contemplated repayment of the Sale and Leaseback Financing on or about 9 July 2018, see Section 11.9.6.1; and

(iii) the USD 300 million Tap Issue which was launched and priced on 5 June 2018, see Section 11.9.6.1.

Other than as set forth as above, there has been no material change to the Group's unaudited capitalization and net financial indebtedness since 31 March 2018.

9.1 Capitalization

The following table sets forth information about the Group's capitalization as at 31 March 2018, derived from the Interim Financial Information:

In USD thousand	**As at 31 March 2018**	**Adjusted for the refinancing[6]**	**As adjusted**
	(unaudited)	*(unaudited)*	*(unaudited)*
Indebtedness			
Total current debt:			
Guaranteed	0		0
Secured[1]	47,615	(47,615)	0
Unguaranteed/unsecured[2]	2,159		2,159
Total non-current debt:			
Guaranteed[3]	600,000	300,000	900,000
Secured[4]	282,656	(282,656)	0
Unguaranteed/unsecured	0	0	0
Total indebtedness	**932,430**	**(30,271)**	**902,159**
Shareholders' equity			
Share capital	659,628		659,628
Other contributed	0		0
Other reserves	0		0
Retained earnings	(193,662)	(6, 592)[5]	(200,254)
Total shareholders' equity	**465,966**	**(6, 592)**	**459,374**
Total capitalization	**1,398,396**	**(36, 863)**	**1, 361,533**

1) Represents Sale and Leaseback Financing of USD 35,115,000 and SDA Facility of USD 12,500,000 (this does not include USD 495,000 of unamortized debt issue costs at 31 March 2018). The Sale and Leaseback Financing is expected to be repaid on 9 July 2018 with the proceeds from the Tap Issue. The security provided under the SDA Facility is described in Section 11.9.6.4.
2) Represents unsecured overdraft facility.
3) Represents 8.25% Senior Unsecured Notes (this does not include USD 10,513,000 of unamortized debt issue costs at 31 March 2018). Information about the guarantees are provided in Section 11.9.6.2.
4) Represents Sale and Leaseback Financing of USD 270,156,000 and SDA Facility of USD 12,500,000 (this does not include USD 226,000 of unamortized debt issue costs at 31 March 2018). The Sale and Leaseback Financing is expected to be repaid on 9 July 2018 with the proceeds from the Tap Issue. The security provided under the SDA Facility is described in Section 11.9.6.4 ("*SDA Facility*").
5) Represents the expense of USD 5,871,000 for the call premium related to the repayment of the planned Sale and Leaseback Financing and the expensing of USD 721,000 of unamortized debt issue costs related to the planned repayment of the SDA Facility. Includes accumulated other comprehensive income.
6) Adjusted for the planned repayment of the Sale and Leaseback Financing, including instalments on the principal amount since 31 March 2018, in the total amount of USD 305,271,000, the USD 300 million Tap Issue launched and priced on 5 June 2018 and the planned repayment of USD 25 million of the SDA Facility.

9.2 Indebtedness

The following table sets forth information about the Group's net financial indebtedness as at 31 March 2018, derived from the Interim Financial Information:

In USD thousand		As at 31 March 2018	Adjusted for the refinancing[6]	As adjusted[7]
(A)	Cash	120,598	(29,200)	91,398
(B)	Cash equivalents	0	0	0
(C)	Trading securities	0	0	0
(D)	**Liquidity (A)+(B)+(C)**	**120,598**	**(29,200)**	**91,398**
(E)	**Current financial receivables**	**0**	**0**	**0**
(F)	Current bank debt[1]	14,659	(12,500)	2,159
(G)	Current portion of non-current debt	0	0	0
(H)	Other current financial debt[2]	35,115	(35,115)	0
(I)	**Current financial debt (F)+(G)+(H)**	**49,774**	**(47,615)**	**2,159**
(J)	**Net current financial indebtedness ((I)-(D)**	**(70, 824)**	**(18,415)**	**(89,239)**
(K)	Non-current bank loans[3]	12,500	(12,500)	0
(L)	Bonds issued[4]	600,000	300,000	900,000
(M)	Other non-current loans[5]	270,156	(270,156)	0
(N)	**Non-current financial indebtedness (K)+(L)+(M)**	**882,656**	**17,344**	**900,000**
(O)	**Net financial indebtedness (J)+(N)**	**811,832**	**(1,071)**	**810,761**

1 Represents the current portion of the SDA Facility of USD 12,500,000 (this does not include USD 495,000 of unamortized debt issue costs) and USD 2,159,000 of the unsecured overdraft facility as at 31 March 2018.
2 Represents the current portion of the Sale and Leaseback Financing.
3 Represents long-term portion of the SDA Facility of USD 12,500,000 (this does not include USD 226,000 of unamortized debt issue costs) as at 31 March 2018.
4 Represents 8.25% Senior Unsecured Notes (this does not include USD 10,513,000 of unamortized debt issue costs) as at 31 March 2018.
5 Represents the long-term portion of the Sale and Leaseback Financing.
6 Adjusted for the USD 296,557,000 of net proceeds from the Tap Issue (Tap Issue proceeds of USD 303,000,000 (including USD 3 million premium) less fees of USD 6,443,000), the planned repayment of the Sale and Leaseback Financing Facility, which is expected on 9 July 2018, amounting to USD 311,142,000 (including instalments on the principal amount since 31 March 2018 and the call premium of USD 5,871,000), planned repayment of SDA facility of USD 25 million, planned use of USD 13,000,000 of restricted cash released upon planned repayment of the Sale and Leaseback Financing and payment of USD 2,615,000 of costs related to the New SDHL Revolver.
7 Represents the sum of the prior two columns.

9.3 Working capital statement

The Company is of the opinion that the working capital available to the Company is sufficient for the Group's present requirements, for the period covering at least 12 months from the date of this Prospectus.

9.4 Contingent and indirect indebtedness

As at 31 March 2018 and as at the date of the Prospectus, the Company did not have any contingent or indirect indebtedness.

10 SELECTED FINANCIAL AND OTHER INFORMATION

10.1 Introduction and basis for preparation

The following selected financial information has been extracted from the Group's audited consolidated financial statements as at and for the years ended 31 December 2017, 2016 and 2015 (the Financial Statements) and the unaudited consolidated interim financial information as at and for the three months' period ended 31 March 2018 (with comparable figures for the three months' period ended 31 March 2017) (the Interim Financial Information).

The Group's audited consolidated financial statements as at and for the years ended 31 December 2017, 2016 and 2015, included in this Prospectus as Appendix B, have been prepared in accordance with US GAAP. The unaudited consolidated interim financial information as at and for the three months' period ended 31 March 2018 (with comparable figures for the three months' period ended 31 March 2017) have been prepared in accordance with US GAAP Interim based on accounting policies consistent with those applied in the preparation of the Financial Statements.

The selected financial information included herein should be read in connection with, and is qualified in its entirety by reference to, the Financial Statements and the Interim Financial Information included as Appendix B and C, respectively, and should be read together with Section 11 ("*Operating and Financial Review*").

The Financial Statements have been audited by PwC. The Interim Financial Information has been reviewed by PwC in accordance with US GAAP, whereas such review is substantially less in scope than an audit.

10.2 Summary of accounting policies and principles

For information regarding accounting policies and the use of estimates and judgments, please refer to Note 2 of the Financial Statements, included in this Prospectus as Appendix B.

10.3 Consolidated statement of operations

The table below sets out selected data from the Group's unaudited consolidated statement of operations for the three months' periods ended 31 March 2018 and 2017 and its audited consolidated statement of operations for the years ended 31 December 2017, 2016 and 2015.

In USD thousand	**Three months ended 31 March**		**Years ended 31 December**		
	2018 *(unaudited)*	**2017** *(unaudited)*	**2017** *US GAAP (audited)*	**2016** *US GAAP (audited)*	**2015** *US GAAP (audited)*
Revenues					
Operating revenues	144,604	142,408	556,047	668,649	1,012,757
Other revenue..	2,906	3,845	15,917	15,668	18,541
Total revenues	**147,510**	**146,253**	**571,964**	**684,317**	**1,031,298**
Operating costs and expenses					
Operating and maintenance	90,269	68,549	320,084	353,802	534,156
Depreciation	21,868	18,369	80,573	71,780	87,421
Amortization of deferred costs........................	19,008	16,844	64,664	91,763	80,984
General and administrative	12,607	9,086	43,726	46,889	139,722
Loss on impairment of assets	-	-	34,802	47,094	271,469
(Gain) / loss on disposal of assets	(120)	(138)	(839)	4,826	11,299
Gain on insurance recovery............................	-	-	-	-	(25,432)
Total operating costs and expenses	**143,632**	**112,710**	**543,010**	**616,154**	**1,099,619**
Operating income / (loss)	**3,878**	**33,543**	**28,954**	**68,163**	**(68,321)**
Other (expense) / income, net					
Interest income	183	147	1,062	356	102
Interest expense and financing charges............	(38,960)	(30,360)	(83,995)	(80,120)	(80,537)

In USD thousand	Three months ended 31 March		Years ended 31 December		
	2018 (unaudited)	**2017** (unaudited)	**2017** US GAAP (audited)	**2016** US GAAP (audited)	**2015** US GAAP (audited)
Other, net	1,040	(314)	(2,969)	1,522	(873)
Total other (expense) / income, net	**(37,737)**	**(30,527)**	**(85,902)**	**(78,242)**	**(81,308)**
(Loss) / income before income taxes	**(33,859)**	**3,016**	**(56,948)**	**(10,079)**	**(149,629)**
Income tax expense	4,658	4,550	14,262	19,757	30,373
Net loss	**(38,517)**	**(1,534)**	**(71,210)**	**(29,836)**	**(180,002)**
Less: Preferred shares dividend	4,495	3,805	17,041	-	-
Net loss attributable to common and ordinary shares[1]	**(43,012)**	**(5,339)**	**(88,251)**	**(29,836)**	**(180,002)**
Loss per share:					
Basic and Diluted – Common shares	(0.53)	-	(1.02)	-	-
Basic and Diluted – Class A shares	-	(12.01)	(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 and Diluted – Common Shares	81,651,566	-	81,572,999	-	-
Basic and Diluted – Class A shares	-	444,594	444,594	445,386	446,525
Basic and Diluted – Class B shares	-	18,147	18,555	17,500	15,142
Basic and Diluted – Class C shares	-	5,110	5,110	5,119	5,133
Basic and Diluted – Class D shares	-	-	-	-	-

1 For the year ended 31 December 2017, the loss per share is calculated based on information for four months ended 30 April 2017 for the ordinary Class A, B, C and D shares and based on information for eight months ended 31 December 2017 for the Common Shares.

10.4 Consolidated statement of comprehensive income

The table below sets out selected data from the Group's unaudited consolidated statement of comprehensive income for the three months' periods ended 31 March 2018 and 2017 and its audited consolidated statement of comprehensive income for the years ended 31 December 2017, 2016 and 2015.

In USD thousand	Three months ended 31 March		Years ended 31 December		
	2018 (unaudited)	**2017** (unaudited)	**2017** US GAAP (audited)	**2016** US GAAP (audited)	**2015** US GAAP (audited)
Net loss	**(38,517)**	**(1,534)**	**(71,210)**	**(29,836)**	**(180,002)**
Other comprehensive income, net of tax					
Change in unrealized (losses) / gains on derivative financial instruments					
Changes in unrealized (losses) / gains	(568)	-	238	427	-
Reclassification of net loss / (gain) from other comprehensive income to net income	98	-	(238)	(427)	-
Total comprehensive loss	**(38,987)**	**(1,534)**	**(71,210)**	**(29,836)**	**(180,002)**

10.5 Consolidated balance sheets

The table below sets out selected data from the Group's unaudited consolidated balance sheets as at 31 March 2018 and from the Group's audited consolidated balance sheets as at 31 December 2017, 2016 and 2015.

In USD thousand	**As at 31 March**	**As at 31 December**		
	2018 *(unaudited)*	**2017** *US GAAP (audited)*	**2016** *US GAAP (audited)*	**2015** *US GAAP (audited)*
Assets				
Cash and cash equivalents	120,598	84,563	213,139	115,685
Accounts and other receivables, net	128,035	137,785	125,312	166,109
Other current assets	98,903	96,960	95,235	118,500
Total current assets	**347,536**	**319,308**	**433,686**	**400,294**
Property and equipment	1,625,456	1,620,830	1,326,361	1,175,054
Less accumulated depreciation	392,574	370,840	295,685	230,421
Property and equipment, net	**1,232,882**	**1,249,990**	**1,030,676**	**944,633**
Deferred tax assets	690	1,321	3,137	3,697
Other assets	107,194	112,331	118,441	135,259
Total assets	**1,688,302**	**1,682,950**	**1,585,940**	**1,483,883**
Liabilities and equity				
Accounts payable	76,465	95,098	70,605	89,968
Interest payable	7,446	8,399	15,773	15,773
Obligations under Sale and Leaseback Financing	35,115	35,115	15,977	-
Current maturities of debt	14,164	30,167	-	-
Accrued income taxes	5,878	4,822	-	546
Other current liabilities	22,536	36,681	,665	46,672
Total current liabilities	**161,604**	**210,282**	**135,020**	**152,959**
Long-term debt	601,761	496,503	809,016	803,053
Obligations under Sale and Leaseback Financing	270,156	278,815	228,728	74,703
Deferred tax liabilities	4,257	4,407	8,525	8,788
Other long-term liabilities	18,580	17,719	25,197	33,601
Total long-term liabilities	**894,754**	**797,444**	**1,071,466**	**920,145**
Mezzanine equity, net of issuance costs	**165,978**	**165,978**	**-**	**-**
Commitments and contingencies				
Common Shares of USD 0.01 par value; 200,000,000 shares authorized at 31 March 2018 and 31 December 2017: 83,115,394 and 83,125,000 issued and outstanding at 31 March 2018 and 31 December 2017, respectively	831	831	-	-
Ordinary shares of USD 0.01 par value; 5,000,000 shares authorized at 31 December 2016 and 2015; issued and outstanding as follows:				
Class A shares: 444,594 and 446,445 at 31 December 2016 and 2015, respectively	-	-	5	5
Class B shares: 25,099 and 24,789 at 31 December 2016 and 2015, respectively	-	-	-	-
Class C shares: 6,075 and 6,092 at 31 December 2016 and 2015, respectively	-	-	-	-
Additional paid-in capital	658,797	663,090	462,914	464,403
Accumulated other comprehensive income	(470)	-	-	-
Accumulated losses	(193,192)	(154,675)	(83,465)	(53,629)

In USD thousand	As at 31 March	As at 31 December		
	2018 (unaudited)	2017 US GAAP (audited)	2016 US GAAP (audited)	2015 US GAAP (audited)
Total equity	**465,966**	**509,246**	**379,454**	**410,779**
Total liabilities and equity	**1,688,302**	**1,682,950**	**1,585,940**	**1,483,883**

10.6 Consolidated statements of cash flow

The table below sets out selected data from the Group's unaudited consolidated statement of cash flows for the three months' periods ended 31 March 2018 and 2017 and its audited consolidated statement of cash flows for the years ended 31 December 2017, 2016 and 2015.

In USD thousand	Three months ended 31 March		Years ended 31 December		
	2018 (unaudited)	2017 (unaudited)	2017 US GAAP (audited)	2016 US GAAP (audited)	2015 US GAAP (audited)
Cash flows from operating activities					
Net loss	**(38,517)**	**(1,534)**	**(71,210)**	**(29,836)**	**(180,002)**
Adjustments to reconcile net loss to net cash (used in) / provided by operating activities					
Depreciation	21,868	18,369	80,573	71,780	87,421
Loss on impairment of assets	-	-	34,802	47,094	271,469
Loss / (gain) on derivative financial instruments, net	98	-	(238)	(427)	-
Gain on insurance recovery	-	-	-	-	(25,432)
Amortization of deferred revenue	(3,426)	(3,779)	(15,254)	(23,511)	(41,026)
Provision for / (reversal of) doubtful accounts, net	85	(2,316)	(5,444)	(401)	87,431
Amortization of drilling contract intangibles	-	-	-	-	(983)
Share based compensation expense, net of forfeitures	202	220	842	179	638
Non-cash portion of loss on debt extinguishment	6,320	4,371	4,371	-	-
Debt extinguishment costs[1]	12,505	9,785	-	-	-
Payment of original issue discount	-	(10,500)	(10,500)	-	-
Amortization of debt issue costs and discounts	822	1,070	3,705	7,663	9,232
(Gain) / loss on disposal of assets	(120)	(138)	(839)	4,826	11,299
Deferred tax expense / (benefit)	481	913	(2,302)	297	1,292
(Payments for) / proceeds from settlement of derivative financial instruments, net	(98)	-	238	427	-
Changes in deferred costs, net	6,723	11,554	2,232	37,218	(70,353)
Changes in operating assets and liabilities	(16,570)	(25,052)	20,775	21,223	(17,973)
Net cash (used in) / provided by operating activities	**(9,627)**	**2,963**	**41,751**	**136,532**	**133,013**
Cash flows from investing activities					
Additions to property and equipment	(9,309)	(7,423)	(253,834)	(53,541)	(157,193)
Proceeds from disposal of property and equipment	291	198	5,557	1,490	547
Proceeds from Sale and Leaseback Financing	-	-	16,880	16,880	18,515
Payments of transaction costs for Sale and Leaseback Financing	-	-	-	-	(7,555)
Proceeds from insurance recovery	-	-	-	-	45,000

In USD thousand	Three months ended 31 March		Years ended 31 December		
	2018 (unaudited)	**2017** (unaudited)	**2017** US GAAP (audited)	**2016** US GAAP (audited)	**2015** US GAAP (audited)
Change in restricted cash[2]	-	-	(6,006)	(421)	(6,827)
Net cash used in investing activities	**(9,018)**	**(7,225)**	**(237,403)**	**(35,592)**	**(107,513)**
Cash flow from financing activities					
Proceeds from issuance of common shares	-	-	225,000	-	-
Payments for common and preferred shares issuance costs	-	(688)	(8,487)	-	-
Proceeds from short-term debt	2,159	-	-	-	-
Proceeds from issuance of debt	625,000	-	-	-	-
Payments for redemption of ordinary shares	-	-	-	(1,668)	(310)
Payments for obligations under Sale and Leaseback Financing	(8,659)	(2,822)	(24,829)	(1,818)	-
Payments to retire long-term debt	(533,250)	(103,750)	(103,750)	-	-
Payments of debt issuance costs	(9,739)	(10,351)	(11,223)	-	(551)
Payments of debt extinguishment costs1	(12,505)	(9,785)	-	-	-
Preferred shares dividend paid	(8,906)	(957)	(9,635)	-	-
Net cash provided by / (used in) financing activities	**54,100**	**(128,353)**	**67,076**	**(3,486)**	**(861)**
Net (decrease) / increase in cash, cash equivalents and restricted cash[2]	**35,455**	**(132,615)**	**(128,576)**	**97,454**	**24,639**
Cash, cash equivalents and restricted cash at beginning of period / year[2]	**99,826**	**222,395**	**213,139**	**115,685**	**91,046**
Cash, cash equivalents and restricted cash at end of the period / year[2]	**135,281**	**89,780**	**84,563**	**213,139**	**115,685**

1 Effective 1 January 2018, the Company adopted ASU No. 2016-15 which the debt extinguishment costs of USD 12.5 million and USD 9.8 million as of 31 March 2018 and 2017, respectively, are now presented under cash flows from financing activities in the Q1 2018 statements of cash flows. The debt extinguishment costs of USD 9.8 million was previously reported under cash flows from operating activities in the Q1 2017 financial statements.

2 Effective 1 January 2018, the Company adopted ASU No. 2016-18 and have included restricted cash of USD 14.7 million and USD 8.7 million as part of cash, cash equivalents and restricted cash on the statements of cash flows for the three months ended 31 March 2018 and 31 March 2017, respectively.

10.7 Consolidated statements of equity

The table below sets out selected data from the Group's unaudited consolidated statements of changes in equity for the three months' periods ended 31 March 2018 and 2017. The numbers are in USD thousands, except share data.

	Three months ended March 31,		Three months ended March 31,	
	2018	2017	2018	2017
	Shares		Amount	
Common and ordinary shares				
Balance, beginning of period	83,125,000	475,768	$ 831	$ 5
Shares issued to trust	-	243	-	-
Repurchase and retirement of shares	(9,606)	-	-	-
Balance, end of period	83,115,394	476,011	$ 831	$ 5
Additional paid-in capital				
Balance, beginning of period			$ 663,090	$ 462,914
Preferred shares dividend			(4,495)	(3,805)
Share-based compensation expense, net of forfeitures			202	220
Repurchase and retirement of shares			-	-
Balance, end of period			$ 658,797	$ 459,329
Accumulated other comprehensive income				
Balance, beginning of period			$ -	$ -
Net unrealized loss on derivative financial instruments			(470)	-
Balance, end of period			$ (470)	$ -
Accumulated losses				
Balance, beginning of period			$ (154,675)	$ (83,465)
Net loss			(38,517)	(1,534)
Balance, end of period			$ (193,192)	$ (84,999)
Total equity				
Balance, beginning of period			$ 509,246	$ 379,454
Preferred shares dividend			(4,495)	(3,805)
Share-based compensation expense, net of forfeitures			202	220
Repurchase and retirement of shares			-	-
Total comprehensive loss			(38,987)	(1,534)
Balance, end of period			$ 465,966	$ 374,335

The table below sets out selected data from the Group's audited consolidated statements of changes in equity for the years ended 31 December 2017, 2016 and 2015. The numbers are in USD 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

10.8 Segment information

10.8.1 Income by segment

The Group analyzes and report its results of operations in one single reportable segment, contract drilling services. See Section 11.2 ("*Operations and reporting segments*") for further discussion on operational and financial measures the Group believes are useful in assessing its historical and future performance.

10.8.2 Operating revenue by geographical area

The table below sets out selected data from the Group's operating revenue by geographic area based on the location of the service provided, for the three months' periods ended 31 March 2018 and 2017, as extracted from the Interim Financial Information, and the years ended 31 December 2017, 2016 and 2015, as extracted from the Financial Statements.

In USD thousand	Three months ended 31 March		Years ended 31 December		
	2018	2017	2017	2016	2015
Saudi Arabia	44,775	44,208	170,822	165,280	184,653
Thailand	29,134	13,542	92,038	57,578	150,531
India	25,336	44,167	114,080	193,202	159,754
United Arab Emirates	20,213	11,897	50,743	78,279	33,349

In USD thousand	Three months ended 31 March		Years ended 31 December		
	2018	**2017**	**2017**	**2016**	**2015**
Nigeria	15,303	17,233	77,857	76,473	195,948
Egypt	3,952	9,741	34,467	49,044	83,069
Other countries.....................	8,797	5,465	31,957	64,461	223,994
Total revenue....................	**147,510**	**146,253**	**571,964**	**684,317**	**1,031,298**

10.9 Independent accountant

The Company's independent auditor is PricewaterhouseCoopers (Dubai branch), with license number 102451, and business address at Emaar Square Building 4, Level 8, Dubai, United Arab Emirates. PwC has been auditor of the Company since its inception in 2012. PwC has been registered with the Norwegian FSA.

The Group's Financial Statements as of 31 December 2017, 31 December 2016 and 31 December 2015 and for the years ended 31 December 2017, 2016 and 2015 which are prepared in accordance with US GAAP included in Appendix B to this Prospectus have been audited by PwC, independent auditors, as stated in their reports appearing herein.

With respect to the unaudited financial information of Shelf Drilling, Ltd. for the three-month periods ended 31 March 2018 and 2017, included in Appendix C, PricewaterhouseCoopers (Dubai branch) reported that they have applied limited procedures in accordance with professional standards for a review of such information. However, their separate report dated 15 May included in Appendix C states that they did not audit and they do not express an opinion on that unaudited financial information. Accordingly, the degree of reliance on their report on such information should be restricted in light of the limited nature of the review procedures applied.

11 OPERATING AND FINANCIAL REVIEW

This operating and financial review should be read together with Section 10 ("Selected Financial and Other Information") and the Financial Statements and Interim Financial Information and related notes included in Appendix B and Appendix C, respectively. The following discussion contains Forward-looking Statements. These Forward-looking Statements are not historical facts, but are rather based on the Group's current expectations, estimates, assumptions and projections about the Group's industry, business and future financial results. Actual results could differ materially from the results contemplated by these Forward-looking Statements because of a number of factors, including those discussed in Section 2 ("Risk Factors") of this Prospectus and Section 4.3 ("Cautionary note regarding Forward-looking ") as well as other sections of this Prospectus.

11.1 Introduction

The Group is an international shallow water offshore drilling contractor engaged in the provision of equipment and services for the drilling, completion and well maintenance of shallow water offshore oil and natural gas wells.

The Group analyzes and report its results of operations in one single reportable segment, contract drilling services. This segment reflects how the Group manages its business and its drilling fleet's dependence on the worldwide oil industry. The drilling rigs operate in a single market for contract drilling services and are deployed globally due to the changing needs of the customers, which largely consist of exploration, development and production oil and gas companies.

11.2 Operations and reporting segments

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 Group evaluates its business based on a number of operational and financial measures it believes are useful in assessing its historical and future performance throughout the commodity price cycles that have characterized the industry since the Group's inception. These operational and financial measures include the following:

Operational measures

Contract backlog: Contract backlog is the maximum contract drilling dayrate revenue that can be earned from a drilling contract based on the contracted operating dayrate less any planned out-of-service periods during the firm contract period for regulatory inspections and surveys or other work. Contract backlog excludes revenue resulting from mobilization and demobilization fees, capital or upgrade reimbursement, recharges, bonuses and other revenue sources. The Group's 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 the Group's 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 the 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 potential future revenue generation.

Uptime: Uptime is the period during which the Group 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 operational efficiency, and is directly related to the Group's current and future revenue and profit generation.

Total recordable incident rate: Total recordable incident rate, or TRIR, is a measure of the rate of recordable workplace injuries. See Section 8.3 ("*Continue to deliver safe, efficient and reliable operations*") for more information on TRIR and the purposes for which TRIR is used.

Marketable rigs: The Group defines marketable rigs as all of its rigs that are operating or are available to operate, which excludes stacked rigs, rigs undergoing reactivation projects, rigs under non-drilling contracts and newbuild rigs under construction.

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

Marketed utilization: Marketed utilization measures the dayrate revenue efficiency of the 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. The Group excludes all other types of revenue from marketed utilization.

The Group's contract backlog at the three months' periods ended 31 March 2018 and 2017, and the years ended December 31, 2017, 2016 and 2015 were as follows:

	Three months ended 31 March		**Years ended 31 December**		
	2018	**2017**	**2017**	**2016**	**2015**
Total contract backlog (1) (in USD millions)	1,161	1,500	1,374	1,743	2,346
Weighted average backlog dayrate (2)(in USD thousands)...................................	78.3	95.0	83.2	96.7	99.4
Average contract days per contracted rig .	549	621	590	721	762
Number of contracted rigs (3)	27	26	28	25	31

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

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 that the Group's contract backlog relates to, as of 31 March 2018, and assumes no exercise of extension options or renegotiations under the current contracts:

In USD million	**2018**	**2019**	**2020**	**Thereafter**	**Total**
Contract backlog..................................	409	414	192	146	1,161

The Group's uptime, TRIR, number of marketable rigs, average dayrate and marketed utilization for the three months ended 31 March 2018 and 2017 and for the years ended 31 December 2017, 2016 and 2015 were as follows:

	Three months ended 31 March		**Years ended 31 December**		
	2018	**2017**	**2017**	**2016**	**2015**
Uptime	98.4%	99.1%	98.8%	98.7%	98.6%
TRIR..	0.17	0.19	0.25	0.25	0.22
IADC average TRIR(1)............................	0.65	0.58	0.54	0.46	0.60
Average marketable rigs	35.0	31.9	33.2	31.2	34.5
Average dayrate (in USD thousands)	70.3	68.5	70.4	75.2	104.3
Marketed utilization	63%	70%	62%	74%	72%

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

Financial measures

In addition to the operational measures discussed above, the Group also uses certain GAAP and non-GAAP financial measures to evaluate the performance of the business. The Group believes the non-GAAP financial measures used are useful in assessing its historical and future performance throughout the commodity price cycles that have characterized the industry since the Group's inception.

Adjusted EBITDA and Adjusted EBITDA margin: Adjusted EBITDA excludes certain items included in net income (loss), the most directly comparable GAAP financial measure. The Company believes that Adjusted EBITDA and Adjusted EBITDA margin are useful non-GAAP financial measures because they are widely used in the 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, the Group's management uses Adjusted EBITDA and Adjusted EBITDA margin in presentations to its board of directors to provide a consistent basis to measure operating performance of the business, as a measure for planning and forecasting overall expectations, for evaluation of actual results against such expectations and in communications with shareholders, lenders, noteholders, rating agencies and others concerning the Group's financial performance. Adjusted EBITDA reflects adjustments for certain items and expenses set forth below that the Group believes affects 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. This financial measure 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 has significant limitations, including not reflecting the Group's cash requirements for capital or deferred costs, acquired rig reactivation costs, contractual commitments, taxes, working capital or debt service.

The Group's financial measures for the three months ended 31 March 2018 and 2017 and the years ended 31 December 2017, 2016 and 2015 were as follows:

	Three months ended 31 March		**Years ended 31 December**		
In USD thousand	**2018**	**2017**	**2017**	**2016**	**2015**
Net loss	(38,517)	(1,534)	(71,210)	(29,836)	(180,002)
Add back:					
Interest expense and financing charges, net of interest income (1)........................	38,777	30,213	82,933	79,764	80,435
Income tax expense	4,658	4,550	14,262	19,757	30,373
Depreciation	21,868	18,369	80,573	71,780	87,421
Amortization of deferred costs	19,008	16,844	64,664	91,763	80,984
Loss on impairment of assets			34,802	47,094	271,469
(Gain) / loss on disposal of assets	(120)	(138)	(839)	4,826	11,299
Amortization of drilling contract intangibles (2)	-	-	-	-	(983)
EBITDA	**45,674**	**68,304**	**205,185**	**285,148**	**380,996**
Sponsor's fee (3)	1,125	1,125	4,500	4,500	4,500
Share-based compensation expense, net of forfeitures	202	220	842	179	638
Acquired rig reactivation costs (4)...........	1,970	-	17,828	-	4,185
Gain on insurance recovery, net of relocation costs (5)................................	-	-	-	-	(18,984)
Start-up costs (6)..................................	-	-	-	-	59
Adjusted EBITDA...............................	**48,971**	**69,649**	**228,355**	**289,827**	**371,394**
Adjusted **EBITDA margin ....**	**33.2%**	**47.6%**	**39.9%**	**42.4%**	**36.0%**

1 Represent interest expenses incurred and accrued on 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 losses on debt extinguishments in relation to debt refinancing in Q1 2017 and Q1 2018.

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 USD 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 USD 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 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 the Group operates, development and set-up costs of the corporate headquarters and other costs associated with the start-up of the business.

11.3 Factors affecting the Group's results of operations

The Group's future results of operations may not be comparable to its historical results of operations for the periods presented, and the following facts should be considered when evaluating the historical results of operations and assessing the Group's prospects.

11.3.1 Changes in the fleet

The Group's future revenue is expected to be impacted by the delivery and operation of the Delivered Newbuild Rigs and the acquisition and the operation of the three 2017 Acquired Rigs. Any other similar or significant transactions, acquisitions, disposals or expenditures involving the Group's fleet would also impact revenue as well as operating and maintenance expenses.

11.3.2 Dayrates and market cycles

The dayrates the Group is able to charge its customers can vary from time to time. To a significant extent, the dayrates depend on where in the market cycle the industry is at a given point in time. Historically, when oil prices decrease, capital spending and drilling activity decline, which leads to an oversupply of drilling rigs and reduced dayrates. Conversely, higher oil prices, increased capital spending and drilling activity and limited supply of drilling rigs have historically led to higher dayrates.

11.3.3 Decreased financing costs

Due to (i) the refinancing in January 2017, (ii) the Private Placement and (iii) the refinancing in February 2018 (the issuance of USD 600.0 million of new 8.25% senior unsecured notes due 2025 and purchase and cancel of the USD 502.8 million of 9.5% senior secured notes due 2020 and USD 30.4 million of 8.625% senior secured notes due 2018), required financing costs are expected to be significantly reduced compared to those in prior periods.

11.3.4 Listed company expenses

Upon completion of the Offering, the Group expects to incur direct, incremental general and administrative expenses as a result of becoming a publicly traded company, including, but not limited to, costs associated with hiring personnel for positions created as a result of the public company status, issuance of annual and interim reports to shareholders, interim tax provision preparation, independent auditor fees, expenses relating to compliance with the rules and regulations of the Norwegian Securities Trading Act, listing standards of the Oslo Stock Exchange and the costs relating to maintaining internal control over financial reporting, investor relations activities, registrar and transfer agent fees, director and officer liability insurance costs and independent director compensation. As a result, the Group's general and administrative expenses will likely increase. The Group will also incur a one-time non-cash charge of up to USD 11.1 million related to the vesting of certain of the Common Shares upon completion of the Offering. See Note 14 "Share-based compensation" to the unaudited consolidated interim financial statements for the three months ended 31 March 2018. These direct, incremental general and administrative expenses are not included in the Group's historical consolidated results of operations. Although general and administration expenses will likely increase, it will no longer incur sponsors' fees of USD 4.5 million per year when it becomes a listed company because the management agreement pursuant to which the fee is payable terminates upon completion of the Offering.

11.4 Recently adopted issued accounting standards

Reference is made to Note 3 of the Financial Statements for a list of recently issued and adopted accounting standards, which may impact the Financial Statements and related disclosures when adopted.

11.5 Recent developments and trends

The business environment for offshore drilling contractors remains challenging with continued pressure on market dayrates, but there are indications in some markets of improving demand for jack-up rig services. Brent crude oil, which declined from a high of USD 115.06/Bbl on 19 June 2014 to a low of USD 27.88/Bbl on 20 January 2016 and was USD 76.9/Bbl on 7 June 2018, is a key driver of exploration, development and production activity by customers. According to Rystad Energy, the contracted jack-up rig count in the rest of the world (excluding the Middle East and India) correspondingly declined by 46.0% from January 2015 to March 2018. During the same time period, however, the Middle East and India, two of the Group's core operating regions, have remained relatively steady, with the Middle East experiencing only a 10.0% decrease and India a 3% increase. These two regions represent a growing share of the contracted jack-up rig market, increasing from a combined 39.0% in 2014 to 49.0% in December 2017. With a leading market position in these two regions, the Group believes this is one of a number of reasons that its average marketed utilization rate has been 9.0% above the shallow water drilling industry average since 2015, according to Rystad Energy[16].

The relatively low breakeven prices and short cycles of shallow water projects promoted their resiliency in recent years as compared to other oil and gas resources, such as North American shale and deepwater projects. Moreover, as the market for offshore drilling services improves, Rystad expects that "brownfield projects," or projects related to infill drilling and workovers, will benefit earlier as compared to "greenfield" exploration and development projects, due to their comparatively attractive breakeven points. The lower-risk and short-cycle of these brownfield projects, and their general location in mature shallow water basins, means that jack-ups are frequently contracted for these projects, and Rystad expects brownfield projects to have a stronger rig demand growth compared to greenfield exploration and development projects. As the Group's core operating regions feature a large proportion of potential brownfield projects, it believes it may benefit earlier in any recovery for contract drilling services than many of its competitors that focus on greenfield exploration and development activities involving resources with higher breakeven points, such as deepwater projects.

While price competition among offshore drilling contractors remains intense, the global number of contracted jack-up rigs has begun to increase, growing by 0.1% per month from December 2016 to June 2018. According to Rystad Energy, there has been a rise in tendering activity in 2018 compared to 2017, which has the potential to result in a further continued increase in the global number of contracted rigs. The Group experienced an increase in market and tender inquiries from its customers in 2017, particularly in the Middle East and other key markets[17]. Oil and gas companies have expressed a high interest during 2017 and the first three months of 2018 in increasing their drilling activity in the Group's core operating regions.

See Section 7.2 ("*Industry trends*") for more information.

11.6 The Group's results of operations for the three months' period ended 31 March 2018 compared with 31 March 2017

The table below sets out selected data from the Group's results of operations for the three months' ended 31 March 2018 and 2017.

	Three months ended 31 March	
In USD thousand	**2018** *(unaudited)*	**2017** *(unaudited)*
Revenues		
Operating revenues	144,604	142,408
Other revenue	2,906	3,845
	147,510	**146,253**
Operating costs and expenses		
Operating and maintenance	90,269	68,549
Depreciation	21,868	18,369
Amortization of deferred costs	19,008	16,844
General and administrative	12,607	9,086
Gain on disposal of assets	(120)	(138)
	143,632	**112,710**
Operating income	**3,878**	**33,543**
Other (expense) / income, net		
Interest income	183	147
Interest expense and financing charges	(38,960)	(30,360)
Other, net	1,040	(314)

[16] Rystad Energy RigCube, 30 May 2018
[17] Rystad Energy RigCube, 30 May 2018

In USD thousand	**Three months ended 31 March** **2018** *(unaudited)*	**2017** *(unaudited)*
	(37,737)	**(30,527)**
(Loss) / income before income taxes	**(33,859)**	**3,016**
Income tax expense	4,658	4,550
Net loss	**(38,517)**	**(1,534)**
Adjusted EBITDA	**48,971**	**69,649**

The Group's results of operations for the three months' ended 31 March 2018 compared with the three months' ended 31 March 2017 are discussed below. The discussion is based on the Interim Financial Information.

11.6.1 Revenues

Total revenue for the three months' period ended 31 March 2018 was USD 147.5 million compared to USD 146.3 million for the three months' period ended 31 March 2017. Revenue for the three months' period ended 31 March 2018 consisted of USD 144.6 million (98.0%) of operating revenue and USD 2.9 million (2.0%) of other revenue. In the three months' period ended 31 March 2017, these same revenues were USD 142.4 million (97.3%) and USD 3.9 million (2.7%), respectively.

Revenue in the three months' period ended 31 March 2018 increased by USD 1.2 million compared to the three months' period ended 31 March 2017 primarily due to USD 25.0 million of higher operating revenue related to the operations of the two Delivered Newbuild Rigs and the three 2017 Acquired Rigs and USD 1.1 million of higher other revenue in the three months' period ended 31 March 2018. This was mostly offset by USD 19.4 million related to lower marketed utilization (63% in the three months' period ended 31 March 2018 compared to 70% in the three months' period ended 31 March 2017), USD 3.6 million related to lower average earned dayrates excluding the two Delivered Newbuild Rigs and the three 2017 Acquired Rigs, and USD 1.9 million lower revenue related to non-drilling activities in the three months' period ended 31 March 2018.

11.6.2 Operating and maintenance expenses

Total operating and maintenance expenses for the three months' period ended 31 March 2018 were USD 90.3 million, or 61.2% of total revenue, compared to USD 68.5 million, or 46.8% of total revenue, for the three months' period ended 31 March 2017. Operating and maintenance expenses in the three months' period ended 31 March 2018 consisted of USD 81.7 million rig-related expenses and USD 8.6 million shore-based expenses. In the three months' period ended 31 March 2017, these same expenses were USD 60.4 million and USD 8.1 million, respectively.

In the three months' period ended 31 March 2018, rig-related expenses included USD 47.5 million for personnel expenses, USD 21.7 million for rig maintenance expenses and USD 12.5 million for other rig-related expenses. This compares to USD 38.9 million, USD 13.3 million and USD 8.2 million for those respective categories during the three months' period ended 31 March 2017. Compared to the three months' period ended 31 March 2017, the increase in rig-related expenses of USD 21.3 million was due to USD 8.8 million of costs for the three premium jack-up drilling rigs acquired in May and September 2017, USD 8.4 million of contract preparation and operating expenses for rigs that were idle in the three months' period ended 31 March 2017 but operating or preparing for new contract in the three months' period ended 31 March 2018, USD 4.9 million of higher rig mobilization costs, USD 3.1 million of increased costs related to the two Delivered Newbuild Rigs rigs and USD 1.7 million higher maintenance and shipyard expenses. This was partly offset by USD 2.8 million lower expenses for stacked and idle rigs awaiting marketing opportunities and USD 2.4 million of cost savings across rigs, primarily due to lower personnel related expenditures and insurance.

There were USD 0.5 million of higher shore-based expenses (a 6.2% increase from the three months' period ended 31 March 2017), primarily attributable to the new shore-based office supporting the operations of two of the three 2017 Acquired Rigs operating in United Arab Emirates.

11.6.3 Depreciation expense

Depreciation expense in the three months' period ended 31 March 2018 was USD 21.9 million compared to USD 18.4 million in the three months' period ended 31 March 2017. The increase of USD 3.5 million primarily related to USD 2.8

million of depreciation for the three recently acquired premium jack-up rigs and USD 1.8 million depreciation for the second Delivered Newbuild Rigs which was placed into service in June 2017.

11.6.4 Amortization of deferred costs

The amortization of deferred costs in the three months' period ended 31 March 2018 was USD 19.0 million compared to USD 16.8 million in the three months' period ended 31 March 2017. The USD 2.2 million increase primarily related to the amortization of contract preparation costs of the three acquired premium jack-up rigs which all started their respective contract in the three months' period ended 31 March 2018.

11.6.5 General and administrative expenses

General and administrative expenses in the three months' period ended 31 March 2018 were USD 12.6 million compared to USD 9.1 million in the three months' period ended 31 March 2017. The USD 3.5 million increase resulted from USD 2.3 million of net releases of provision for doubtful accounts in the three months' period ended 31 March 2017 compared to a provision of USD 0.1 million in the three months' period ended 31 March 2018 and USD 1.1 million of higher other costs.

11.6.6 Gain on disposal of assets

Gain on disposal of assets was USD 0.1 million and USD 0.1 million in the three months' period ended 31 March 2018 and the three months' period ended 31 March 2017, respectively.

11.6.7 Other (expense) / income, net

Other (expense) / income, net was an expense of USD 37.7 million in the three months' period ended 31 March 2018 and USD 30.5 million in the three months' period ended 31 March 2017. Other expense consisted primarily of interest expense and financing charges of USD 39.0 million and USD 30.4 million during the three months' period ended 31 March 2018 and the three months' period ended 31 March 2017, respectively. Interest expense and financing charges in the three months' period ended 31 March 2018 were USD 8.6 million higher compared to the three months' period ended 31 March 2017 primarily due to the USD 4.8 million higher loss on debt extinguishment associated with the refinancing of the Group's debt and USD 3.8 million of higher interest expense primarily related to the Sale and Leaseback Financing facility.

The loss on debt extinguishment for the three months' period ended 31 March 2018 was USD 19.0 million compared to USD 14.2 million for the same period in the three months' period ended 31 March 2017.

Also included in the Other (expense) / income, net is Other, net which was an income of USD 1.0 million in the three months' period ended 31 March 2018 compared to an expense of USD 0.3 million in the three months' period ended 31 March 2017. The difference of USD 1.3 million was mainly due to increased foreign currency exchange gains in the three months' period ended 31 March 2018.

11.6.8 Income tax expense

Income tax expense in the three months' period ended 31 March 2018 was USD 4.7 million compared to USD 4.6 million in the three months' period ended 31 March 2017. While the Group is exempt from all income taxation in the Cayman Islands, a provision for income taxes is recorded based on the tax laws and rates applicable in the jurisdictions in which the Group operates 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 or loss before taxes, (iii) rig movements between taxing jurisdictions and changes in the rig operating structures.

Income tax expense in the three months' period ended 31 March 2018 is higher than in the three months' period ended 31 March 2017 despite having a loss before income taxes in the three months' period ended 31 March 2018 as compared to income before income taxes in the three months' period ended 31 March 2017, primarily due to an increased proportion of expenses in 2018 for which there will be no tax benefit as such expenses are either incurred in jurisdictions which impose tax based on gross revenue rather than on net income or are incurred in jurisdictions in which the Company does not pay tax or which do not allow for a tax deduction for such expenses.

11.7 The Group's results of operations for the year ended 31 December 2017 compared with year ended 31 December 2016

The table below sets out selected data from the Group's results of operations for the years ended 31 December 2017 and 2016.

	Years ended 31 December	
	2017	**2016**
In USD thousand	*US GAAP (audited)*	*US GAAP (audited)*
Revenues		
Operating revenues	556,047	668,649
Other revenue	15,917	15,668
	571,964	**684,317**
Operating costs and expenses		
Operating and maintenance	320,084	353,802
Depreciation	80,573	71,780
Amortization of deferred costs	64,664	91,763
General and administrative	43,726	46,889
Loss on impairment of assets	34,802	47,094
(Gain) / Loss on disposal of assets	(839)	4,826
	543,010	**616,154**
Operating income	**28,954**	**68,163**
Other (expense) / income, net		
Interest income	1,062	356
Interest expense and financing charges	(83,995)	(80,120)
Other, net	(2,969)	1,522
	(85,902)	**(78,242)**
Loss before income taxes	**(56,948)**	**(10,079)**
Income tax expense	14,262	19,757
Net loss	**(71,210)**	**(29,836)**
Adjusted EBITDA	**228,355**	**289,827**

The Group's results of operations for the year ended 31 December 2017 compared with the year ended 31 December 2016 are discussed below. The discussion is based on the Financial Statements.

11.7.1 Revenues

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

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

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 31 December 2016.

11.7.2 Operating and maintenance expenses

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

During 2017, rig-related expenses included USD 162.5 million for personnel expenses, USD 99.0 million for rig maintenance expenses and USD 25.4 million for other rig-related expenses. This compares to USD 188.7 million, USD 95.0 million and USD 33.6 million for those respective categories during 2016. Compared to 2016, the decrease in rig-related expenses of USD 30.4 million was due to USD 36.8 million lower expenses for stacked and idle rigs awaiting marketing opportunities, USD 22.0 million of cost savings across rigs primarily due to lower personnel related expenditures and insurance expenses, USD 5.2 million lower maintenance and shipyard expenses and USD 3.4 million lower other costs. This was partly offset by USD 18.4 million of increased costs related to the two Delivered Newbuild Rigs which started their contracts in December 2016 and June 2017, respectively, and USD 18.6 million of costs for the three premium jack-up drilling rigs acquired in 2017.

There were USD 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.

11.7.3 Depreciation expense

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

11.7.4 Amortization of deferred costs

The amortization of deferred costs in 2017 was USD 64.7 million compared to USD 91.8 million in 2016. The USD 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.

11.7.5 General and administrative expenses

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

11.7.6 Loss on impairment of assets

Loss on impairment of assets was USD 34.8 million in 2017 compared to USD 47.1 million in 2016, on four and three of the Group's 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.

11.7.7 (Gain) / Loss on disposal of assets

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

11.7.8 Other (expense) / income, net

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

The loss on debt extinguishment in 2017 of USD 14.2 million included the USD 15.2 million write-off of unamortized debt issuance costs, USD 5.7 million of incentive fees paid to bondholders and USD 4.1 million legal fees, partly offset by the USD 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 USD 3.0 million in 2017 compared to USD 1.5 million of income in 2016. The difference of USD 4.5 million was mainly due to increased foreign currency exchange losses in 2017. The interest income of USD 1.1 million during 2017 also increased by USD 0.7 million compared to 2016 primarily due to higher interest rates in 2017.

11.7.9 Income tax expense

Income tax expense in 2017 was USD 14.3 million compared to USD 19.8 million in 2016. While the Group is exempt from all income taxation in the Cayman Islands, a provision for income taxes is recorded based on the tax laws and rates applicable in the jurisdictions in which it operates and earns 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 rig operating structures which may alter the basis on which the Group is 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 the Group believes will be repatriated in the foreseeable future, (ii) tax benefits related to an increase in the amount of income tax refunds the Group believes are recoverable in certain jurisdictions primarily due to a favorable court order received during 2017, and (iii) lower revenue for the 2017 period as the Group is taxed in various jurisdictions based on a percentage of gross revenue.

11.8 The Group's results of operations for the year ended 31 December 2016 compared with year ended 31 December 2015

The table below sets out selected data from the Group's results of operations for the years ended 31 December 2016 and 2015.

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

The Group's results of operations for the year ended 31 December 2016 compared with the year ended 31 December 2015 are discussed below. The discussion is based on the Financial Statements.

11.8.1 Revenues

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

The decrease in revenue in 2016 compared to the same period in 2015 was primarily due to USD 230.4 million lower average earned dayrates (USD 75.2 thousand in 2016 compared to USD 104.3 thousand in 2015), USD 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 of the two Delivered Newbuild Rigs that started operations on December 1, 2016), USD 17.6 million lower mobilization revenue amortization in 2016, USD 8.5 million lower recharge revenue across the fleet, USD 8.2 million lower revenue related to contract termination fees and USD 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 31 December 2016. There were 10 rigs for 555 days in shipyard undergoing contract preparation during the year ended 31 December 2016, compared to 12 rigs for 1,355 days during the year ended 31 December 2015.

11.8.2 Operating and maintenance expenses

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

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

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

11.8.3 Depreciation expense

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

11.8.4 Amortization of deferred costs

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

11.8.5 General and administrative expenses

General and administrative expenses were USD 46.9 million for 2016 compared to USD 139.7 million for 2015. The USD 92.8 million decrease in general and administrative expenses primarily resulted from the decrease of USD 87.8 million for the net provision for doubtful debts and USD 6.6 million in cost reductions. The decrease of USD 87.8 million for the net provision for doubtful debts was largely due to the USD 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 USD 1.6 million for transaction costs recognized in 2016 relating to the refinancing of the Group's debt structure which closed on 12 January 2017.

11.8.6 Loss on impairment of assets

Loss on impairment of assets was USD 47.1 million for 2016 related to three rigs, of which one rig was impaired to salvage value, compared to USD 262.1 million for 2015 related to 13 rigs, of which five rigs were impaired to salvage values. Additionally, in 2015, the Group wrote off USD 9.3 million goodwill associated with the 2012 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.

11.8.7 Loss on disposal of assets

Loss on disposal of assets was USD 4.8 million and USD 11.3 million for 2016 and 2015, respectively. The USD 6.5 million decrease in loss on disposal of assets primarily resulted from the decrease of USD 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 USD 1.1 million higher loss on retirement in 2016 related to the sale of two rigs that were stacked since the 2012 Acquisition.

11.8.8 Gain on insurance recovery

Gain on insurance recovery was USD 0 and USD 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 the Group's rigs that resulted in the rig being declared a total constructive loss by the insurance underwriters.

11.8.9 Other (expense) / income, net

Other income and expense was USD 78.2 million for 2016 and USD 81.3 million for 2015. Other expense consisted primarily of interest expense and financing charges of USD 80.1 million and USD 80.5 million for 2016 and 2015, respectively. Interest expense and financing charges were related to the Group's 8.625% Notes, the term loan, the revolver and Sale and Leaseback Financing. Other, net were USD 1.5 million of income for 2016 compared to USD 0.9 million of expenses for 2015.

11.8.10 Income tax expense

Income tax expense was USD 19.8 million for 2016 compared to USD 30.4 million for 2015. While the Group is exempt from all income taxation in the Cayman Islands, a provision for income taxes is recorded based on the tax laws and rates applicable in the jurisdictions in which the Group operates and earn income or in which it is considered resident for income tax purposes. The relationship between the provision for or benefit from income taxes and the income or loss before income taxes can vary significantly from period to period considering, among other factors, (i) the overall level of income before income taxes, (ii) changes in the blend of income that is taxed based on gross revenue rather than income before taxes, (iii) rig movements between taxing jurisdictions and (iv) changes in rig operating structures. The primary reason for the decrease in income tax expense for 2016 compared to 2015 is that the Group's overall taxable income (excluding loss on impairment of assets) decreased significantly in 2016 as compared to 2015 primarily due to reduced revenue in 2016 as compared to 2015.

11.9 Liquidity and capital resources

11.9.1 General

Historically, the Group has met its liquidity needs principally from cash balances in banks, cash generated from operations, availability under the Group's SDHL Revolver and the Sale and Leaseback Financing of the Delivered Newbuild Rigs. The Group's 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.

The Group had USD 120.6 million and USD 84.6 million in cash and cash equivalents as of 31 March 2018 and 31 December 2017, respectively. As the majority of the Group's contracts are in USD, the Group holds a major part of its cash in this currency. Under the SDHL Revolver, the Group had USD 3.5 million and USD 12.3 million of surety bonds issued as of 31 March 2018 and 31 December 2017, respectively. In addition, there were no cash borrowings under the SDHL Revolver during the same periods. There are certain limitations which restrict the Company’s ability to draw down the available balance of the SDHL Revolver. At the time of borrowing and immediately after giving effect to that borrowing, the aggregate amount of unrestricted cash and cash equivalents cannot exceed USD 25 million, after including the impact of the application of the cash and cash equivalents to be used for a permitted purpose within 30 days.

As of 31 March 2018 and 31 December 2017, the Company had USD 25 million and nil borrowings under the SDA facility. The outstanding bank guarantees under the uncommitted guarantee facility were USD 8.1 million and nil as of 31 March 2018 and 31 December 2017, respectively.

The Group may consider establishing additional financing arrangements with banks or other capital providers. Subject in each case to then existing market conditions and then-expected liquidity needs, among other factors, the Group may use a portion of its 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, the Group may require a significant portion of cash on hand and amounts available under the SDHL Revolver for working capital and other needs related to the operation of the Group's business.

The Board of Directors believe that the Group will have adequate liquidity to fund its operations over the next twelve months from the Listing.

11.9.2 Cash flows for the three months' period ended 31 March 2018 compared to 31 March 2017

The table below sets out the primary components of the Group's statement of cash flows for the three months' period ended 31 March 2018 and 2017.

In USD thousand	Three months ended 31 March 2018	Three months ended 31 March 2017
Net cash (used in) / provided by operating activities	(9,627)	2,963
Net cash used in investing activities	(9,018)	(7,225)
Net cash provided by / (used in) financing activities	54,100	(128,353)
Net increase / (decrease) in cash, cash equivalents and restricted cash	**35,455**	**(132,615)**

Net cash provided by operating activities

Net cash (used in) / provided by operating activities was USD (9.6) million for the three months' period ended 31 March 2018 compared to USD 3.0 million for the three months' period ended 31 March 2017. The decrease of USD 12.6 million was primarily due to the overall decline in the Group's drilling business activity and cash payments associated with the Group's debt refinancing. See Section 11.6 ("*The Group's results of operations for the three months' period ended 31 March 2018 compared with 31 March 2017*") for more information about operating costs.

During the three months' periods ended 31 March 2018 and 2017, the Group made cash payments of USD 20.0 million and USD 24.3 million in interest and financing charges, respectively, net of interest amounts capitalized of nil and USD 1.6 million in relation to the two new build high specification jack-up rig constructions, 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.

The Group also made cash payments of USD 3.7 million and USD 3.0 million in income taxes included under "other operating assets and liabilities, net" during the three months ended March 31, 2018 and 2017, respectively.

Net cash used in investing activities

Net cash used in investing activities for the period ended 31 March 2018 was USD 9.1 million compared to USD 7.2 million for the period ended 31 March 2017.

Cash used for capital expenditures, including capitalized interest was USD 9.3 million for the period ended 31 March 2018 and USD 7.4 million for the period ended 31 March 2017.

As part of the Sale and Leaseback Financing, interest in kind of USD 1.0 million was recorded as capitalized interest and obligation under Sale and Leaseback Financing for the three months' period ended 31 March 2017. This non-cash transaction was not reflected in the condensed consolidated interim statements of cash flows for the three months' period ended 31 March 2017. There were no such transactions during the three months' period ended 31 March 2018.

Net cash provided by / (used in) in financing activities

Net cash provided by / (used in) financing activities was USD 54.1 million for the three months' period ended 31 March 2018 compared to USD (128.4) million for the three months' period ended 31 March 2017.

In February 2018, the Group completed the issuance of a USD 600.0 million principal amount of 8.25% senior unsecured notes issued at par. The Group used the net proceeds of USD 589.3 million to fully settle the USD 502.8 million of the 9.5% senior secured notes and USD 30.4 million of the 8.625% senior secured notes, or such notes redemption provisions. As a result of the debt extinguishment, the Group recognized a loss of USD 19.0 million which included the premiums of USD 12.2 million and USD 6.3 million in write-off of unamortized debt issuance costs, and professional fees of USD 0.5 million. The write-off of unamortized debt issuance costs was reflected as non-cash transaction and included in cash provided by operating activities.

On 27 March 2018, the Company drew USD 25 million under the SDA Facility, used to fund the upgrade and capital expenditure costs for two of the recently acquired premium jack-up drilling rigs. The loan is due in four equal installments with a maturity date at 31 March 2020.

During the three months' period ended 31 March 2017, in connection with the refinancing of certain of the Group's debt, the Group used USD 28.5 million of cash to partially pay for the exchange and cancellation of the USD 444.6 million 8.625% senior secured notes due November 2018 and USD 85.8 million in cash for the partial settlement of the USD 350 million term loan entered into on October 8, 2013, which was fully settled and cancelled. This resulted in total payments of long-term debt of USD 114.3 million, partially offset by the original discount of USD 10.5 million of cash provided by operating activities. In addition to the 2017 refinancing of certain of the Group's debt, USD 166.7 million of the Preferred Shares were issued to certain equity sponsors and USD 86.8 million of 9.5% senior secured notes were issued for the full settlement of the USD 350 million term loan, and USD 416.1 million of the 8.625% senior secured notes were cancelled in exchange for the 9.5% senior secured notes. As a result, the Group issued a total of USD 502.8 million of the 9.5% senior secured notes during 2017. These non-cash transactions are not reflected in the condensed consolidated interim statement of cash flows for the three months' period ended 31 March 2017.

During the three months' period ended 31 March 2018, the Group paid a total of USD 9.7 million of debt issuance costs and of USD 12.5 million of debt extinguishments costs compared to USD 10.4 million and USD 9.8 million for the three months' period ended 31 March 2017. Further, for the three months' period ended 31 March 2017, the Group paid USD 0.7 million of share issuance costs for the issuance of the Preferred Shares.

The Group paid USD 8.9 million and USD 1.0 million of preferred dividends during the three months' periods ended 31 March 2018 and 2017, respectively.

The Group made rental payments to the Lessor of USD 13.2 million and USD 4.2 million, of which USD 8.7 million and USD 2.8 million were related to principal payments during the three months' periods ended 31 March 2018 and 2017, respectively, for the new build high specification jack-up rig constructions which entered into capital leases in December 2016 and June 2017, respectively.

Net increase / (decrease) in cash, cash equivalents and restricted cash

Net increase / (decrease) in cash, cash equivalents and restricted cash was USD 35.5 million for the three months' period ended 31 March 2018 compared to USD (132.6) million for the three months' period ended 31 March 2017. The net increase / (decrease) in cash, cash equivalents and restricted cash is the sum of (i) net cash provided by / (used in) in financing activities, (ii) net cash used in investing activities and (iii) net cash provided by operating activities, and the USD 35.5 million increase for the three months' period ended 31 March 2018 compared to USD (132.6) million decrease for the three months' period ended 31 March 2017 are therefore a result of what has been explained in the three subsections above.

11.9.3 Cash flows for the year ended 31 December 2017 compared to 31 December 2016

The table below sets out the primary components of the Group's statement of cash flows for the years ended 31 December 2017 and 2016.

	Years ended 31 December	
In USD thousand	**2017**	**2016**
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 USD 41.8 million in 2017 compared to USD 136.5 million in 2016. The decrease of USD 94.7 million was primarily due to the cash payments associated with the Group's debt refinancing and the overall decline in its drilling business activity. See discussion of revenue in Section 11.7.1 ("*The Group's results of operations for the year ended 31 December 2017 compared with year ended 31 December 2016 - Revenues*") for more information about operating costs.

During the years ended 31 December 2017 and 2016, the Group made cash payments of USD 77.4 million and USD 73.0 million in interest and financing charges, respectively, net of interest amounts capitalized of USD 2.5 million and USD 10.7 million in relation to the new build high specification jack-up rig constructions, 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.

The Group also made cash payments of USD 18.2 million and USD 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 USD 7.9 million in 2017 compared to 2016 was 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 USD 237.4 million compared to USD 35.6 million in 2016. The Group's primary use of cash for investing activities in 2017 included USD 253.8 million of additions to property and equipment and a USD 6.0 million increase in restricted cash, partially offset by the USD 16.9 million paid to the Group by the lessor under the Sale and Leaseback Financing for costs incurred on one of the Delivered Newbuild Rigs.

Cash used for capital expenditures, including capitalized interest, amounted to USD 253.8 million in 2017 and USD 53.5 million in 2016. The increase of USD 200.3 million in 2017 compared to 2016 was primarily attributable to the USD 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 new build high specification jack-up rig constructions and reduced capital spending initiatives across the fleet during 2017.

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

Net cash provided by / (used in) financing activities

Net cash provided by financing activities totalled USD 67.1 million in 2017 compared to net cash used in financing activities of USD 3.5 million in 2016. In April 2017, the Group completed the private placement of 28,125,000 new Common Shares at a price of USD 8.00 per share for total gross proceeds of USD 225.0 million. These proceeds were used to acquire the three premium jack-up drilling rigs from Seadrill for USD 75.4 million each. Two of the rigs were delivered in May 2017 and the third rig was delivered in September 2017.

In connection with the refinancing of certain of the Group's debt in January 2017, the Group used USD 28.5 million of cash to partially pay for the exchange and cancellation of the USD 444.6 million 8.625% senior secured notes due November 2018 and USD 85.8 million in cash for the partial settlement of the USD 350 million term loan, which was fully settled and cancelled. This resulted in total payments of long-term debt of USD 114.3 million, partially offset by the original discount of USD 10.5 million of cash provided by operating activities.

In addition to the refinancing of certain of the Group's debt, USD 166.7 million of the Preferred Shares were issued to certain of the Sponsors and USD 86.8 million 9.5% senior secured notes were issued for the full settlement of the USD 350 million term loan, and USD 416.1 million 8.625% senior secured notes were cancelled in exchange for 9.5% senior secured notes. As a result, the Group issued a total of USD 502.8 million 9.5% senior secured notes during 2017. These non-cash transactions were not reflected on the consolidated statement of cash flows for 2017.

During the year ended 31 December 2017, the Group incurred USD 10.9 million of legal and other related fees for the refinancing transaction, of which USD 10.4 million were capitalized as debt issuance costs and USD 0.5 million were recorded as loss on debt extinguishment and included in “interest expense and financing charges” in the Group's consolidated statement of operations.

During the year ended 31 December 2017, the Group paid a total of USD 8.5 million related to shares issuance costs, of which USD 7.8 million related to the issuance cost of the new Common Shares and USD 0.7 million was for the issuance of the Preferred Shares. There were no such transactions for the same period in 2016. The Group made rental payments to the Lessor of USD 37.2 million and USD 2.7 million, of which USD 24.8 million and USD 1.8 million was related to principal payments during the years ended 31 December 2017 and 31 December 2016, respectively, for the new build high specification jack-up rig constructions which entered into capital leases in December 2016 and June 2017, respectively.

11.9.4 Cash flows for the year ended 31 December 2016 compared to 31 December 2015

The table below sets out the primary components of the Group's statement of cash flows for the years ended 31 December 2017 and 2016.

	Years ended 31 December	
In USD thousand	**2016**	**2015**
Net cash provided by operating activities	136,532	133,013
Net cash used in investing activities	(35,592)	(107,513)
Net cash provided by / (used in) financing activities	(3,486)	(861)
Net (decrease) / 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 USD 136.5 million, from USD 133.0 million in 2015. The increase of USD 3.5 million, or 2.6%, was primarily driven by the variance of the 2016 results of operations compared to 2015.

The Group made cash payments of USD 73.0 million and USD 68.9 million in interest during the years ended 31 December 2016 and 2015, respectively (net of interest amounts capitalized of USD 10.7 million and USD 7.6 million, respectively, in relation to the construction of the Group's Delivered Newbuild Rigs).

The Group also made cash payments of USD 26.1 million and USD 40.7 million in income taxes during the years ended 31 December 2016 and 2015, respectively. The decrease of USD 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 USD 35.6 million compared to USD 107.5 million in 2015. The Group's primary uses of cash in investing activities for 2016 included USD 53.5 million for the construction, enhancement and other improvement of the Group's drilling rigs, and USD 0.4 million increase in restricted cash. This was partially offset by USD 16.9 million paid to the Group by the Lessor under the Sale and Leaseback Financing for costs incurred on one of the Delivered Newbuild Rigs rig and USD 1.5 million proceeds from disposal of property and equipment.

Cash used for capital expenditures, including capitalized interest, amounted to USD 53.5 million in 2016 and USD 157.2 million in 2015. The decrease of USD 103.7 million was mainly due to USD 18.5 million milestone payments made by the Group in 2015 related to the Delivered Newbuild Rigs, lower expenditures on rig reactivation activity, and reduced capital spending across the Group's fleet in 2016.

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

Net cash used in financing activities

The Group used USD 3.5 million and USD 0.9 million of net cash in 2016 and 2015, respectively. In 2016, the Group made rental payments of USD 1.8 million for the one of the Delivered Newbuild Rigs held under capital lease and USD 1.7 million payments for the repurchase of shares under the Group's share-based compensation plan. In 2015, the Group incurred USD 0.6 million payments for debt issuance costs and USD 0.3 million payments for the retirement and repurchase of ordinary shares.

11.9.5 Assets and liabilities

The table below sets forth the total assets and total liabilities for the Group as of 31 March 2018 and as of 31 December 2017 and 2016 and is extracted from the Financial Information, for each of the financial periods presented.

	As of 31 March	**As of 31 December**	
	2018	**2017**	**2016**
(In USD thousands)	*(unaudited)*	*(audited)*	*(audited)*
Total current assets	347,536	319,308	433,686
Property and equipment, net	1,232,882	1,249,990	1,030,676
Total assets	**1,688,302**	**1,682,950**	**1,585,940**
Total current liabilities	**161,604**	**210,282**	**135,020**
Total long-term liabilities	**894,754**	**797,444**	**1,071,466**

As of 31 March 2018 compared to as of 31 December 2017

The Group's total assets increased by USD 5,352 thousand from USD 1,682,950 thousand as of 31 December 2017, to USD 1,688,302 thousand as of 31 March 2018, primarily as a result of an increase in cash and cash equivalents (primarily due to the issuance of the 8.25% Senior Unsecured Notes), offset by a decrease in accounts and other receivables, net (primarily due to timing of collections) and property and equipment, net (primarily due to depreciation expense).

The Group's total current liabilities decreased by USD 48,678 thousand from USD 210,282 thousand as of 31 December 2017, to USD 161,604 thousand as of 31 March 2018, primarily as a result of full payment of the 8.625% Senior Secured Notes and the decrease in accounts payable (primarily due to timing of payments).

The Group's total long-term liabilities increased by USD 97,310 thousand from USD 797,444 thousand as of 31 December 2017, to USD 894,754 thousand as of 31 March 2018, primarily as a result of issuance of the 8.25% Senior Unsecured Notes and the Senior Secured Credit Facility, partially offset by the full payment of the 9.5% Senior Secured Notes.

As of 31 December 2017 compared to as of 31 December 2016

The Group's total assets increased by USD 97,010 thousand from USD 1,585,940 thousand as of 31 December 2016, to USD 1,682,950 thousand as of 31 December 2017, primarily as a result of the increase in property and equipment, net (primarily due to the purchase of the three premium jack-up rigs), partially offset by a decrease in cash (primarily due to the costs related to the January 2017 refinancing).

The Group's total current liabilities increased by USD 75,262 thousand from USD 135,020 thousand as of 31 December 2016, to USD 210,282 thousand as of 31 December 2017, primarily as a result of increase in current maturities of long-term debt and the increase in accounts payable (primarily due to timing of payments).

The Group's total long-term liabilities decreased by USD 274,022 thousand from USD 1,071,466 thousand as of 31 December 2016, to USD 797,444 thousand as of 31 December 2017, primarily as a result of the January 2017 refinancing.

11.9.6 Financing arrangements

11.9.6.1 General

The Group's financing arrangements as of 31 March 2018 were (i) USD 600 million 8.25% senior unsecured notes due 2025 (the "8.25% Notes"), (ii) a USD 160 million revolving credit facility (the "**SDHL Revolver**") with HSBC Bank PLC and RBC Capital Markets, (iii) a EGP 90 million unsecured overdraft facility (the "**Overdraft Facility**") and (iv) a USD 75 million senior secured credit facility (the "**SDA Facility**"). As described in Section 11.9.6.6 below, the Company has secured the "New SDHL Revolver" which will replace the current SDHL Revolver.

On 5 June 2018, SDHL launched and priced a USD 300 million tap issue under the 8.25% Notes, which is expected to close on 19 June 2018, subject to customary closing conditions, and thereby increasing the outstanding amount under the 8.25% Notes to USD 900 million (the "**Tap Issue**"). The Group will receive net proceeds of approximately USD 296.6 million from the Tap Issue. Approximately USD 25 million of the net proceeds is planned to be used to repay the SDA Facility in full. The remaining part of the net proceeds, is planned to, together with a cash payment, be used to repay the Sale and Leaseback Financing facility from Hai Jiao 1502 Limited and Hai Jiao 1503 Limited, wholly owned subsidiaries of Industrial and Commercial Bank of China Limited (the "**Sale and Leaseback Financing**") in full by an estimated payment of USD 299.4 million, which includes the call premium related to the repayment of approximately USD 5.9 million. The Group has issued a notice for the termination and repayment of the Sale and Leaseback Facility, and expects that the termination and repayment will take place on or about 9 July 2018.

As of 31 March 2018, the Company had a total indebtedness of USD 932.4 million. This included USD 600 million of 8.25% Notes, USD 25 million under the SDA Facility, USD 2.1 million under the Overdraft Facility and USD 305.3 million in obligations under the Sale and Leaseback Financing.

The following is an overview of the Group's current and non-current indebtedness as of 31 March 2018:

In USD thousand

Bank	**Interest Repayments**	**Interest rate**	**Secured / guaranteed**	**Total outstanding**
8.25% Notes	Semi-annually	8.25%	Guaranteed	600,000
SDHL Revolver	Semi-annually	At SDHL's option (i) LIBOR plus 5% per annum or (ii) Alternate Base Rate (as defined in the SDHL Revolver) plus 5% per annum	Secured	-
SDA Facility	Quarterly	LIBOR plus 5% per annum	Secured	25,000
Sale and Leaseback Financing	Monthly	LIBOR plus 4% per annum	Secured	305,271
Overdraft Facility	Monthly	Central Bank of Egypt Mid Corridor rate plus 3%	Unsecured	2,159
Total				**932,430**

The following is an overview of the Group's current and non-current loans as of 6 June 2018, reflecting the Tap Issue:

In USD thousand

Bank	**Interest Repayments**	**Interest rate**	**Secured / guaranteed**	**Total outstanding**	**Unutilized facility**
8.25% Notes	Semi-annually	8.25%	Guaranteed	900,000	-
SDHL Revolver3	Semi-annually	At SDHL's option (i) LIBOR plus 5% per annum or (ii) Alternate Base Rate (as defined in the SDHL Revolver) plus 5% per annum	Secured	-	148,428
SDA Facility2	Quarterly	LIBOR plus 5% per annum	Secured	25,000	-
Sale and Leaseback Financing1)	Monthly	LIBOR plus 4% per annum	Secured	296,517	-
Overdraft Facility	Monthly	Central Bank of Egypt Mid Corridor rate plus 3%	Unsecured	1,356	3,675
Total				**1,222,873**	**152,103**

1) The Sale and Leaseback Financing is planned to be terminated and repaid on or about 9 July 2018 by using proceeds from the Tap Issue combined with a cash payment.

2) The SDA Facility is planned to be repaid on or about 19 June 2018 by using proceeds from the Tap Issue.

3) The SDHL Revolver will be replaced by the New SDHL Revolver on or about 19 June 2018 (subject to certain customary conditions precedent), with availability of USD 225 million. The unutilized facility is anticipated to be approximately USD 213.4 million (after consideration of USD 11.6 million of guarantees continued from the SDHL Revolver).

11.9.6.2 8.25% Notes

On 7 February 2018, Shelf Drilling Holdings, Ltd. ("**SDHL**") completed the issuance of USD 600.0 million of new 8.25% Senior Unsecured Notes due 2025 issued at par. SDHL received net proceeds of USD 589.3 million, after deduction of the USD 10.7 million of fees and expenses which are capitalized and amortized over the life of the debt.

The Company used the net proceeds to purchase and cancel or redeem USD 502.8 million of 9.5% Senior Secured Notes and USD 30.4 million of 8.625% Senior Secured Notes, or such notes redemption provisions. Interest on the 8.25% Senior Unsecured Notes accrues from 7 February 2018 at a rate of 8.25% per year and is payable semi-annually in arrears on 15 February and 15 August of each year, beginning 15 August 2018.

On 5 June 2018 SDHL launched and priced the USD 300 million Tap Issue, whereby the outstanding amount under the 8.25% Notes will be increased to USD 900.0 million on or about 19 June 2018. SDHL will receive net proceeds of USD 296.6 million from the Tap Issue, after deduction of USD 5.6 million of fees and expenses. The proceeds from the Tap Issue is planned to be used to repay the SDA Facility on 19 June 2018 and, combined with a cash payment, repay the Sale and Leaseback Financing on or about 9 July 2018.

SDHL's obligations under the 8.25% Senior Unsecured Notes are guaranteed by a majority of SDHL's subsidiaries (collectively, the "Note Guarantors"), subject to certain exceptions. The notes and the note guarantees will be SDHL's and the Note Guarantors' senior unsecured obligations and will:

- rank senior in right of payment to any of SDHL's and the Note Guarantors' existing and future subordinated indebtedness, if any;
- rank pari passu in right of payment with all existing and future senior unsecured indebtedness of SDHL and the Note Guarantors;
- be effectively subordinated to all existing and future secured indebtedness of SDHL and the Note Guarantors, to the extent of the value of the assets securing such indebtedness; and
- be structurally subordinated to all existing and future indebtedness, including the SDA Facility and the Sale and Leaseback Financing, preferred stock and other liabilities, including trade payables, of any non-guarantor subsidiaries of SDHL.

At any time prior to 15 February 2021, SDHL is entitled to redeem the notes, in whole or in part at a price equal to 100% of the principal amount plus accrued and unpaid interest and the Applicable Premium (as defined in the indenture). SDHL may also redeem the notes of up to 35% of the aggregate principal amount at a redemption price of 108.25% plus accrued and unpaid interest from the net cash proceeds from one or more qualified equity offerings.

On or after 15 February 2021, SDHL may redeem the 8.25% Senior Unsecured 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**
Between February 15, 2021 and February 14, 2022	106.188%
Between February 15, 2022 and February 14, 2023	104.125%
Between February 15, 2023 and February 14, 2024	102.063%
On or after February 15, 2024	100.000%

If SDHL experiences a change of control, as defined in the indenture governing the 8.25% Senior Unsecured Notes, and a decrease in the rating of the 8.25% Senior Unsecured Notes by both Moody's Investors Services and Standard & Poor's Financial Services LLC by one or more gradations, it must offer to repurchase the 8.25% Senior Unsecured Notes at an offer price in cash equal to 101% of their principal amount, plus accrued and unpaid interest. A change of control is generally (i) the sale or disposition, in one or a series of related transactions, of all or substantially all of the properties and assets of the Company to a third party, (ii) the adoption of a plan of liquidation or dissolution of the Company, or (iii) any person or group (as defined in the indenture) becomes the owner, directly or indirectly, of more than 50% of the total voting power of the company’s capital stock.

There are no financial covenants required to be tested under the 8.25% Notes.

11.9.6.3 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. All borrowings under the SDHL Revolver mature on 30 April 2020, and letters of credit and bank guarantees issued under the SDHL Revolver expire no later than five business days prior to 30 April 2020. The Company issued bank guarantees and performance bonds totaling USD 12.3 million as of 31 December 2017, against the SDHL Revolver. As of 31 December 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. At the time of borrowing and immediately after giving effect to that borrowing, the aggregate amount of unrestricted cash and cash equivalents cannot exceed USD 25 million, after including the impact of the application of the cash and cash equivalents to be used for a permitted purpose within 30 days.

Additionally, the SDHL Revolver requires that SDHL and the Guarantors 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 March 31, 2018 and December 31, 2017.

All of the Group's rigs, except for Shelf Drilling Chaophraya, Shelf Drilling Krathong, Shelf Drilling Tenacious and Shelf Drilling Mentor, are provided as security under the SDHL Revolver.

The SDL Revolver has a change of control provision similar to the change of control provision in the 8.25% Notes, provided, however that mergers and/or consolidations are not permitted unless SDHL and its subsidiaries (acting as guarantors) survive such merger or consolidation.

There is also a dividend restriction under the SHDL Revolver, which applies to SDHL and other Group companies defined as "Guarantors and/or Restricted Subsidiaries". Payment of dividends is permitted in a number of defined circumstances and generally subject to fulfillment of a minimum liquidity requirement and a total net leverage ratio not exceeding 3.0:1.0, in an aggregate amount not to exceed a defined available amount, linked to 50% of consolidated net income.

The SDHL Revolver is expected to be replaced by the New SDHL Revolver on or about 19 June 2018.

11.9.6.4 SDA Facility

On 21 December 2017, Shelf Drilling Asset III, Ltd. ("**SDAIII**"), a wholly owned subsidiary of the Company, entered into a USD 75 million senior secured credit facility (the SDA Facility). The SDA Facility includes a USD 50 million uncommitted guarantee line, which can be used for issuing bank guarantees, and a USD 25 million term loan facility, which can be used to fund the upgrade and capital expenditure costs for two of the recently acquired premium jack-up drilling rigs. The term loan facility was fully drawn as of 31 March 2018 and the SDA Facility matures on 31 March 2020. The SDA Facility is secured by a majority of the assets by way of share pledge charge of the common shares of Shelf Drilling Asset III, Ltd. the owner of such assets. Additionally, Shelf Drilling Intermediate, Ltd. has provided a parent guarantee.

The SDA Facility requires a total net leverage ratio (consolidated net debt to consolidated EBITDA, as defined in the SDA Facility) not to exceed 4:1 and is 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 was in compliance with both of these financial covenants as of 31 December 2017.

The SDA Facility is expected to be repaid and cancelled on or about 19 June 2018.

11.9.6.5 Unsecured Overdraft Facility

On 26 April 2017, Shelf Drilling Egypt Limited, a wholly owned subsidiary of the Company, entered into a USD 5 million equivalent of foreign currency (Egyptian Pound 90 million) unsecured and uncommitted credit facility. The facility is available in foreign currency to finance the subsidiary's running expenses, overheads and payments to suppliers. There are no financial covenants required to be tested under this facility.

11.9.6.6 New SDHL Revolver

The Group has secured a new revolving credit facility in the amount of USD 225 million from HSBC Bank PLC, RBC Capital Markets, DNB Bank ASA, ING and Credit Suisse (the "**New SDHL Revolver**"). The New SDHL Revolver is anticipated to be effective on or about 19 June 2018, subject to customary conditions precedent being fulfilled. The New SDHL Revolver will replace the SDHL Revolver. Following this, the Company expects to have an amount of USD 213.4 million remaining available under the New SDHL Revolver. The New SDHL Revolver will be made available materially on the same terms and conditions, including covenants, as the SDHL Revolver, as further described in Section 11.9.6.3, provided that the New SDHL Revolver matures on 30 April 2023 and that all of the Company's rigs will serve as security under the facility.

11.9.6.7 Preferred Shares

On 12 January 2017, the Company issued 1,000,000 Preferred Shares at USD 166.67 per share for a value of USD 166.67 million to two of the Sponsors. The Preferred Shares are redeemable at the option of the Company at the Liquidation Preference (as described in Section 14.3.1.1) 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 or exit event (see Section 14.3.1.1 for a further description). 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 31 January and 31 July ("**Preferred Share Dividend Payment Date**"). 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. As further described in Section 14.3.1.1, the dividend rate on the Preferred Shares will increase by 0.5% on 1 August 2020 and by 0.5% on the day following every Preferred Share Dividend Payment Date thereafter.

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 the Company's shareholders up to the Liquidation Preference.

The Preferred Shares will not be listed on the Oslo Stock Exchange in connection with the Listing.

From 1 August 2020 the Preferred Shares are convertible into Common Shares in the Company, as described in Section 14.3.1.2.

In the event that the maximum amount of gross proceeds (i.e. USD 250 million) is raised by the Company through the Offering, the Company will use approximately USD 175 million of the net proceeds from the New Securities to redeem the Preferred Shares in full, including accrued but unpaid dividend. In the event that a lower amount of gross proceeds is raised by the Company through the Offering, the Company may, but will not necessarily, reduce the redemption down to a minimum of 50% of the Preferred Shares through a payment of approximately USD 87.5 million, including accrued but unpaid dividend, to the holders of the Preferred Shares and maintain the remaining 50% of the Preferred Shares outstanding on the terms as further described in Section 14.3.1.1.

Provided that the Company redeems 50% of the Preferred Shares, the Company will have USD 83.34 million in outstanding Preferred Shares (500,000 Preferred Shares), and the dividend payment obligations on such Preferred Shares for the next five years are as set out in the table below.

In USD thousands	**Dividend payment**
31 July 2018[1)]	4,595
31 January 2019[2)]	4,939
31 July 2019[3)]	4,957
31 January 2020[4)]	5,111
31 July 2020[5)]	5,085
31 January 2021[6)]	5,355
31 July 2021[7)]	5,474
31 January 2022[8)]	5,775
31 July 2022[9)]	5,892
31 January 2023[10)]	6,206
Total	**53,389**

1) Based on 1,9662% 6M LIBOR

2) Based on an estimated 2,5960% 6M LIBOR

3) Based on an estimated 2,8300% 6M LIBOR

4) Based on an estimated 3,0000% 6M LIBOR

5) Based on an estimated 3,0700% 6M LIBOR

6) Based on an estimated 3,0720% 6M LIBOR

7) Based on an estimated 3,0650% 6M LIBOR

8) Based on an estimated 3,0580% 6M LIBOR

9) Based on an estimated 3,0620% 6M LIBOR

10) Based on an estimated 3,0720% 6M LIBOR

See Section 14.3.1 ("*Preferred Shares*") for further details related to the Preferred Shares.

11.9.6.8 Sale and Leaseback Financing

On 8 June 2018, the Group issued a termination notice for the Sale and Leaseback Financing. The termination period is 90 days, however it is expected to change to 30 days, and the Group anticipates to repay the Sale and Leaseback Financing in full on or about 9 July 2018 against a payment of approximately USD 299.4 million, which includes the call premium related to the repayment of approximately USD 5.9 million. The Sale and Leaseback Financing is planned to be repaid by using approximately (i) USD 272.4 million of the remaining proceeds from the Tap Issue and (ii) a cash payment of USD 27.0 million, of which USD 13 million will be restricted cash currently deposited with the lenders under the Sale and Leaseback Financing.

The background and terms of the planned terminated Sale and Leaseback Financing are set out below.

On 10 October 2015, the Lessee entered the USD 330 million Sale and Leaseback Financing with the Lessor for the financing of the Delivered Newbuild Rigs. On 8 June 2018 the Group issued a termination notice for the Sale and Leaseback Facility.

As a part of the Sale and Leaseback Facility, the Group is, under the Bareboat Charter Agreements, required to pay a rent with variable and fixed payment components from the charter hire accrual dates, as defined in the lease contract, through its expiry dates of 28 December 2021 and 5 July 2022 at which time the Lessee will have the obligation to acquire the Delivered Newbuild Rigs from the Lessor for USD 82.5 million each (the "**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 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 31 March 2018, the Company was in compliance with all abovementioned requirements.

Both the Delivered Newbuild Rigs serve as security under the Sale and Leaseback Financing.

11.9.6.9 Contractual obligations

The following table presents the maturity profile of the Group's loan facilities, including interest payments and SDHL Revolver commitment fees, as of 31 March 2018.

In USD thousand	Outstanding as of 31 March 2018	Instalments due				
		Remainder of 2018	2019	2020	2021	Thereafter
8.25% Notes	600,000	26,125	49,500	49,500	49,500	754,550
SDHL Revolver	-	2,054	2,739	913	-	-
SDA Facility	25,000	7,596	13,452	6,368	-	-
Sale and Leaseback Financing	305,271	40,756	52,884	50,994	130,418	94,255
Overdraft facility	2,159	2,159	-	-	-	-
Total	**932,430**	**78,690**	**118,575**	**107,775**	**179,918**	**848,805**

The following table presents the maturity profile of the Group's loan facilities, including interest and New SDHL Revolver commitment fees, as of 6 June 2018. The Group expects to finance the repayment of its loan facilities from cash generated from the Group's operations and additional refinancing.

In USD thousand	Outstanding as of 6 June 2018	Instalments due				
		Remainder of 2018	2019	2020	2021	Thereafter
8.25% Notes	900,000	29,906	74,250	74,250	74,250	1,159,875
New SDHL Revolver	-	2,134	3,726	3,363	3,353	4,456
Sale and Leaseback Financing[1]	296,517	296,517	-	-	-	-
SDA Facility[2]	25,000	25,068	-	-	-	-
Overdraft facility	1,356	1,356	-	-	-	-
Total	**1,222,873**	**354,981**	**77,976**	**77,613**	**77,603**	**1,164,331**

1 Assumes payment after the expected 30 day notice of termination and does not include the expected payment of the call premium of USD 5,871,000.
2 Assumes repayment in June 2018 with proceeds from the Tap Issue.

As the Preferred Shares of USD 166.67 million, reported as mezzanine equity, do not have maturity date, the annual dividend payments are not included. See Section 11.9.6.7 ("*Preferred Shares*") for the future dividend payments on the Preferred Shares, to the extent they are not fully redeemed in connection with the Offering.

11.9.6.10 Certain key ratios

The Group's equity ratio and leverage ratio for the period ended 31 March 2018 and 31 December 2017 and 2016 is set out in the table below, which the Company considers to be relevant ratios for its type of business.

The equity ratio is defined as the Group's total equity divided by its total assets, while the leverage ratio is defined as the Group's net interest bearing debt to EBITDA.

	Three months ended 31 March	Year ended 31 December	
	2018	2017	2016
Equity ratio	27.6	30.3	23.9
Leverage ratio[1]	6.2	4.9	4.5

1 EBITDA for the three months ended is for the trailing twelve month period.

11.9.7 Capital expenditures

11.9.7.1 General

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.

11.9.7.2 Principal historic investments

The table below sets out the Group's capital expenditures and deferred costs for the years ended 31 December 2013 to 2017. The comparison shows a significant decline in the Group's capital expenditures and deferred costs since its inception. Capital expenditures and deferred costs, excluding the Delivered Newbuild Rigs and 2017 Acquired Rigs, decreased from an average of USD 235.0 million for each of the years ended 31 December 2013, 2014 and 2015, to USD 67.3 million and USD 51.7 for the years ended 31 December 2016 and 2017, respectively. This is indicative of the Group's strategy in the years immediately following inception, during which it expended capital to (i) establish the Shelf Drilling brand, (ii) upgrade rigs based on long-term market trends and customer requirements, (iii) enhance its fleet composition, (iv) significantly upgrade equipment and (v) reposition the fleet to take advantage of growth opportunities in the Middle East and India, which were all largely completed by the end of 2015.

	Years ended 31 December				
In USD thousand	**2017**	**2016**	**2015**	**2014**	**2013**
Regulatory and capital maintenance[(1)]	35,018	37,960	127,695	120,352	89,057
Contract preparation[(2)]	13,741	22,353	65,232	46,551	35,278
Fleet spares and other[(3)]	2,976	6,964	11,646	25,670	20,567
Reactivation projects[(4)]	-	-	23,372	64,524	75,059
	51,735	**67,277**	**227,945**	**257,097**	**219,961**
Rig acquisitions[(5)]	253,230	-	-	-	-
Newbuild rigs[(6)]	92,161	190,035	95,254	76,237	-
Total capital expenditures and deferred costs	**397,126**	**257,312**	**323,199**	**333,334**	**219,961**

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

2 Includes specific upgrade, mobilization and preparation costs associated with a customer contract. It excludes, if any, 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 the three 2017 Acquired Rigs in 2017

6 Includes all payments made under the construction contracts for two Delivered Newbuild Rigs, internal costs associated with project management, machinery and equipment provided to the project by us and capitalized interest.

The following table reconciles the cash payments related to additions to property and equipment and changes in deferred costs, net to the total capital expenditures and deferred costs for the years ended 31 December 2017, 2016 and 2015.

	Years ended 31 December		
In USD thousand	**2017**	**2016**	**2015**
Cash payments for additions to property and equipment[(1)]	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 Financing	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**

1) In 2017, this is primarily the purchase of the 2018 Acquired Rigs. In 2016 and 2015, it is primarily major overhauls, regulatory costs, general upgrades and sustaining capital expenditures on rigs in operation.

There have been no principal investments in the period from 31 December 2017 to the date of this Prospectus.

11.9.7.3 Principal ongoing investments

The Group has no material ongoing investments.

11.9.7.4 Principal future planned/committed investments

The Company anticipates to acquire one or two premium jack-up rigs after completion of the Offering, and the Company is in discussions with multiple parties for the purchase of such rigs. The rigs contemplated to be acquired will be of the ILC design, equivalent to the remainder of the Group's jack-up fleet. It is expected that the rigs will have comparable designs to one or more of the Company's existing premium jack-up rigs.

The rigs contemplated to be acquired are anticipated to have an acquisition price in the region of USD 70 million to USD 80 million per rig plus reactivation and/or contract preparation costs, which are typically in the region of USD 10 million to USD 30 million per rig.

The Group has, as of the date of this Prospectus, not entered into any binding agreements for any rig acquisition, but expects to enter into binding agreements for the acquisition of one or two rigs shortly after completion of the Offering. The acquisition costs and the reactivation and/or contract preparation costs will be financing by using the proceeds from the Offering and, to the extent necessary, drawdowns under the New SDHL Revolver. The Company may also decide to issue new Common Shares as part of the consideration payable for new rigs. The decision on whether to acquire one or two rigs will depend on the final gross proceeds raised through the Offering.

Other than the acquisition of one or two new rigs as described above, the planned redemption of the Preferred Shares in full or part as described in Section 11.9.6.7, and the planned repayment of the SDA Facility and the Sale and Leaseback Financing as described in Section 11.9.6.1 ("*General*"), the Group has no principal future planned or committed investments.

11.10 Financial risk management and market risk management

The Group is exposed to a variety of financial risks such as credit risk, liquidity risk, interest risk and market risk.

11.10.1 Credit risk

The Group's financial instruments that potentially subjects it to concentrations of credit risk are cash and cash equivalents and accounts receivables. The Group generally maintain cash and cash equivalents at commercial banks with high credit ratings.

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

An allowance for doubtful accounts is established on a case-by-case basis, considering changes in the financial position of a customer, when it is believed that the required payment of specific amounts owed is unlikely to occur.

The Group's allowance for doubtful accounts was USD 2.6 million, USD 2.5 million and USD 99.6 million as of 31 March 2018, 31 December 2017 and 2016, respectively.

11.10.2 Liquidity risk

The Group manages its liquidity risk by maintaining adequate cash reserves at banking facilities, and by continuously monitoring its cash forecasts, its actual cash flows and by matching the maturity profiles of financial assets and liabilities.

11.10.3 Currency exchange risk

The Group's international operations exposes it to currency exchange rate risk. This risk is primarily associated with compensation costs of employees and purchasing costs from non-US suppliers, which are denominated in currencies other than the USD. The Group does not have any non-USD debt and thus are not exposed to currency risk related to debt.

The Group's primary currency exchange rate risk management strategy involves structuring certain customer contracts to provide for payment from the customer in both USD 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 Group's international operations has not historically had a material impact on its operating results.

Further, the Group may utilize foreign currency forward exchange contracts to manage foreign exchange risk, for which it maintains documented policy and procedures to monitor and control the use of the derivative instruments. The Group is not engaged in derivative transactions for speculative or trading purposes. The Group's foreign currency forward exchange contracts generally requires it to net settle the spread between the contracted foreign currency exchange rate and the spot rate on the contract settlement date.

11.10.4 Interest rate risk

The Group is exposed to interest rate risk related to the fixed rate debt under the 8.25% Notes and variable rate debts under its revolver and the SDA Facility. Fixed rate debt, where the interest rate is fixed over the life of the instrument and the instrument's maturity is greater than one year, exposes the Group to changes in market interest rates if and when maturing debt is refinanced with new debt. The variable rate debt, where the interest rate may be adjusted frequently over the life of the debt, exposes it to short-term changes in market interest rates.

Based upon variable-rate obligations outstanding as of 31 March 2018, a hypothetical one percentage point change in annual interest rates could result in a corresponding change in the Group's annual interest expense of approximately USD 1.2 million, including the impact of the recent interest rate hedge.

11.11 Critical accounting policies and estimates

The preparation of the Financial Statements and the Interim Financial Information according to US GAAP and US GAAP Interim requires Management to make certain judgements, estimates and assumptions regarding the future that affect the application of accounting policies and the reported amounts of income, expenses, assets and liabilities. Actual results may differ from these estimates. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Estimates and judgements are continually evaluated, and are based on Management's historical experience and other factors that are believed to be reasonable under the circumstances, including expectations of future events and developments. The resulting accounting estimates will, by definition, seldom equal the actual outcome. Expanded discussion of the Group's more significant accounting policies, estimates and judgments are provided below. The Group believes that most of these accounting policies reflects its more significant estimates and assumptions used in preparation of the financial statements.

11.11.1 Revenue recognition

The revenue relating to the provision of the rigs and drilling related services, collectively ''integrated drilling services'', is recognized as operating revenue as services are performed. Any up-front lump-sum fees or similar compensation for the mobilization of equipment, contract preparation and capital upgrades received prior to the commencement of drilling services are deferred and recognized over the contract period and are included in operating revenue.

Any demobilization fee received upon completion of the contract is accrued as operating revenue over the contract duration, if it is unconditional and there is no significant risk of potential material revenue reversal in the future, otherwise it is recorded when earned. Contractual termination fees due from the customer are recognized as operating revenue when services have been completed under the terms of the contract. Other revenue consists of revenue from lease rentals and amounts billed for goods and services such as personnel, catering or accommodation which are generally invoiced to customers at a margin. These revenues are recognized when the goods have been delivered and services have been rendered.

See Note 1—''Nature of Business—Summary of significant accounting policies'' to our unaudited condensed consolidated interim financial statements as of and for the three months ended March 31, 2018.

11.11.2 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 2012 Acquisition were stated at fair market value as of the date of the 2012 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 the Group's fleet is 11 years. The Group 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. The Group 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.

See Note 7 "Property and equipment" to the audited consolidated financial statements as of and for the years ended 31 December 2017 and 2016 for more information.

11.11.3 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.

11.11.4 Share-based compensation

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

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

11.11.5 Derivative financial instruments

The Group's derivative financial instruments consist of foreign currency forward exchange contracts which it may designate as cash flow hedges. In accordance with US 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. The Group 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 Group 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.

11.11.6 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.

11.12 Significant changes

Other than the Tap Issue, the anticipated repayment of the SDA Facility and the Sale and Leaseback Financing described under Section 11.9.6.1 ("*General*"), and the New SDHL Revolver described under Section 11.9.6.6, there have been no significant changes in the Group's financial or trading position since 31 March 2018.

12 BOARD OF DIRECTORS, MANAGEMENT, EMPLOYEES AND CORPORATE GOVERNANCE

12.1 Board of Directors

12.1.1 Overview of the Board of Directors

The Board of Directors is responsible for the overall management of the Company and may exercise all powers of the Company not reserved to the Company's shareholders by the Company's Articles or Cayman Islands law.

The Articles provide that the Board of Directors shall consist of 11 persons (exclusive of alternate Directors), provided that this limit in the number of Directors may be increased or decreased by ordinary resolution of the shareholders of the Company in accordance with the Articles.

Each Sponsor that holds at least 14% of the issued and outstanding Common Shares can appoint up to two individuals as Directors and replace such appointees. Each Sponsor that holds at least 7% but less than 14% of the issued and outstanding Common Shares can appoint one individual as a Director and replace such appointee. Each Sponsor holding at least 7% of the issued and outstanding Common Shares is also entitled to designate a 'board observer' to participate in Board of Directors and Board of Directors committee meetings but such board observer does not have any voting rights at such meetings. In addition, the Articles provide that the Directors may appoint one additional person as Chief Executive Officer of the Company, and that any such person shall be appointed as a Director.

Other than Directors appointed by the Sponsors, and the Chief Executive Officer of the Company, Directors are elected by the shareholders at the relevant annual ordinary general shareholders' meeting or any extraordinary general shareholders' meeting called for that purpose. The Directors are elected for an indefinite period.

The current Board of Directors consists of 11 Directors, as listed in the table in Section 12.1.2 ("*The composition of the Board of Directors*") below. The members of the Board of Directors were appointed at various shareholders' meetings held in the period between 2012 and 2017, as further described in Section 12.1.2 below. The Company does not have any alternate directors. A Chairman of the Board of Directors is elected at each physical board meeting by the Board.

The quorum necessary for the conduct of business at any meeting of the Board of Directors is a majority of the Directors then appointed.

Pursuant to the Norwegian Code of Practice for Corporate Governance dated 30 October 2014 (the "**Corporate Governance Code**"), (i) the majority of the shareholder-elected members of the Board of Directors should be independent of the Company's executive management and material business contacts, (ii) at least two of the shareholder-elected members of the Board of Directors should be independent of the Company's main shareholders (shareholders holding more than 10% of the Securities in the Company), and (iii) no members of the Management should be represented on the Board of Directors.

The Directors Ernie Danner, Benjamin Sebel, Usama Trabulsi and David Williams are independent of the Company's main shareholders (shareholders holding more than 10% of the Securities in the Company). All of the Directors are independent of the Company's material business contacts and the Management is not represented on the Board of Directors, with the exception of the CEO.

The Company's business address, One JLT, Floor 12, Jumeirah Lakes Towers, P.O. Box 212201, Dubai, United Arab Emirates, serves as the business address for the Directors in relation to their directorship of the Company.

As at the date of this Prospectus, none of the Directors hold any options or other rights to acquire Securities in the Company.

12.1.2 The composition of the Board of Directors

The names and positions and current term of office of the Directors as at the date of this Prospectus are set out in the table below.

Name	Position	Served since[1]	Term expires
David Mullen	Director	30 November 2012	-
Graham Brooke	Director	18 April 2017	-
John K. Castle	Director	30 November 2012	-
Ernie Danner	Director	29 October 2013	-
J. William Franklin, Jr.	Director	7 September 2012	-
David Pittaway......................................	Director	9 July 2015	-
John Reynolds	Director	7 September 2012	-
Benjamin Sebel	Director	30 November 2012	-
Tyson Smith	Director	18 April 2017	-
Usama Trabulsi	Director	30 August 2017	-
David Williams......................................	Director	30 August 2017	-

1 All the Directors have served since the date they were appointed.

12.1.3 Brief biographies of the Directors

Set out below are brief biographies of the Directors, including their relevant management expertise and experience, an indication of any significant principal activities performed by them outside the Company and names of companies and partnerships of which a Director is or has been a member of the administrative, management or supervisory bodies or partner in the previous five years (not including directorships and executive management positions in subsidiaries of the Company).

David Mullen, Director

Mr. Mullen has over 30 years' experience in the oil services business and has been the Company's Chief Executive Officer since October 2012. Since April 2018, Mr. Mullen has served as an Independent Director of Subsea 7 S.A. From September 2010 to April 2011, Mr. Mullen was CEO of Wellstream Holdings PLC, a U.K. listed company that designed and manufactured subsea pipeline products and included as part of the product offering, subsea services and installation. From April 2008 to August 2010, Mr. Mullen served as Chief Executive Officer of Ocean Rig ASA, a Norwegian listed ultra-deep water drilling contractor. Prior to Ocean Rig ASA, Mr. Mullen also spent four years as a senior leader of Transocean Ltd. As Senior Vice President of Global Marketing, Business Development and M&A at Transocean Ltd., Mr. Mullen spearheaded marketing and strategic planning. Mr. Mullen had a 23-year career at Schlumberger, 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. Mr. Mullen resides in Dubai, United Arab Emirates.

Current directorships and senior management positions.........	*Subsea 7 S.A (non-executive director).*
Previous directorships and senior management positions last five years...	*Siem Offshore ASA (non-executive director)*

Graham Brooke, Director

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

Current directorships and senior management positions........	*CHAMP Private Equity (Managing Director), FX Bidco Pty Limited (director), FX Holdco Pty Limited (director), FX Midco Pty Limited (director), Miclyn Express Offshore Limited (director) and Manta Holdings Limited (director).*
Previous directorships and senior management positions last five years..	*Global Voyager Holdings Pty Ltd (director), Global Voyager Pty Ltd (director), Lighting Investments Australia Holdings Pty Limited (director), Lighting Investments Australia Pty Ltd (director), Lighting Investments Australia Finance Pty Ltd (director), Lighting Investments Australia Finance Holdings 1 Pty Ltd (director), Lighting Investments Australia Finance Holdings 2 Pty Ltd (director) and Mantra Group Limited (director).*

John K. Castle, Director

Mr. Castle joined the Company's Board of Directors in November 2012. Since 1987, Mr. Castle has served as Chairman and Chief Executive Officer of Castle Harlan, Inc. Currently, he is a member of the CHAMP III 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. From 2000 until March 2018, Mr. Castle was a Director of Castle Harlan Australian Mezzanine Partners Pty Ltd and a Director of CHAMP Group Holdings Pty Ltd, both part of the CHAMP Private Equity Group. He 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. Mr. Castle resides in Palm Beach, Florida, the United States.

Current directorships and senior management positions........	*Castle Harlan, Inc. (chairman and CEO), Castle Harlan Partners IV (controlling GP), Castle Harlan Partners V (controlling GP), Branford Castle Partners (GP and Management Co.), Top Doctors ES (director), TwoJays (director), Titan Production Equipment Holdings, LLC (director), Castle Harlan TPE Partners, LP (controlling GP), Castle Connolly Medical Ltd. (chairman), Branford Castle, Inc. (CEO), DuPont Investment Management Co (advisory director) and The New York Presbyterian Hospital Board of Trustees (member).*
Previous directorships and senior management positions last five years..	*Castle Harlan Australian Mezzanine Partners Pty Ltd (director), Baker & Taylor (director) and CHAMP Group Holdings Pty Ltd (director).*

Ernie Danner, Director

Mr. Danner joined the Company's 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 and 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. Mr. Danner resides in Houston, Texas, the United States.

Current directorships and senior management positions........	*Nine Energy Service, Inc. (chairman), BCCK, Inc (chairman) and Autumn Plecher LLC (managing partner).*
Previous directorships and senior management positions last five years...	*Beckman Production Services, Inc (CEO and chairman).*

J. William Franklin, Jr., Director

Mr. Franklin joined the Company's 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, KSW Environmental, LLC, 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.). Mr. Franklin resides in Houston, Texas, the United States.

Current directorships and senior management positions........	*IDM Delaware, Inc. (director/Subsidiary President), KSW Environmental, LLC (director), AccessESP Holdings, Ltd. (director), Rancho Caritas LLC (Member), Lime Rock Partners GP III, L.P. (Limited Partner), Lime Rock Partners GP IV, L.P.(Limited Partner), Lime Rock Partners GP V, L.P. (Limited Partner), Lime Rock Partners GP VI, L.P.(Limited Partner), Lime Rock Partners GP VII, L.P. (Limited Partner), HCperf Holdings B.V. (Supervisory Director), OilSERV Holding Ltd (director) and Xtreme Drilling Corp. (director).*
Previous directorships and senior management positions last five years...	*AZ Holdings Inc. (director), UTEC International Ltd. (director), PDC Mountaineer LLC (director) and Lime Rock Partners GP II, L.P. (limited partner).*

David Pittaway, Director

Mr. Pittaway joined the Company's 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. 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. Mr. Pittaway resides in Naples, Florida, the United States.

Current directorships and senior management positions...........	*Castle Harlan (senior managing director), Castle Harlan Inc (board member), Gold Star Foods Inc (board member), Caribbean Restaurants Inc (board member), Too Jays Inc (board member), Branford Castle, Inc. and Branford Chain, Inc. (vice chairman), The Cheesecake Factory Inc. (board member), Dystrophic Epidermolysis Bullosa Research of America (board member), Armed Forces Reserve Family Assistance Fund (board member), BAC Holdings LLC (board member) and FLSB Loanco LLC (owner).*
Previous directorships and senior management positions last five years...	*Multiple other Castle Harlan portfolio companies, including American Achievement Corporation, Statia Terminals Group N.V., Morton's Restaurant Group, United Malt Holdings Inc. (board member), and Bravo Brio Restaurant Group (board member).*

John Reynolds, Director

Mr. Reynolds joined the Company's 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. Mr. Reynolds resides in Connecticut, the United States.

Current directorships and senior management positions........	*Lime Rock Partners (managing director), Archer Limited (director), EnerMech (director), Rubicon Oilfield Services International Holdings, L.P. (director), LRP GP II, Inc. (director), LRP GP 111, Inc. (director), LRP GP IV, Inc. (director), LRP GP V, Inc. (director), LRP GP VI, Inc. (director), LRP GP VII, Inc. (director), LRP GP VIII, Inc. (director), LRR GP, LLC (partner), LRR GP II, LLC (partner), LRR GP III, LLC (partner), LRR GP IV, LLC (partner), Lime Rock Management LP (partner), LRMI VI, L.P. (partner), LRMI V, L.P. (partner), LRMI IV, L.P. (partner), LRM Investments, L.P. (partner), LRM Investments II, L.P. (partner), LRM Investments Ill, L.P. (partner), Lime Rock Resources GP IV, L.P. (partner), Lime Rock Partners GP II, L.P. (partner), Lime Rock Partners GP Ill, L.P. (partner), Lime Rock Partners GP IV, L.P. (partner), Lime Rock Partners GP V, L.P. (partner), Lime Rock Partners GP VI, L.P. (partner), Lime Rock Partners GP VII, L.P. (partner), Lime Rock Partners GP VIII, L.P. (partner), Lime Rock Management GP LLC (partner), Lime Rock Partners LLC (partner), Riverside Fund Ill, L.P. (partner), Thompson Street Capital Partners II, L.P. (partner), Vestar Executive V, L.P. (partner), Black Eagle Partners Fund, L.P. (partner), Ride Ventures, LLC (partner), CSL Completions (partner) and Revelation Energy Holdings LLC (director).*
Previous directorships and senior management positions last five years..	*Eastern Drilling (board member), Hercules Offshore (board member), IPEC (board member), Noble Rochford Drilling (board member), Patriot Drilling (board member), Roxar (board member), Sensa (board member), Tercel Oilfield Products Ltd. (director), Tesco Corporation (director), Torch Offshore (board member) and VEDCO Holdings (board member).*

Benjamin Sebel, Director

Mr. Sebel joined the Company's 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 a 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. He resides in Sydney, Australia.

Current directorships and senior management positions	*Branford Castle Partners (senior advisor), Rocking Horse Finance Group (chairman), Gerard Lighting Group (chairman) and Sebel Holdings Pty Ltd (director).*
Previous directorships and senior management positions last five years..	*CHAMP Private Equity (managing director), Riverina Fresh Pty. Ltd. (director), ATF Services (director), Centric Wealth Ltd (director) and CHAMP III Management Pty Ltd (director).*

Tyson Smith, Director

Mr. Smith joined the Company's 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. Mr. Smith resides in Sydney, Australia.

Current directorships and senior management positions........	*Albert Automotive Holdings Pty Ltd (alternate director).*
Previous directorships and senior management positions last five years...	*None.*

Usama Trabulsi, Director

Mr. Trabulsi joined the Company's 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 Petromin-Mobil Oil Refinery Company Ltd. ("**PEMREF**"), a joint venture company between Petromin (the State owned National Oil Company) and Mobil Oil Company from 1990 to 1993. Meanwhile, Mr. Trabulsi served as Executive Vice President for Operation and Marketing of SUMED Oil Pipelines Co., a joint venture company between Egypt, Saudi Arabia, Kuwait, UAE and Qatar. He received his B.A. in Economics and Political Science from King Saud University, Saudi Arabia in 1965 and received his M.B.A. from Michigan State University in 1970. Mr. Trabulsi resides in Al Khobar, the Kingdom of Saudi Arabia.

Current directorships and senior management positions........	*Integrated Renewable Energy Systems Ltd. (Principal and Executive Director).*
Previous directorships and senior management positions last five years...	*None.*

David Williams

David Williams joined the 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 Non-Executive 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 and director of Logstor Holdings A/S of 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. Mr. Williams resides Bristol, in the United Kingdom.

Current directorships and senior management positions	*Ramco Acquisition Ltd (chairman), Shepherd Building Group Ltd (executive chairman), Tharsus Group Ltd (non-executive chairman) and GoingC Ltd (director).*
Previous directorships and senior management positions last five years...	*Frog Capital Ltd (chairman) and Logstor Holdings A/S (interim CEO and director).*

12.1.4 Shares held by Directors

As of the date of this Prospectus, the Directors have the following shareholdings, directly or indirectly, in the Company:

Name	Position	Common Shares
David Mullen	Director	748,003
Graham Brooke	Director	0
John K. Castle	Director	0
Ernie Danner	Director	60,146
J. William Franklin, Jr.	Director	0
David Pittaway	Director	0
John Reynolds	Director	0
Benjamin Sebel	Director	0
Tyson Smith	Director	0
Usama Trabulsi	Director	0
David Williams	Director	0

12.2 Management

12.2.1 Overview

The Company's executive management team consists of five individuals. The executive management team is referred to as "**Management**".

The names of the members of the executive management team as at the date of this Prospectus, and their respective positions, are presented in the table below:

Name	Current position within the Group	Employed with the Group since
David Mullen	Chief Executive Officer	30 November 2012[1]
Gregory O'Brien	Chief Financial Officer	12 January 2014[2]
Kurt Hoffman.................................	Chief Operating Officer	30 November 2012[3]
Ian Clark.......................................	Executive Vice President	30 November 2012[4]
Dzul Bakar	Vice President, General Counsel and Secretary	30 November 2012[5]

1 Mr. Mullen has been the Chief Executive Officer since October 2012.

2 Mr. O'Brien has been Chief Financial Officer since March 2016.

3 Mr. Hoffman has been Chief Operating Officer since October 2012.

4 Mr. Clark has been Executive Vice President since November 2012.

5 Mr. Bakar has been Vice President, General Counsel and Secretary since November 2012.

The Company's business address, One JLT, Floor 12, Jumeirah Lakes Towers, P.O. Box 212201, Dubai, United Arab Emirates, serves as the business address for the members of the Management in relation to their employment with the Company.

12.2.2 Brief biographies of the members of Management

Set out below are brief biographies of the members of Management, including their relevant management expertise and experience, an indication of any significant principal activities performed by them outside the Company and names of companies and partnerships of which a member of Management is or has been a member of the administrative, management or supervisory bodies or partner the previous five years (not including directorships and executive management positions in subsidiaries of the Company).

David Mullen, Chief Executive Officer

Please see Section 12.1.3 ("*Brief biographies of the Directors*") for a description of Mr. Mullen's experience.

Gregory O'Brien, 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. Mr. O'Brien resides in Dubai, the United Arab Emirates.

Current directorships and senior management positions........	*None.*
Previous directorships and senior management positions last five years..	*None.*

Kurt Hoffman, 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. Mr. Hoffman resides in Dubai, the United Arab Emirates.

Current directorships and senior management positions........	*None.*
Previous directorships and senior management positions last five years..	*None.*

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. Mr. Clark resides in Dubai, the United Arab Emirates.

Current directorships and senior management positions........	*None.*
Previous directorships and senior management positions last five years..	*None.*

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. Mr. Bakar resides in Dubai, the United Arab Emirates.

Current directorships and senior management positions........	*None.*
Previous directorships and senior management positions last five years..	*None.*

12.2.3 Shares held by Management

As of the date of this Prospectus, the members of the Management owns Common Shares in the Company as shown by the table below:

Name	**Position**	**No. of Common Shares**[1]	**No. of Options**
David Mullen..................................	Chief Executive Officer	748,003[2]	0
Gregory O'Brien	Chief Financial Officer	206,533[3]	0

Name	Position	No. of Common Shares[1]	No. of Options
Kurt Hoffman	Chief Operating Officer	448,608[4]	0
Ian Clark	Executive Vice President	321,172[5]	0
Dzul Bakar	Vice President, General Counsel and Secretary	186,091[6]	0

1 The Common Shares are comprised by equity incentive shares and co-invest shares. The equity incentive shares are further described in Section 12.6, while the co-invest shares are not restricted.

2 Mr. Mullen owns 404,087 equity incentive shares and 343,916 co-invest shares

3 Mr O'Brien owns 206,533 equity incentive shares only

4 Mr. Hoffman owns 305,310 equity incentive shares and 143,298 co-invest shares

5 Mr. Clark owns 206,533 equity incentive shares and 114,639 co-invest shares

6 Mr. Bakar owns 143,675 equity incentive shares and 42,416 co-invest shares

12.3 Remuneration and benefits

12.3.1 Remuneration of the Board of Directors

In 2017, director compensation was paid only to the Company's non-employee, non-Sponsor directors. For the year ended 31 December 2017, the aggregate compensation paid, including benefits in kind granted to the Company's directors, was approximately USD 177 thousand. The table below shows the remuneration paid in 2017 (in USD).

Name	Position	Total remuneration in 2017
David Mullen	Director	0
Graham Brooke	Director	0
John K. Castle	Director	0
Ernie Danner	Director	102,083.33
J. William Franklin, Jr.	Director	0
David Pittaway	Director	0
John Reynolds	Director	0
Benjamin Sebel	Director	25,000
Tyson Smith	Director	0
Usama Trabulsi	Director	25,000
David Williams	Director	25,000
Total		**177,083.33**

Following the completion of the Listing, the Company's Board of Directors has resolved that the Company's directors, will receive an annual retainer fee of USD 100,000, other than Ernie Danner, who is the chairman of the audit committee and will receive USD 125,000, payable quarterly (and no other compensation or benefits, including any benefits on a termination of service). All Directors will be reimbursed for out of pocket expenses incurred in connection with services to the Board of Directors, and will be fully indemnified by the Company for actions associated with being a Director, to the extent permitted by Cayman Islands law.

12.3.2 Remuneration of Management

The Board of Directors has established guidelines for the remuneration of the members of the Management.

The table below sets out the remuneration of the Management employed by the Company in 2017 (in USD):

Type of remuneration	Total remuneration
Salary	2,240,000
Bonus	2,310,795
Other benefits	663,379
Pension benefits	216,492

Total	**5,430,666**

12.4 Executive employment agreements

Each of Company's executive officers, other than Mr. Bakar, is a party to an executive employment agreement (governed by Delaware law), which automatically renews each December 31 for an additional one-year term, unless at least 90 days' notice of non-renewal is given by either party. Each executive employment agreement generally provides for base salary, annual bonus targets under the annual cash incentive plan (as described further below), employee benefits and expatriate benefits. Executive employment agreements are terminable by the Company without "cause" (as defined in the executive employment agreement) or by an executive officer other than for "good reason" (as defined below) upon six months' notice (or payment in lieu thereof).

Upon a termination of an executive officer by the Company without "cause" or an executive officer's resignation for "good reason," the executive officer is entitled to receive, subject to executing a release, a pro-rated bonus for the termination year, one year's base salary and if the executive officer repatriates to his country of origin within six months following the date of termination, reimbursement of all reasonable out-of-pocket moving expenses. Upon all terminations, the executive officer is entitled to base salary and benefits accrued through the date of such termination, including any awarded but unpaid bonus.

Each executive employment agreement contains (i) a one-year post termination non-compete on engagement in, employment by or provision of services to any business anywhere in the world which is in, or involves or relates to providing services to, the offshore oil drilling business, including the drilling and workover of oil and gas wells, and (ii) a one-year post termination non-solicit/non-interference by the executive officer with any of the Company's employees, independent contractors, vendors, consultants or customers. Any amounts payable under an executive officer's local employment contract (as discussed below) are offset against any amounts payable under his executive employment agreement.

"Good reason" is defined as the occurrence of one or more of the following events, without the executive's consent: (i) any material diminution in the executive's title, duties, or responsibilities such that the executive is no longer serving in a senior executive capacity on the Company's behalf, or for the Company's benefit, (ii) any material reduction in the executive's base salary or annual target bonus opportunity set forth in the executive employment agreement (other than pursuant to an across-the-board reduction applicable to all similarly situated executives) and (iii) any breach of any of the material terms of the executive employment agreement by the Company which is not cured within 30 days following written notice thereof by the executive to the Company.

Each of the Company's executive officers is a party to a local employment contract (governed by UAE law). Such contracts are required to permit each executive officer to legally reside and work in the UAE. With respect to executive officers, local employment contracts are terminable upon six months' notice (or payment in lieu thereof). All local employment contracts are terminable by the Company without notice upon certain misconduct situations as permitted under UAE Labor Law. Each local employment contract provides that the employee has no right to receive an end of service gratuity from the Company under UAE Labor Law, and that the Company has in place (and the employee has opted into) a retirement savings plan (described further below) in lieu of such service guaranty.

12.5 Annual cash incentive plan

The Company's executive officers are eligible to receive performance-based awards under the Company's annual cash incentive plan, with performance objectives and criteria determined by the Board of Directors. Awards are paid by March 15 of the year following the year in which the applicable performance period is completed and performance achieved (subject to employment through to the end of the applicable performance period). If an executive officer's employment is terminated prior to the end of a performance period due to death, disability or retirement, the executive officer will be eligible for a pro-rated portion of the award.

In addition, the Board of Directors may, in its sole discretion, grant discretionary cash bonuses under the annual cash incentive plan to employees, including the Company's executive officers. In February 2017, the Company's compensation committee decided to grant such awards, or retention awards, to certain employees, including the Company's executive officers. The retention awards provide for an amount equal to such executive officer's annual bonus target for 2017, 50.0% of which was paid in March 2017 and 50.0% of which was paid in March 2018. As of May 2018, no further such retention awards have been granted.

12.6 Restricted share awards

Following the completion of the Listing, each of the Company's executive officers will hold restricted Common Shares under restricted share agreements, as shown in Section 12.2.3 as "incentive equity shares", which will vest in equal installments on each of the first three anniversaries of the completion of the Listing. If an executive officer experiences a termination of employment prior to the third anniversary of the completion of the Listing: (i) if such termination is by the Company without "cause" (as defined in the applicable restricted share agreement) or an executive officer's resignation for "good reason" (as defined in the applicable restricted agreement, and is generally the same definition as set forth above with respect to the executive employment agreements), any unvested shares held by such executive officer will be subject to a repurchase right by the Company for six months following the date of such termination, at fair market value per share, (ii) if such termination is due to the executive officer's death or disability, any unvested shares held by such executive officer will be subject to a repurchase right by the Company at fair market value per share, as well as a "put right" by the executive officer (or his or her estate or guardian, as applicable) at fair market value per share and (iii) if such termination is by the Company for "cause" or by an executive officer other than for "good reason," any unvested shares held by such executive officer will be forfeited without consideration. If the Company declines to exercise its repurchase right, the unvested shares will continue to vest on the same three-year schedule.

12.7 2017 long-term incentive plan

The Company has adopted the 2017 long-term incentive plan, or the 2017 plan, and it has authorized up to 10% of its authorized Common Shares to be reserved for issuance pursuant to awards under the 2017 plan. The purpose of the 2017 plan is to align the long-term financial interests of the Company's employees and directors with those of its shareholders, to attract and retain those individuals by providing compensation opportunities that are competitive with other companies, and to provide incentives to those individuals who contribute significantly to the Company's long-term performance and growth. To accomplish this, the 2017 plan permits the issuance of share options, share appreciation rights, restricted shares, deferred shares, share units, unrestricted shares and cash-based awards. In addition, the form and amount of awards that will actually be granted under, and the number of shares to be reserved (not to exceed 10% of the Company's authorized Common Shares) for awards to be made under the 2017 plan are still under evaluation, and no awards have been, or will be, granted prior to the completion of the Offering.

No employee, including any member of Management, has entered into employment agreements which provide for any special contractual benefits upon termination, except for the change of control agreements described in Section 12.10 ("*Change of control agreements*") listed below. Except for the independent Directors Ernie Danner, Benjamin Sebel, Usama Trabulsi and David Williams, none of the Directors, not being employees of the Group, have service contracts with the Company. None of the Directors will be entitled to any benefits upon termination of office, regardless of whether they have a service contract, or not.

12.8 Pensions and retirement benefits

The Company makes regular monthly cash contributions to its defined contribution retirement and savings plans (a U.S. 401(k) plan and an expatriate retirement and savings plan) for all of its eligible employees including its executive officers, as well as matching contributions for an employee's deferral election or savings contribution.

Messrs. Hoffman and O'Brien participate in the Company's U.S. 401(k) plan, and Messrs. Mullen, Clark and Bakar participate in the Company's expatriate retirement and savings plan. None of the Company's Directors participates in any defined benefit plan or any other retirement plan.

12.9 Loans and guarantees

Other than a one year "housing advance", provided to a limited number of junior employees based in Dubai, the Company has not granted any loans or guarantees or other commitments to any of its Directors, member of Management or to any other employees.

12.10 Change of control agreements

The Company has entered into change in control agreements with members of senior management, including its executive officers, providing for enhanced severance benefits (in lieu of severance provided under any executive employment agreement or other employment contract) if such employee is terminated by the Company without "cause" (as defined below) or the employee resigns for "good reason" (as defined below) within two years following a "change in control" relating to the Company (as defined in the change in control agreement). Upon such qualifying termination, an executive officer will receive a cash payment equal to the sum of their base salary and target annual bonus, multiplied by a severance multiplier based on position (ranging from 2x to 3x), a pro-rated annual bonus for the year of termination, continued benefits for 24 months following termination, full vesting of all equity and equity-based awards (with any performance-based awards being deemed to have been earned at target), and certain other payments and benefits related to housing expenses, repatriation expenses and outplacement services.

"Cause", for the purposes of the change in control agreements, is defined as (i) the deliberate and continued failure by the executive to devote substantially all the executive's business time and best efforts to the performance of the executive's duties (other than any such failure resulting from the executive's incapacity due to physical or mental illness or any such actual or anticipated failure after the issuance of a Notice of Termination for Good Reason by the executive pursuant to Section 7.1 of the change in control agreement) after a demand for substantial performance is delivered to the executive by the Board which demand specifically identifies the manner in which the Board believes the executive has not substantially performed such duties; (ii) one of the prescribed list of reasons under Article 120 of the UAE Labour Law; (iii) the executive's conviction of, or plea of guilty or *nolo contendere* to, a felony or any criminal charge involving moral turpitude; or (iv) a deliberate breach by the executive of a material provision of any employment agreement or any other contractual obligation between the executive and the Company or its affiliates and/or a fiduciary duty owed by the executive to the Company or its affiliates. For the purposes of the change in control agreements, no act, or failure to act, on the part of the executive shall be considered "deliberate" unless done, or omitted to be done, by the executive not in good faith and without reasonable belief that such action or omission was in the best interests of the Company.

"Good reason" is defined as the occurrence of one or more of the following events, without the executive's consent: (i) a material diminution in the executive's authority, duties, or responsibilities or the assignment to the executive of duties or responsibilities that are materially inconsistent with those in effect immediately prior to the change in control; provided, that (a) a change in the executive's title or reporting relationship shall not, in and of itself, constitute good reason and (b) any such alteration primarily attributable to the fact that the Company, after becoming a public company, is no longer a public company or to other changes in its identity, nature or structure, shall not, in and of itself, constitute good reason, (ii) a material reduction by the Company in the executive's annual base salary as in effect on the date hereof or as the same may be increased from time to time except for across-the-board salary reductions similarly affecting all the Company's senior executive officers or (iii) the relocation of the executive's principal place of employment to a location more than one hundred miles from the executive's principal place of employment immediately prior to the change in control or the Company's requiring the executive to be based anywhere other than such principal place of employment (or permitted relocation thereof) except for required travel on the Company's business to an extent substantially consistent with the executive's present business travel obligations.

For the purpose of the change in control agreements and as specified in more detail in such change in control agreements, "change in control" means (i) any Person (as defined in the change in control agreements) becoming the beneficial owner of 50% or more of the combined voting power of the Company's securities, or (ii) a significant change in the Board representation, (iii) a merger or consolidation with any other corporation, (iv) liquidation, dissolution or sale of substantially all of the Company's assets.

12.11 Audit committee

The Board of Directors has elected an audit committee amongst the members of the Board of Directors. The audit committee comprises Ernie Danner (chairman) and Benjamin Sebel, Usama Trabulsi and David Williams. The primary purposes of the audit committee are to:

- assist the Board of Directors in discharging its duties relating to the safeguarding of assets; the operation of adequate system and internal controls; control processes and the preparation of accurate financial reporting and statements in compliance with all applicable legal requirements, corporate governance and accounting standards; and

- provide support to the Board of Directors on the risk profile and risk management of the Company.

The audit committee reports and makes recommendations to the Board of Directors, but the Board of Directors retains responsibility for implementing such recommendations.

12.12 Nomination committee

It is uncommon for Cayman Islands exempted companies to have a nomination committee, and the Board of Directors is of the opinion that a nomination committee is deemed not required with the current shareholder structure. The Company will consider the possibility to establish a nomination committee in the future.

12.13 Compensation committee

The Company has established a compensation committee. The current members of the compensation committee are Graham Brooke, John K. Castle and J. William Franklin, Jr.

The purpose of the compensation committee is to assist the Board of Directors in its oversight of all compensation and benefits related matters of the Company and its affiliates. The compensation committee has the responsibility for evaluating and approving compensation plans, policies and programs of the Company.

The compensation committee is responsible for establishing general compensation guidelines and policies for executive employees. The compensation committee determines the compensation and other terms of employment for executives (including salary, bonus, equity participation, benefits and severance terms) and reviews, from time to time, the Company's compensation strategy and compensation levels in order to ensure it is able to attract, retain and motivate executives and other employees. The compensation committee is also responsible for approving any equity incentive plans or arrangements and any guidelines or policies for the grant of equity incentives thereunder to employees of the Company. It oversees and periodically reviews all annual bonus, long-term incentive plans, stock options, employee pension and welfare benefit plans and also reviews and makes recommendations to the Board of Directors regarding the compensation of directors for their services to the Board of Directors.

12.14 Corporate governance

The Company has adopted and implemented a corporate governance regime which from the first day of Listing complies with the Corporate Governance Code, with the following exceptions:

Deviation from section 2 "Business": In accordance with common practice for Cayman Islands incorporated companies, the Company's objects are not specified in the Articles, contrary to what is recommended in the Corporate Governance Code.

Deviation from section 3 "Equity and dividends": In accordance with Cayman Islands law and common practice for Cayman Islands incorporated companies and subject to the provisions of the Articles, the Board of Directors has wide powers to issue any authorized but unissued shares of the Company on such terms and conditions as it may decide, and any shares or class of shares may be issued with preferred, deferred or other special rights or such restrictions, whether with regard to dividend, voting, return on capital, or otherwise as the Directors may prescribe. Accordingly, this represents a deviation from section 3 of the Corporate Governance Code. Pursuant to Cayman Islands law and common practice for Cayman Islands incorporated companies and subject to the restrictions set out in the Articles, the Board of Directors also has the power to authorize the Company's purchase of its own shares, whether for cancellation or to hold as treasury shares and the power to declare dividends. These powers are neither limited to specific purposes nor to a specified period as recommended in the Corporate Governance Code. Further, the Board of Directors may resolve to pay dividends and make other distributions out of the funds of the Company which is available for dividend distribution in accordance with Cayman Islands law, without first making a proposal to the general meeting, as recommended in the Corporate Governance Code.

Deviation from section 4 "Equal treatment of shareholders and transactions with close associates": The Company has two classes of shares, Common Shares and Preferred Shares. In principle, this represents a deviation from section 4 of the Corporate Governance Code. However, it should be noted that only the Securities, representing the beneficial interests in the Common Shares, will be listed on Oslo Børs (or alternatively on Oslo Axess). The Company will consequently only have one class of listed shares/securities. A description of key attributes of the Preferred Shares is included in Section 14.3.1 ("*Preferred Shares*").

Deviation from section 6 "General Meetings": The Board of Directors may call for a general meeting with 14 days prior notice, and may therefore not be able to make the notice and the supporting information available on the Company's website 21 days prior to the date of the meeting, as recommended in the Corporate Governance Code.

Deviation from section 7 "Nomination committee": In line with normal practice for Cayman Islands incorporated companies, and as a consequence of the Company's current shareholder structure, the Company does currently not have a nomination committee. See Section 12.12 ("*Nomination committee).*

Deviation from section 8 "Corporate assembly and board of directors: composition and independence": The CEO of the Company, David Mullen, is a Director and the Board of Directors therefore includes executive personnel, which is in line with established practice for the Company and other Cayman Islands incorporated companies. Also, the chairman of the Board of Directors is elected by the Directors and not by the general meeting. Further, each Sponsor may appoint, replace or remove Directors by written notice to the Company subject to them holding above 7% of the issued and outstanding Common Shares.

The term of office for the Directors may be more than two years, as they are appointed for an indefinite period of time. All of the above represents deviations from section 8 of the Corporate Governance Code.

12.15 Conflicts of interests etc.

For the past five years preceding the date of this Prospectus, none of the Directors and the members of the Management have, or had, as applicable:

- any convictions in relation to indictable offences or convictions in relation to fraudulent offences;
- received any official public incrimination and/or sanctions by any statutory or regulatory authorities (including designated professional bodies) or was disqualified by a court from acting as a member of the administrative, management or supervisory bodies of a company or from acting in the management or conduct of the affairs of any company; or
- been declared bankrupt or been associated with any bankruptcy, receivership or liquidation in his or her capacity as a founder, director or senior manager of a company.

Each of the Sponsors holds an interest greater than 10% in the Company, namely Castle Harlan, CHAMP Private Equity and Lime Rock Partners (20.7% each). Graham Brooke, John K. Castle, J. William Franklin, Jr., David Pittaway, John Reynolds and Tyson Smith are employees of Sponsors.

To the Company's knowledge, there are currently no other actual or potential conflicts of interest between the Company and the private interests or other duties of any of the Directors and the members of the Management, including any family relationships between such persons.

13 RELATED PARTY TRANSACTIONS

13.1 Introduction

Below is a summary of the Group's related party transactions for the periods covered by the Historical Financial Information and up to the date of this Prospectus. All related party transactions have been concluded at arm's length principles.

For the accounting year ending 31 December 2017, 2016 and 2015, and in the period from 31 December 2018 to the date of this Prospectus there were not reported any other related party transactions than those listed in this Section 13.

13.2 Related party transactions

13.2.1 Goods and services

In connection with the Company's operations of a foreign subsidiary, a related party of the Company provided goods and services to drilling rigs owned by one of the Company's foreign subsidiaries. These goods and services totaled USD 3.2 million, USD 3.3 million and USD 4.3 million during 2017, 2016 and 2015, respectively, and USD 1.0 million and USD 0.8 million for the three months ended 31 March 2018 and 2017, respectively. The total liability recorded under accounts payable for such transactions were USD 0.6 million and USD 0.6 million as of 31 March 2018 and 31 December 2017, respectively.

13.2.2 Management agreement

The Company has entered into a management agreement with the Sponsors, pursuant to which the Company has paid monthly fees to the Sponsors for their performance of their duties under said agreement, directors' fees and reimbursement of costs incurred by the Sponsors and directors for attendance at meetings relating to the management and governance of the Company. The Company recorded USD 5.5 million, USD 5.2 million and USD 5.1 million during 2017, 2016 and 2015, respectively, and USD 1.4 million and USD 1.4 million for the three months ended 31 March 2018 and 2017, respectively, for the costs related to the management agreement. The total liability recorded under accounts payable for such transactions were less than USD 0.1 million as of 31 March 2018 and 31 December 2017, respectively.

Under the management agreement, the Sponsors have provided the Company with business and organizational, strategic, financial and management advisory services. The Company does not depend on the services provided under the management agreement, and the management agreement will be terminated upon completion of the Listing. The termination of the agreement will not have any impact on the management of the Company.

13.2.3 Preferred shares

On 12 January 2017, the Company issued USD 166.67 million in Preferred Shares to Castle Harlan and CHAMP Private Equity in exchange for partial settlement of a term loan as part of the Group's 2017 refinancing. Further information about the Preferred Shares are included in Section 14.3.1 and 11.9.6.7. The holders of the Preferred Shares are entitled to receive a cumulative preferred dividend on a semi-annual basis, on 31 January and 31 July each year. The Company has made the following payments of preferred dividends to the holders of Preferred Shares:

- On 31 January 2017 USD 0.96 million was paid;
- On 31 July 2017 USD 8.68 million was paid; and
- On 31 January 2018 USD 8.91 million was paid.

To the extent only 50% of the outstanding Preferred Shares are redeemed in connection with the Offering, the Company contemplates to pay a preferred dividend of USD 4.6 million on or about 31 July 2018 to the holders of the then outstanding Preferred Shares.

14 CORPORATE INFORMATION AND DESCRIPTION OF THE SHARE CAPITAL

The following is a summary of certain corporate information and material information relating to the Securities and share capital of the Company and certain other matters relating to the ownership in the Company, including summaries of certain provisions of the Articles and applicable Norwegian and Cayman Islands law in effect as at the date of this Prospectus, including the Cayman Islands Companies Law. The summary does not purport to be complete and is qualified in its entirety by the Articles included in Appendix A to this Prospectus, and applicable law.

14.1 Company corporate information

The Company's registered name is Shelf Drilling, Ltd. The Company is an exempted company incorporated with limited liability under the laws of the Cayman Islands pursuant to the Cayman Islands Companies Law. The Company was incorporated in the Cayman Islands on 14 August 2012 in connection with the 2012 Acquisition.

The Company's Cayman Islands registration number is 271054 and the Securities are registered in book-entry form with the VPS under International Securities Identification Number ("**ISIN**") KYG236271055. The underlying shares, being the Common Shares in the Company, are recorded in the Company's shareholders register in the Cayman Islands, maintained by Centralis Cayman Limited, the Company's registered office service provider in the Cayman Islands, located at One Capital Place, 3rd floor, Grand Cayman, PO Box 1564, Cayman Islands, KY1-1110. The Securities are admitted to trading at the N-OTC, but will upon Listing be de-listed from the N-OTC. The Company's VPS register is administrated by the VPS Registrar. See Section 14.6 ("*VPS registration of the Securities*") for further information.

The Company's registered office is at One Capital Place, 3rd Floor, Shedden Road, George Town, PO Box 1564, Grand Cayman, KY1-1110, Cayman Islands. The Company's website can be found at www.shelfdrilling.com. The content of www.shelfdrilling.com is not incorporated by reference into and does not otherwise form part of this Prospectus.

14.2 Legal structure

The Company, the parent company of the Group, is a holding company. The operations of the Group are entirely carried out by the Group's operating subsidiaries. Set out below is an overview of the Company's significant subsidiaries. As at the date of this Prospectus, the Company is of the opinion that its holdings in the entities specified below are likely to have a significant effect on the assessment of its own assets and liabilities, financial condition or profits and losses.

Company	Country of incorporation	Total holding in %
Rig Owning Entities:		
Shelf Drilling Asset III, Ltd.	Cayman Islands	100%
Shelf Drilling Offshore Resources Limited	Cayman Islands	100%
Shelf Drilling Offshore Resources Limited II	Cayman Islands	100%
Shelf Drilling Galloway Limited	Cayman Islands	100%
Adriatic 10 Limited	Cayman Islands	100%
Shelf Drilling International, Inc.	Cayman Islands	100%
Shelf Drilling C.E. Thornton, Ltd.	Cayman Islands	100%
Shelf Drilling J.T. Angel, Ltd.	Cayman Islands	100%
Shelf Drilling F.G. McClintock, Ltd.	Cayman Islands	100%
Shelf Drilling Ron Tappmeyer, Ltd.	Cayman Islands	100%
Shelf Drilling Trident XII, Ltd.	Cayman Islands	100%
Shelf Drilling Key Hawaii Limited	Cayman Islands	100%
Shelf Drilling (Central Europe) Ltd.	Hungary	100%
PT. Hitek Nusantara Offshore Drilling[1]	Indonesia	80%
Shelf Drilling TBN I, Ltd.	Mauritius	100%
Shelf Drilling TBN II, Ltd.	Mauritius	100%
Rig Owning Entities & Contracting Parties:		
Adriatic 1 Limited[1]	Cayman Islands	59%
Shelf Drilling Ventures Limited[1]	Cayman Islands	59%
Trident VIII Limited[1]	Cayman Islands	59%
Shelf Drilling (Egypt) Limited	Egypt	100%
Contracting Parties:		
Shelf Drilling Services Limited	Cayman Islands	100%
Shelf Drilling (Southeast Asia) Limited	Hong Kong	100%
Shelf Drilling Adriatic Services Ltd.	Hungary	100%
Shelf Drilling Offshore Services (India) Private Limited	India	100%
Shelf Drilling Ventures (Malaysia) Sdn. Bhd.[1]	Malaysia	40%
Shelf Drilling (Nigeria) Limited[1]	Nigeria	49%
Holding Company:		
Shelf Drilling Holdings, Ltd.	Cayman Islands	100%
Head Office:		
Shelf Drilling Management Services DMCC	United Arab Emirates	100%

1. The Company through its wholly owned indirect subsidiary Shelf Drilling Holdings, Ltd., is the primary beneficiary of the entities, which are 100% consolidated in the financial statements. These entities 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. As such, 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 the majority of the benefits.

A chart which shows the subsidiaries of the Company are set out in Appendix D.

14.3 Share capital and share capital history

As at the date of the Prospectus, the Company's authorized share capital is USD 2,010,000 divided into 201,000,000 shares, each with a par value of USD 0.01 per share, of which 200,000,000 shares are designated as Common Shares and 1,000,000 shares are designated as preferred shares (the "**Preferred Shares**"). Following approval of the new Articles (as further described in Section 14.11) and upon the new Articles becoming effective on the Listing date, the Company's authorized share capital will be USD 1,440,634.73, divided into 144,063,473 shares, each with a par value of USD 0.01.

The Company has issued 83,115,394 Common Shares and 1,000,000 Preferred Shares as at the date of the Prospectus, and has a share capital of USD 841,153.94. All the shares have been issued in accordance with Cayman Islands Companies Law and the Articles and are validly issued.

The Company will only list its Common Shares, by way of the depositary receipts registered in VPS, on Oslo Børs (or alternatively on Oslo Axess). Additional details about the Common Shares are included in Section 14.5 ("*Description of the Securities*").

The Company intends to continue having two share classes after the Listing, to the extent the Preferred Shares are not fully redeemed in connection with the Offering. A brief description of key attributes of the Preferred Shares are included directly below.

14.3.1 Preferred Shares

14.3.1.1 General

The Preferred Shares are held by Castle Harlan and CHAMP Private Equity, each holding 500,000 Preferred Shares. The Preferred Shares were issued in exchange for partial settlement of a term loan as part of the Group's 2017 refinancing. The holders of the Preferred Shares are entitled to receive a cumulative preferred dividend on a semi-annual basis, on 31 January and 31 July each year, and are also given certain other special rights. To the extent not all the Preferred Shares are redeemed in connection with the Offering, the key attributes of such outstanding Preferred Shares are as included directly below.

Redemption of Preferred Shares: See Section 11.9.6.7 for the contemplated partial or full redemption of the Preferred Shares in connection with completion of the Offering and for future dividend payments on the Preferred Shares (to the extent the Offering is consummated but not all the Preferred Shares are redeemed).

General. The Preferred Shares rank senior in all respects to all other classes or series of share capital of the Company. Other than on certain matters described below, the holders of Preferred Shares have no right to receive notice of, nor any right to attend or to vote at, any general meeting of the Company or to otherwise approve or consent to any matter.

Dividends. So long as there are any Preferred Shares issued and outstanding at any time, the Company shall not declare a dividend in respect of any Common Shares unless such dividend is approved by holders of at least 75% of the issued and outstanding Preferred Shares voting as a single class.

Each holder of Preferred Shares is entitled to receive a cumulative preferred dividend for each Preferred Share (the "**Preferred Share Dividend**") on a semi-annual basis, on January 31 and July 31 of each year and on any date on which Preferred Shares are redeemed (each a "**Preferred Share Dividend Payment Date**"). The Preferred Share Dividend accrues daily from 12 January 2017 until the Liquidation Preference (as defined below) is paid in full. If the Preferred Share Dividend is not declared and paid in cash on any Preferred Share Dividend Payment Date such amount is added to the Liquidation Preference.

The Preferred Share Dividend accrues at a rate (the "**Preferred Share Dividend Rate**") determined as follows:

a) subject to clause b) below, the Preferred Share Dividend accrues for the six month (or shorter) period prior to such Preferred Share Dividend Payment Date at a rate equal to the sum of the LIBOR rate (as defined in the Articles) plus 9% per annum on the Liquidation Preference, provided, however that the 9% rate will increase by 0.5% on each Preferred Share Dividend Payment Date from and including 1 August 2020:

   I. The Preferred Share Dividend Rate will be the sum of the LIBOR rate (as defined in the Articles) plus 9% per annum until 31 July 2020;

   II. The Preferred Share Dividend Rate will be the sum of the LIBOR rate (as defined in the Articles) plus 9.5% per annum from 1 August 2020 to 31 January 2021;

   III. The Preferred Share Dividend Rate will be the sum of the LIBOR rate (as defined in the Articles) plus 10% per annum from 1 February 2021 to 31 July 2021;

   IV. a 0.5% increase of the rate added to the LIBOR rate on every Preferred Share Dividend Payment Date from 1 August 2021, (I to and including IV above are subject to clause b) below).

b) if either (1) the Company is not permitted to receive cash distributions from its subsidiaries under such subsidiaries' debt instruments and other credit facilities that are sufficient to pay the Preferred Share Dividend or (2) the Company's Minimum Liquidity (as defined in Section 20) as of a Preferred Share Dividend Payment Date (as determined on a pro forma basis after giving effect to the payment in cash of the Preferred Share Dividend) is less than the Minimum Liquidity Thresholds (as defined in Section 20) then, unless the Board of Directors declares and pays the Preferred Share Dividend entirely in cash on such Preferred Share Dividend Payment Date, the Preferred Share Dividend will only be required to be paid in cash to the extent that the payment of such cash (on a pro forma basis) both (A) is permitted by such debt instruments and other credit facilities and (B) would not cause the Minimum Liquidity to be less than the applicable Minimum Liquidity Threshold on such Preferred Share Dividend Payment Date, and the Preferred Share Dividend to the extent not declared and paid in cash will accrue for the six month (or shorter) period prior to such Preferred Share Dividend Payment Date at a rate equal to the sum of the LIBOR rate plus 9.75% per annum (adjusted upwards by 0.5% on each Preferred Dividend Payment Date from and including 1 August 2020) on the Liquidation Preference and shall be paid by adding such accrued and unpaid amount to the Liquidation Preference.

Liquidation Preference. The per Preferred Share Liquidation Preference consists of (together, the "**Liquidation Preference**"):

a) USD 166.67;

b) any amounts added under clause b) above; and

c) any accrued but unpaid Preferred Share Dividends, whether or not declared, through and including the date on which such Liquidation Preference is required to be paid.

The Liquidation Preference is due and payable upon a liquidation, dissolution or winding up of the Company.

Redemption. The Company may redeem any or all of the Preferred Shares for cash at a price per Preferred Share equal to the following:

a) (i) USD 166.67 for each Preferred Share redeemed in connection with the Offering and (ii) USD 171.67 for each Preferred Shares not redeemed in connection with the Offering in spite of completion of the Offering (i.e. the Company raising gross proceeds of USD 200 million or more).

Further, upon the election of either the holders of a majority of the Preferred Shares or a majority of the directors on the Board of Directors of the Company who are not affiliated with or designated by any of the holders of the Preferred Shares or their affiliates, the Company will redeem all the Preferred Shares for cash at a price per Preferred Share equal to the Liquidation Preference multiplied with 1.03 if any of the following occurs:

a) an exit event, meaning (i) the transfer (in one or a series of related transactions) of all or substantially all of the consolidated assets of the Group to a third party, (ii) the transfer of then-outstanding Common Shares to a third party or (iii) an amalgamation, merger or consolidation of the Company with a third party, and in the case of clauses (ii) and (iii) above, under circumstances in which the result is that the third party owns a majority in voting power of the then outstanding voting power of the Company; or

b) a change of control, meaning any transaction pursuant to or as a result of which a third party acquires equity representing a majority of the voting power of the Company or of Shelf Drilling Midco, Ltd. or Shelf Drilling Holdings, Ltd.

In addition upon the election of the holders of a majority of the outstanding Preferred Shares, the Company will be required to redeem the Preferred Shares (in an amount determined by the holders of Preferred Shares) for cash at a price per Preferred Share equal to the Liquidation Preference multiplied with 1.03 upon the breach by the Company of:

a) any material provision of the agreement under which the Preferred Shares were issued; or

b) the voting provisions in the Articles in either case that is both (1) not cured within a 30-day period after the Company's receipt of notice of breach and (2) not intentionally caused by any holder of Preferred Shares (or any Director designated to the Board of Directors by any such holder), the result of which breach is that the holders of Preferred Shares are adversely affected.

Under the Articles, if the redemption is not permitted under Cayman Islands law, then the then prevailing rate of dividend applicable to the Preferred Shares is increased by 2%.

Voting Rights. Preferred Shares have no voting rights, however the approval of holders of at least 75% of the issued and outstanding Preferred Shares, voting as a single class, is required to undertake any action that would:

a) alter or change in any respect adverse to the holders of the Preferred Shares the rights, restrictions, preferences, privileges or payment obligations with respect to the Preferred Shares, or increase or decrease (below the number of shares outstanding) the authorized number of Preferred Shares;

b) alter, amend or waive any provision of the Articles in a manner that adversely affects the rights, restrictions, preferences, privileges or payment obligations with respect to the Preferred Shares;

c) subject to certain exceptions, create (by reclassification or otherwise) or issue any class or series of equity of the Company having rights, restrictions, preferences, privileges or payment obligations senior to or on parity with the Preferred Shares or allow the Company or any of its subsidiaries to issue any equity, with certain limited exceptions;

d) subject to certain exceptions, result in the repurchase, redemption or other acquisition by the Company or any of its subsidiaries of equity securities of the Company or any of its subsidiaries,

e) result in the declaration or making of any dividend or other distribution by the Company other than dividends or other distributions on the Preferred Shares; or

f) result in an IPO pursuant to which Common Shares are sold to the public.

Transfer. The Preferred Shares may be transferred subject to notice to the Company and a limitation on (i) transfers to competitors of the Company and its subsidiaries and (ii) transfers that may breach the registration requirements of the U.S. Securities Act.

Listing and Marketing. The Company is obligated to use reasonable efforts to list the Preferred Shares on a regulated stock exchange, or otherwise market the preferred to a third party, at the request of any holder of the Preferred Shares.

14.3.1.2 Conversion of the Preferred Shares

From 1 August 2020, the Preferred Shares, including any accrued but unpaid Preferred Share Dividend on the Preferred Shares, are convertible into Common Shares at the option of the holders of the Preferred Shares by a notice from the Preferred Share holder to the Company. The conversion price per Common Shares is equal to the USD equivalent of the Offer Price based on the USD/NOK exchange rate as of the closing time of the Oslo Stock Exchange on the Listing date (the "**Conversion Price**"). The Conversion Price is subject to adjustment in case of:

a) **Subdivisions and Combinations**. In case the outstanding Common Shares shall be subdivided into a greater number of Common Shares or combined into a lesser number of Common Shares, then the Conversion Price in effect at the opening of business on the day following the day upon which such subdivision or combination becomes effective shall be adjusted to equal the product of (i) the Conversion Price in effect on such date and (ii) a fraction, the numerator of which shall be the number of Common Shares outstanding immediately prior to such subdivision or combination, and the denominator of which shall be the number of Common Shares outstanding immediately after such subdivision or combination. Such adjustment shall become effective retroactively to the close of business on the day upon which such subdivision or combination becomes effective.

b) **Dividends or Distributions Payable in Common Shares**. In case the Company shall pay or make a dividend or other distribution on Common Shares payable in Common Shares, the Company shall give prompt notice to the holders of the Preferred Shares of such dividend or distribution, and the Conversion Price in effect at the opening of business on the day following the date fixed for the determination of stockholders entitled to receive such dividend or other distribution shall be reduced by multiplying such Conversion Price by a fraction, the numerator of which shall be the number of Common Shares outstanding (excluding shares held in the treasury of the Company) at the close of business on the date fixed for such determination and the denominator of which shall be the sum of such number of Common Shares outstanding (excluding shares held in the treasury of the Company) at the close of business on the date fixed for such determination and the total number of Common Shares constituting such dividend or other distribution, such reduction to become effective retroactively to a date immediately following the close of business on the record date for the determination of the holders entitled to such dividends and distributions.

The conversion value of each Preferred Share is USD 166.67 and provided that (i) there are no accrued and unpaid Preferred Share Dividends and (ii) the Offer Price is set at the mid-point of the Indicative Price Range, which equals USD 8.0588 based on the Norwegian Central Bank's exchange rate for USD/NOK as of 11 June, each Preferred Share entitles the holder to receive 19.61 Common Shares.

14.3.2 Share capital history

In the period covered by the Financial Statements, i.e. from 1 January 2015 up until 31 December 2017, the following changes have been made in the Company's share capital:

- At the beginning of 2015, the Company had 446,638 Class A shares, 24,973 Class B shares and 6,106 Class C shares, each with a par value of USD 0.01 each.

- During the year ended 31 December 2015, 193 Class A shares, 184 Class B shares and 14 Class C shares were repurchased and retired, each share with a par value of USD 0.01 each.

- During the year ended 31 December 2016, the Company issued 2,659 Class B Shares and 176 Class C shares under the time-based and performance-based share compensation plan to members of the Company's management, each share with a par value of USD 0.01 each.

- During the year ended 31 December 2016, 1,851 Class A shares, 2,349 Class B shares and 193 Class C shares were repurchased and retired, each share with a par value of USD 0.01 each.

- In the period between 1 January 2017 and 28 April 2017, the Company issued 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, each share with a par value of USD 0.01 each.

- On 12 January 2017, the Company issued 1,000,000 Preferred Shares, each with a nominal value of USD 0.01, at a subscription price of USD 166.67 per share for a value of USD 166.67 million to certain shareholders, as further described in Section 14.3.1 ("*Preferred Shares*").

- As part of a private placement completed on 2 May 2017, all Class A shares, Class B shares, Class C shares and Class D shares, including shares which had been issued and was held in trust for share-based compensation, were repurchased and retired, against issuance of 55,000,000 Common Shares, and an additional 28,125,000 Common Shares were issued to the investors who participated in the private placement, taking the total amount of Common Shares issued up to 83,125,000 (the "**Recapitalization**"), 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**
Common Shares issued in the private placement	**-**	28,125,000
Common Shares following the Recapitalization		**83,125,000**

- After the Recapitalization, the Company's share capital was USD 83,225,000, consisting of Common Shares 83,125,000 and 1,000,000 Preferred Shares, all with a nominal value of USD 0.01.

- As part of the Recapitalization, the Company also increased its authorized share capital from 5,001,020 ordinary shares and 1,000,000 Preferred Shares, each with a par value of USD 0.01, to 200,000,000 Common Shares and 1,000,000 Preferred Shares, each with a par value of USD 0.01, taking the total authorized share capital up to USD 2,010,000.

In order to determine the number of new Common Shares to be allocated against each ordinary share repurchased in the Recapitalization, 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 had 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 USD 0.01 per share.

In the following is an overview of the Company's total outstanding shares at the end of each of the years covered by the Historical Financial Information.

	Total outstanding shares at the year ended 2017	**Total outstanding shares at the year ended 2016**	**Total outstanding shares at the year ended 2015**
Class A	-	444,594	446,445
Class B	-	25,099	24,789
Class C	-	6,075	6,092
Class D	-	-	-
Common Shares	83,125,000	-	-
Preferred Shares	1,000,000	-	-
Total	**84,125,000**	**475,768**	**477,326**

From the date of the Recapitalization to the date of this Prospectus, the Company has redeemed 9,606 Common Shares. The redemption was effective 31 March 2018, and resulted in a decrease of the Company's share capital of USD 96.06, and taking the total amount of issued Common Shares to 83,115,394.

14.4 Admission to trading

The Company expects to apply for admission to trading of the Securities on Oslo Børs, or alternatively Oslo Axess on 14 June 2018. It is expected that the board of directors of the Oslo Stock Exchange will approve the listing application of the Company on or about 19 June 2018, subject to certain conditions being met. See Section 17.15 ("*Conditions for completion of the Offering – Listing and trading of the Offer Securities*").

14.4.1 Board authorization

As of the date of this Prospectus, the Company has an authorized share capital of USD 2,010,000, of which 200,000,000 shares are designated Common Shares and 1,000,000 shares are designated as Preferred Shares. Following approval of the new Articles (as further described in Section 14.11) and upon the new Articles becoming effective on the Listing date, the Company's authorized share capital will be USD 1,440,634.73, divided into 144,063,473 shares, each with a par value of USD 0.01.

As of the date of this Prospectus, the Company's issued share capital is USD 841,153.94, consisting of 83,115,394 issued Common Shares, each with a par value of USD 0.01, and 1,000,000 issued Preferred Shares, each with a par value of USD 0.01. Based on the new authorized share capital effective from the Listing date, the Board of Directors of the Company is authorized to issue the remaining authorized share capital of USD 599,480.79 as Common Shares, representing 59,948,079 Common Shares of par value USD 0.01 each.

14.5 Description of the Securities

14.5.1 Introduction

The VPS Registrar will issue and deliver the Securities to the Security holders. The Securities, being the depository receipts that represents the beneficial interests in the Common Shares, will be registered in the VPS in book-entry form under the name of a "share" and will be listed and traded on the Oslo Stock Exchange in the form of depository receipts as "shares in Shelf Drilling, Ltd.", in NOK. Each Security will represent one Common Share as registered in the Company's shareholder register in the Cayman Islands and be registered in the name of the VPS Registrar.

Security holders will not have direct shareholder rights as the VPS Registrar will be the registered owner of the underlying financial instruments of the Securities. See Section 14.5.6 ("*Mandatory provisions of Cayman Islands law relating to the Securities*") below for a description of the mandatory provisions under Cayman Islands law relating to the Securities. The rights and obligations of the VPS Registrar are described further in Section 14.6.2 ("*The Registrar Agreement*"). Other than as described in this Section 14.5, there are no differences between the rights attached to the Securities and the Common Shares.

14.5.2 Issuance

The VPS Registrar will issue and deliver the Securities to the Security holders in the VPS register, in accordance with the Norwegian Act on Registration of Financial Instruments of 5 July 2002 no. 64. All Securities will be issued and registered in book-entry form through the VPS system and Security holders may obtain statements, showing the number of Securities held, online or through the VPS account operator who maintains the Security holder's VPS account.

14.5.3 Record dates

The Company may fix a record date for the determination of the Security holders who will be entitled to receive any distribution on or in respect of the shares, to give instructions for the exercise of any voting rights, to receive any notice or to act in respect of other matters and only such Security holders at such record date will be so entitled or obligated. The VPS registrar may fix the same.

14.5.4 Voting rights

Each underlying Common Share, and hence each of the Securities, carries one vote. Security holders may instruct the VPS Registrar to vote the underlying Common Shares held by them (in the form of Securities), subject to any applicable provisions of Cayman Islands law. The Company will furnish voting materials to the VPS Registrar and the VPS Registrar will notify the Security holders of the upcoming vote and arrange to deliver the Company's voting materials to the Security holder. Otherwise, Security holders will not be able to exercise their voting rights unless the steps outlined in Section 15.3 ("*The VPS and transfer of Securities*") are followed. The VPS Registrar's notice will describe the information in the voting materials and explain how Security holders may instruct the VPS Registrar to vote the underlying shares.

The VPS Registrar will only vote or attempt to vote as the Security holders' instruct. The VPS Registrar itself will not exercise any voting rights.

14.5.5 Reclassification, recapitalization and mergers

If the Company reclassify, split up or cancel any of the deposited securities; distribute securities on the shares that are not distributed to Security holders; or recapitalize, reorganize, amalgamate, merge, consolidate, liquidate, sell all or substantially all of its assets, or go into liquidation, receivership or bankruptcy; then the VPS Registrar may choose to either (i) amend the form of the Securities, (ii) distribute additional or amended Securities, (iii) distribute the cash, securities or other property received in connection with such actions or (iv) sell any securities or property received and distribute the net proceeds as cash. If the VPS Registrar does not choose any of the above, the cash, securities or other property it receives will constitute deposited securities and each Security will automatically represent its equal share of the new deposited cash, securities or other property, or a combination thereof, as the case may be.

14.5.6 Mandatory provisions of Cayman Islands law relating to the Securities

14.5.6.1 Foreign exchange

There are no foreign exchange controls or foreign exchange regulations under the currently applicable laws of the Cayman Islands.

14.5.6.2 Taxes

See Section 16.1 ("*Cayman Islands taxation*") for a description of certain Cayman Islands taxation consequences of holding Securities.

14.5.6.3 Information

The VPS Registrar shall provide the Company with the information on the data and withdrawal of Securities, the number of Securities in circulation, and also information on the transactions on Securities, including at least price (if and when made available by the VPS) and units traded, as available to the VPS Registrar in the VPS system.

14.6 VPS registration of the Securities

14.6.1 Introduction

In order to facilitate registration of the Securities in the VPS, the Company has entered into a deposit and registrar agreement (the "**Registrar Agreement**") with the VPS Registrar, which administrates the Company's VPS register. The VPS Registrar is DNB Bank ASA, Verdipapirservice with registered office at Dronning Eufemias Gate 30, N-0021 Oslo, Norway. DNB Bank ASA is a Norwegian public limited liability company, established and incorporated under the laws of Norway on 10 September 2002 and registered in the Norwegian Business Register under registration number 984 851 006.

Pursuant to the Registrar Agreement, the VPS Registrar is registered as holder of the shares in the Company's shareholder register in the Cayman Islands, which the Company is required to maintain pursuant to Cayman Islands law. The VPS Registrar registers the Securities, including the Offer Securities, in book-entry form with the VPS. Therefore, it is not the Common Shares in registered form issued in accordance with the Cayman Islands Companies Law, but the beneficial interests in such shares in book-entry form that are registered with the VPS.

At the date of this Prospectus, the Company has only one class of Securities. The Securities have ISIN code KYG236271055.

The Registrar Agreement is subject to Norwegian law and, accordingly, the Offer Securities delivered will be established under Norwegian law. The Offer Securities will be registered in book-entry form with the VPS under the category of a "share" and it is such interest in the Securities that will be registered and traded on Oslo Børs (or alternatively on Oslo Axess). Each Security registered with the VPS will represent the beneficial ownership of one Common Share. The Securities are freely transferable, with delivery and settlement through the VPS system. The Securities will be priced and traded in NOK on Oslo Børs (or alternatively on Oslo Axess).

14.6.2 The Registrar Agreement

Pursuant to the Registrar Agreement, the VPS Registrar will register the Securities in the VPS register. The shares will be registered in the Company's shareholder register in the name of the VPS Registrar. The Security holders must look solely to the VPS Registrar for the payment of dividends, for the exercise of voting rights attaching to the Securities and for all other rights arising in respect of the Securities. In order to exercise any rights directly as shareholder, a Security holder must retire his or her Securities in the VPS in exchange for shares in order to be entered into the Company's shareholder register. Such exchange will disable trading of the exchanged Securities on the Oslo Stock Exchange until the Securities are re-registered in the VPS. Security holders who wish to retire their Securities in the VPS must contact the VPS Registrar.

The Company will pay dividends directly to the VPS Registrar, which in turn has undertaken to distribute the dividends and other declared distributions to the Security holders in accordance with the Registrar Agreement. Security holders who maintain a Norwegian address in the VPS register or have supplied VPS with details of their NOK account shall receive their dividend payment in NOK to such account. Dividends will, however, be resolved and paid by the Company in USD as the accounting currency of Shelf. Security holders whose address registered with the VPS is outside Norway and who have not provided the VPS with details of any NOK account, will receive dividends by check in their local currency. If it is not practical in the VPS Registrar's sole opinion to issue a check in a local currency, a check will be issued in USD. The exchange rate(s) that will be applied to the conversion of USD received by the VPS Registrar into NOK and, where applicable, the conversion by the VPS Registrar of NOK into other currencies (including USD) will be the exchange rate on the date of issuance. The VPS Registrar will not hold any right to share in profits and any liquidations surplus which are not passed on to the Security holders.

The VPS Registrar shall not attend nor vote at any of the Company's general meetings, other than pursuant to an authorization from the Security holders.

The Security holders have the right to require the Securities to be exchanged for underlying Common Shares. If this is exercised by a Security holder, the VPS Registrar may submit an application to the Board of Directors and request transfer of Common Shares from the account of the VPS Registrar to a new account in the name of the Security holder. The Board of Directors should not unreasonably withhold approval of such applications. An application from the VPS Registrar may form part of, but is not limited to, proceedings in connection with a take-over of the Company.

The VPS Registrar is only liable for any direct loss suffered by the Company as a result of breach of contract. Each of the Company and the VPS Registrar may terminate the Registrar Agreement at any time with a minimum of three months' prior written notice, or immediately upon written notice of a material breach by the other party of the Registrar Agreement. In the event that the Registrar Agreement is terminated, the Company will use its reasonable best efforts to enter into a replacement agreement for purposes of permitting the uninterrupted trading of the Securities on the Oslo Stock Exchange.

14.7 Ownership structure

As at 7 June 2018, the Company had 47 shareholders holding Common Shares.

Each of the Sponsors holds 20.7% of the Common Share capital (in total 62.1%). Euroclear Bank S.A./25% CLIENTS and Clearstream Banking are also large shareholders, holding 23.3% and 8.0%, respectively, but these are acting as nominee shareholders. The table below shows the Company's 20 largest holders of Common Shares as recorded in the shareholders' register of the Company as of 7 June 2018, being the last practical date prior to the date of the Prospectus.

#	Shareholder Name	No. of shares	Percentage (%)
1	Euroclear Bank S.A./ 25% CLIENTS	19,357,474	23.3%
2	Lime Rock Partners	17,195,797	20.7%
3	Castle Harlan	17,195,797	20.7%
4	CHAMP Private Equity	17,195,797	20.7%
5	Clearstream Banking	6,625,000	8.0%
6	John K. Castle as Voting Trustee	3,403,003	4.1%
7	Banque Pictet & Cie	591,874	0.7%
8	ODIN Energi	424,000	0.5%
9	State Street Bank an A/C CLIENT OMNIBUS F	174,999	0.2%
10	Skeie Technology AS	150,000	0.2%
11	JPMorgan Chase Bank, NORDEA TREATY ACCOUNT	149,710	0.2%
12	UBS AG London br. A/C CLIEN	119,000	0.1%
13	Momentum Investments	71,500	0.1%
14	Stavern Helse og Forvaltning AS	65,000	0.1%
15	Jag Holding AS	65,000	0.1%
16	Barøfoss Invest AS	40,000	<0.1%
17	ALFA GLOBAL ENER	35,000	<0.1%
18	Pål Krantz AS	30,000	<0.1%
19	PONGO AS	25,000	<0.1%
20	Compass Capital Ltd	25,000	<0.1%
Top 20		**82,938,951**	**99.8%**
Other		**176,443**	**0.2%**
Total		**83,115,394**	**100%**

Shareholders owning 5% or more of the Common Shares, including the Securities will, following the Listing, have an interest in the Company's share capital which is notifiable pursuant to the Norwegian Securities Trading Act. See Section 15.6 ("*Disclosure obligations*") for a description of the disclosure obligations under the Norwegian Securities Trading Act.

As of 7 June 2018, no shareholder other than Euroclear Bank S.A. / 25% CLIENTS (23.3%), Lime Rock Partners (20.7%), Castle Harlan (20.7%), CHAMP Private Equity (20.7%) and Clearstream Banking (8.0%) holds more than 5% or more of the issued shares.

Upon completion of the Offering, and assumed that 29,411,679 New Securities are issued in the Offering, Lime Rock Partners, Castle Harlan and CHAMP Private Equity are expected to have an ownership interest in the Company of 15.28% each and 45.8% in total of the Company's share capital.

Other than as described above and following completion of the Offering, the Company is not aware of any other persons or entities who, directly or indirectly, jointly or severally, will exercise or could exercise control over the Company. The Company is not aware of any arrangements the operation of which may at a subsequent date result in a change of control of the Company.

No particular measures are initiated to ensure that control is not abused by large shareholders. Minority shareholders are protected against abuse by the relevant regulations under Cayman Islands law. See Section 14.11 ("*The Articles and certain aspects of Cayman Islands law*") and Section 15.8 ("*Mandatory offer requirement*").

14.8 Authorization to acquire treasury shares

The Company does not hold any treasury shares or Securities. Under the Articles, the Directors may, prior to the purchase, redemption or surrender of any share, determine that such share shall be held as a treasury share, and the Directors may determine to cancel a treasury share or transfer a treasury share on such terms as they think proper (including, without limitation, for nil consideration). Notwithstanding the foregoing, any Preferred Shares redeemed or repurchased by the Company shall be retired and cancelled and may not be reissued.

14.9 Other financial instruments

The Company has not issued any options, warrants, convertible loans or other instruments that would entitle a holder of any such instrument to subscribe for any shares or Securities in the Company as of the date of this Prospectus, except for the Preferred Shares which have a conversion right into Common Shares as described in Section 14.3.1.2 ("*Conversion of the Preferred Shares*"). Further, none of the companies in the Group have issued any convertible loans or subordinated debt or transferrable securities.

14.10 Shareholder rights

The Company has two classes of shares in issue, being Common Shares and Preferred Shares. The Common Shares confer upon such shareholders the right to receive notice of and to attend and to vote at any general meeting of the Company, and each holder of a Common Share is entitled at such general meeting to exercise one vote per Common Share held. Except as otherwise expressly provided in the Articles or as otherwise required by non-waivable law, the Preferred Shares do not confer upon holders the right to receive notice of, nor any right to attend or to vote at, any general meeting of the Company or to otherwise approve or consent to any matter. The rights attaching to the shares are described in Section 14.3.1 ("*Preferred Shares*") and Section 14.11 ("*The Articles and certain aspects of Cayman Islands law*").

14.11 The Articles and certain aspects of Cayman Islands law

The current memorandum and articles of association of the Company, as set out in Appendix E, are contemplated amended to be in the form as set out in Appendix A in an extraordinary general meeting to be held on 19 June 2018 (the memorandum and articles of association set out in Appendix A are referred to as the "**Articles**"). Each of the Sponsors has undertaken to vote in favor of the new Articles. Completion of the Offering is, among other, conditional upon the new Articles having been approved by the extraordinary general meeting and becoming effective no later than on the date of Listing. To the extent the Preferred Shares are not fully redeemed in connection with the Offering, the Board of Directors will shortly after the Listing date, to the extent necessary, amend the Articles by a Board resolution to reflect the key attributes of the Preferred Shares as set out Section 14.3.1. If all the Preferred Shares are fully redeemed in connection with the Offering, the Board of Directors of Directors will amend the Articles in order to remove the provisions related to the Preferred Shares.

This Section 14.11 describes the Articles, as set out in Appendix A, which will be effective as of the date of Listing.

Cayman Islands companies are governed by the Cayman Islands Companies Law (as amended) (the "**Companies Law**"). The Companies Law is modelled on English law but does not follow recent English Law statutory enactments, and differs from laws applicable to United States and Norwegian corporations and their shareholders. Set forth below is a summary of certain key provisions of the Companies Law and the Articles applicable to the Company and its shareholders following the contemplated amendment.

14.11.1 Objects of the Company

The objects of the Company, as set out in paragraph 3 of the memorandum of association of the Company, are unrestricted and the Company shall have the full power and authority to carry out any object not prohibited by applicable law.

14.11.2 Dividends

Subject to the rights of the holders of Preferred Shares described in Section 14.3.1 ("*Preferred Shares*"), the holders of Common Shares are entitled to such dividends, as may be declared by the Board of Directors. In addition, the Company's shareholders may by ordinary resolution declare a dividend (including interim dividends) in accordance with the respective rights of the shareholders, provided that no dividend shall exceed the amount recommended by the Board of Directors. Under Cayman Islands law, dividends may be declared and paid only out of funds legally available therefor, namely out of either profit or the share premium account, and a dividend may not be paid if this would result in the company being unable to pay its debts as they fall due in the ordinary course of business.

The Board of Directors may declare that any dividend should be paid wholly or partly by the distribution of shares or other specific assets.

Reference is made to Section 6 ("*Dividends and Dividend Policy*") and Section 14.3.1 ("*Preferred Shares*") for a further description of the Company's dividend policy and the Company's intention not to pay dividends in respect to its Common Shares.

14.11.3 Voting Rights

Holders of Common Shares in the Company vote as a single class on all matters submitted to a vote of the shareholders at general meetings of the Company, except as may otherwise be required by law. Each holder of Common Shares is entitled to one vote per Common Share held at such general meetings as provided in the Articles.

There is no quorum requirement for the conduct of meetings of shareholders but at least one shareholder must be present. Shareholders may be present in person or by proxy or, if the shareholder is a legal entity, by its duly authorized representative. Shareholders' meetings may be convened by a majority of directors or by a requisition of shareholders holding not less than 10% of the issued and outstanding voting shares of the Company. Advance notice of at least 14 clear days is required for the convening of the annual general meeting and any other general meeting.

An ordinary resolution to be passed by the shareholders requires the affirmative vote of a simple majority of the votes cast by those shareholders entitled to vote who are present in person or by proxy at a general meeting, while a special resolution requires the affirmative vote of more than two-thirds of the votes cast by those shareholders entitled to vote who are present in person or by proxy at a general meeting. A special resolution is required for important matters such as merging with another entity, changing the name of the Company, commencing the voluntary winding up and liquidation of the company (and giving certain instructions to a liquidator), transferring the Company to a new jurisdiction and making changes to the Articles. Certain changes may be effected by ordinary resolution, including increasing the amount of authorized share capital, consolidating all or any of the share capital into shares of larger amount than the existing shares, sub-dividing any of the shares into shares of an amount smaller than that fixed by the memorandum and cancelling any unissued shares.

The separate class rights of the holders of Common Shares, which includes the ability of the holders of such shares to attend at vote at general meetings, receive dividends, participate in the assets of the Company and to transfer their Common Shares freely, may be varied the with the consent in writing of the holders of not less than two thirds of the issued and outstanding Common Shares, or with the sanction of a resolution passed by a majority of not less than two thirds of the votes cast at a separate meeting of the holders of Common Shares.

The holders of Common Shares who are not Sponsors are not permitted to exercise any vote with regard to the appointment or removal of the Sponsor appointed Directors of the Company. See Section 12.1.1 ("*Overview of the Board of Directors").*

The holders of Preferred Shares are not ordinarily permitted to receive notice of or to attend or vote at general meetings of the Company. See Section 14.3.1 ("*Preferred Shares*") for a description of voting rights pertaining to the Preferred Shares.

14.11.4 Mergers and similar arrangements

The Companies Law permits mergers and consolidations between Cayman Islands companies and between Cayman Islands companies and non-Cayman Islands companies. For these purposes, (i) "merger" means the merging of two or more constituent companies and the vesting of their undertaking, property and liabilities in one of such companies as the surviving company and (ii) a "consolidation'" means the combination of two or more constituent companies into a consolidated company and the vesting of the undertaking, property and liabilities of such companies to the consolidated company. The merger or consolidation of two or more companies under Cayman Islands law requires the directors of each constituent company to approve a written plan of merger or consolidation, which must also be authorized by (i) a special resolution of the shareholders of each constituent company, and (ii) such other authorization, if any, as may be specified in such constituent company's articles of association. The written plan of merger or consolidation must be filed with the Registrar of Companies together with a declaration as to the solvency of the consolidated or surviving company, a declaration as to the assets and liabilities of each constituent company and an undertaking that a copy of the certificate of merger or consolidation will be given to the shareholders and creditors of each constituent company and that notification of the merger or consolidation will be published in the Cayman Islands Gazette.

In relation to any merger or consolidation under the Companies Law, dissenting shareholders have certain limited appraisal rights, providing rights to be paid the fair value of their shares (which, if not agreed between the parties, will be determined by the Cayman Islands courts) if they follow the required procedures, subject to certain exceptions. Court approval is not required for a merger or consolidation which is effected in compliance with these statutory procedures.

The Companies Law also provides for a statutory process called a scheme of arrangement that facilitates the reconstruction and/or amalgamation of companies. A scheme of arrangement may be proposed between a company and its creditors or any class of them, or between the company and its shareholders or any class of them. A successful scheme of arrangement must be approved by shareholders or creditors who represent a majority in number and 75% in value of each such class of shareholders or creditors with whom the arrangement is to be made, who attend and vote, either in person or by proxy, at a meeting or meetings convened for that purpose. The convening of meetings and the subsequent sanctioning of any such scheme of arrangement must be approved by the Grand Court of the Cayman Islands. While a dissenting shareholder has the right to express to the court the view that the transaction ought not to be approved, the court can be expected to approve the arrangement if it determines that:

- the statutory provisions as to the required majority vote have been met;
- the shareholders have been fairly represented at the meeting in question and the statutory majority are acting bona fide without coercion of the minority to promote interests adverse to those of the class;
- the scheme of arrangement is such that it may be reasonably approved by an intelligent and honest man of that class acting in respect of his interest; and
- the scheme of arrangement is not one that would more properly be sanctioned under some other provision of the Companies Law.

If a scheme of arrangement is thus approved, the dissenting shareholders would have no rights comparable to appraisal rights, which would otherwise ordinarily be available to dissenting shareholders in the context of a merger.

Alternatively, when a tender offer to acquire shares is made and accepted (within four months) by holders of not less than 90% in number of the shares subject to such offer, the offeror may, within a two-month period commencing on the expiration of such four month period, require the holders of the remaining shares to transfer such shares on the terms of the offer. An objection can be made to the Grand Court of the Cayman Islands but this is unlikely to succeed in the case of an offer which has been so approved unless there is evidence of fraud, bad faith or collusion. Again, in relation to such transactions no rights comparable to appraisal rights will be available to dissenting shareholders.

14.11.5 Shareholders' actions

In principle, the Company will normally be the proper plaintiff in any claim for a wrong done to the Company and a class action or derivative action may ordinarily not be brought by a minority shareholder. However, based on English authorities, which would in all likelihood be of persuasive authority in the Cayman Islands, the Cayman Islands courts can be expected (and have had occasion) to follow and apply the common law principles (namely the rule in Foss v. Harbottle and the exceptions thereto) so that a minority shareholder may be permitted to commence a representative action against, or a derivative action in the name of, a company to challenge:

- an act which is ultra vires the company or illegal and is therefore incapable of ratification by the shareholders;
- an act which requires a resolution with a qualified (or special) majority (i.e., more than a simple majority) which has not been obtained; or
- an act which constitutes a "fraud on the minority" where the wrongdoers are themselves in control of the company.

14.11.6 Fiduciary duties of directors

As a matter of Cayman Islands law, a director of a Cayman Islands company is in the position of a fiduciary with respect to the company and therefore it is considered that he owes the following duties to the company: a duty to act in good faith (bona fide) in the best interests of the company; a duty not to make a profit out of his position as director (unless the company permits him to do so); a duty to exercise his powers for the purposes for which they are conferred; and a duty not to put himself in a position where the interests of the company conflict with his personal interest or his duty to a third party. A director of a Cayman Islands company owes to the company a duty to act with skill and care. It was previously considered that a director need not exhibit in the performance of his or her duties a greater degree of skill than may reasonably be expected from a person of his or her knowledge and experience. However, English and Commonwealth courts have moved towards an objective standard with regard to the required skill and care and these authorities are likely to be followed in the Cayman Islands.

Under the Articles, directors who are in any way, whether directly or indirectly, interested in a contract or proposed contract with the Company must declare the nature of their interest at a meeting of the board of directors. Following such declaration, a director may vote in respect of any contract or proposed contract notwithstanding his interest; provided that, in exercising any such vote, such director's duties remain as described above.

14.11.7 Variation of rights of shares

Under Cayman Islands law the process to vary rights of shares is set out in the company’s articles of association. Under the Articles, if the Company's share capital is divided into more than one class of shares, the rights attached to any class may be varied: (i) without the consent of the holders of the issued and outstanding shares of that class where such variation is considered by the directors not to have a material adverse effect upon such rights; (ii) otherwise, provided that any such variation shall be made only with the consent in writing of the holders of not less than two thirds of the issued and outstanding shares of that class, or with the sanction of a resolution passed by a majority of not less than two thirds of the votes cast at a separate meeting of the holders of the shares of that class.

14.11.8 Sale of assets

The Companies Law contains no specific restrictions on the powers of directors to dispose of all or substantially all of the assets of a company and does not require the vote of the shareholders to do so. As a matter of general law, in the exercise of those powers, the directors must discharge their duties of care and to act in good faith, for a proper purpose and in the best interests of the company.

14.11.9 Transactions with interested shareholders

Cayman Islands law does not prohibit business combinations with interested shareholders (as may apply in other jurisdictions). However, although Cayman Islands law does not regulate transactions between a company and its significant shareholders, it does provide that such transactions must be entered into bona fide in the best interests of the company and for a proper purpose and not with the effect of constituting a fraud on the minority shareholders.

14.11.10 Dissolution and winding up

Under the Companies Law of the Cayman Islands and the Articles, the Company may be voluntarily wound up only by a special resolution of the shareholders. In addition, a company may be wound up by the Grand Court of the Cayman Islands if the company is unable to pay its debts as they fall due or if the court is of the opinion that it is just and equitable that the company is wound up.

14.11.11 Indemnification

The Articles provide for the indemnification and exculpation of the Company’s Directors save where any Director has engaged in willful misconduct or actual fraud.

14.11.12 Inspection of books and records

Shareholders of the Company have no general right under Cayman Islands law to inspect or obtain copies of the Company's register of shareholders or corporate records except the Articles.

14.11.13 Amendment of governing documents

As permitted by Cayman Islands law, the Articles may be amended with the sanction of a special resolution passed at a general meeting of shareholders.

14.11.14 No preemptive rights

Holders of Common Shares have no preemptive or preferential right to purchase any of the Company's securities.

14.12 Shareholders' agreements

The Company has entered into a shareholders agreement with the Sponsors and a shareholders agreement with members of management holding Common Shares. Both of these shareholders agreements will be terminated upon completion of the Listing.

15 SECURITIES TRADING IN NORWAY

Set out below is a summary of certain aspects of securities trading in Norway. The summary is based on the rules and regulations in force in Norway as at the date of this Prospectus, which may be subject to changes occurring after such date. The summary does not purport to be a comprehensive description of securities trading in Norway. Security holders who wish to clarify the aspects of securities trading in Norway should consult with and rely upon their own advisors.
Introduction

The Oslo Stock Exchange was established in 1819 and is the principal market in which shares, bonds and other financial instruments are traded in Norway.

The Oslo Stock Exchange has entered into a strategic cooperation with the London Stock Exchange group with regards to, inter alia, trading systems for equities, fixed income and derivatives.

15.1 Trading and settlement

Trading of equities on the Oslo Stock Exchange is carried out in the electronic trading system Millennium Exchange. This trading system is in use by all markets operated by the London Stock Exchange, including the Borsa Italiana, as well as by the Johannesburg Stock Exchange.

Official trading on the Oslo Stock Exchange takes place between 09:00 hours (CET) and 16:20 hours (CET) each trading day, with pre-trade period between 08:15 hours (CET) and 09:00 hours (CET), closing auction from 16:20 hours (CET) to 16:25 hours (CET) and a post-trade period from 16:25 hours (CET) to 17:30 hours (CET). Reporting of after exchange trades can be done until 17:30 hours (CET).

The settlement period for trading on the Oslo Stock Exchange is two trading days (T+2). This means that securities will be settled on the investor's account in VPS two days after the transaction, and that the seller will receive payment after two days.

SIX x-clear Ltd, a company in the SIX group, through its Norwegian branch, has a license from the Norwegian FSA to act as a central clearing service, and has from 18 June 2010 offered clearing and counterparty services for equity trading on the Oslo Stock Exchange.

Investment services in Norway may only be provided by Norwegian investment firms holding a license under the Norwegian Securities Trading Act, branches of investment firms from an EEA member state or investment firms from outside the EEA that have been licensed to operate in Norway. Investment firms in an EEA member state may also provide cross-border investment services into Norway.

It is possible for investment firms to undertake market-making activities in securities listed in Norway if they have a license to this effect under the Norwegian Securities Trading Act, or in the case of investment firms in an EEA member state, a license to carry out market-making activities in their home jurisdiction. Such market-making activities will be governed by the regulations of the Norwegian Securities Trading Act relating to brokers' trading for their own account. However, such market-making activities do not as such require notification to the Norwegian FSA or the Oslo Stock Exchange except for the general obligation of investment firms that are members of the Oslo Stock Exchange to report all trades in stock exchange listed securities.

15.2 Information, control and surveillance

Under Norwegian law, the Oslo Stock Exchange is required to perform a number of surveillance and control functions. The Surveillance and Corporate Control unit of the Oslo Stock Exchange monitors all market activity on a continuous basis. Market surveillance systems are largely automated, promptly warning department personnel of abnormal market developments.

The Norwegian FSA controls the issuance of securities in both the equity and bond markets in Norway and evaluates whether the issuance documentation contains the required information and whether it would otherwise be unlawful to carry out the issuance.

Under Norwegian law, a company that is listed on a Norwegian regulated market, or has applied for listing on such market, must promptly release any inside information directly concerning the company (i.e. precise information about financial instruments, the issuer thereof or other matters which are likely to have a significant effect on the price of the relevant financial instruments or related financial instruments, and which are not publicly available or commonly known in the market). A company may, however, delay the release of such information in order not to prejudice its legitimate interests, provided that it is able to ensure the confidentiality of the information and that the delayed release would not be likely to mislead the public. The Oslo Stock Exchange may levy fines on companies violating these requirements

15.3 The VPS and transfer of Securities

The shareholder register of the Company is maintained at the registered office of the Company in the Cayman Islands. The Securities will be registered in the VPS. The VPS is the Norwegian paperless centralized securities register. It is a computerized book-keeping system in which the ownership of, and all transactions relating to, securities traded on the Oslo Stock Exchange must be recorded. The VPS and the Oslo Stock Exchange are both wholly-owned by Oslo Børs VPS Holding ASA.

All transactions relating to securities registered with the VPS are made through computerized book entries. No physical share certificates are, or may be, issued. The VPS confirms each entry by sending a transcript to the registered owner irrespective of any beneficial ownership. To give effect to such entries, the individual security holder must establish a VPS securities account with a Norwegian VPS account operator. Norwegian banks, Norges Bank (being the Central Bank of Norway), authorised securities brokers in Norway and Norwegian branches of credit institutions established within the EEA are allowed to act as VPS account operator.

The entry of a transaction in the VPS is prima facie evidence under Norwegian law in determining the legal rights of parties as against the issuing company or any third party claiming an interest in the given security. A transferee or assignee of securities may not exercise the rights of a Security holder with respect to such securities unless such transferee or assignee has registered such security holding or has reported and shown evidence of such security acquisition, and the acquisition is not prevented by law, the relevant company's Articles or otherwise.

Security holders who hold shares in the Company's shareholder register in the Cayman Islands and wish to receive and register a corresponding Security in the VPS must instruct and authorize the VPS Registrar to receive such Securities. Upon the VPS Registrar's receipt of the shares, the Securities will be issued by the VPS Registrar and delivered to the VPS Account (as defined below) of the Security holder. Security holders who wish to transfer their Securities from the VPS register to the Company's shareholder register, must advise the VPS Registrar to deliver and transfer the Securities to an intermediary VPS account of the VPS Registrar and they will then receive shares upon the VPS Registrar's receipt of instructions on delivery.

The VPS is liable for any loss suffered as a result of faulty registration or an amendment to, or deletion of, rights in respect of registered securities unless the error is caused by matters outside the VPS' control which the VPS could not reasonably be expected to avoid or overcome the consequences of. Damages payable by the VPS may, however, be reduced in the event of contributory negligence by the aggrieved party.

The VPS must provide information to the Norwegian FSA on an ongoing basis, as well as any information that the Norwegian FSA requests. Further, Norwegian tax authorities may require certain information from the VPS regarding any individual's holdings of securities, including information about dividends and interest payments.

15.4 Shareholder register and share certificates

The shareholder register of the Company is maintained at the registered office of the Company in the Cayman Islands. The Company's shareholder register is maintained by Centralis Cayman Limited, located at One Capital Place, 3rd floor, Grand Cayman, PO Box 1564, Cayman Islands, KY1-1110. The Securities will be registered in the name of the Security holder in the VPS. Security holders may register their Securities in the VPS in the name of a nominee (bank or other nominee) approved by the Norwegian FSA. An approved and registered nominee may have a duty to provide information on demand about beneficial Security holders to the Company and to the Norwegian authorities. In case of registration by nominees, the registration in the VPS must show that the registered owner is a nominee. A registered nominee has the right to receive dividends and other distributions.

15.5 Foreign investment in shares listed in Norway

Foreign investors may trade in the Securities (listed on the Oslo Stock Exchange) through any broker that is a member of the Oslo Stock Exchange, whether Norwegian or foreign.

15.6 Disclosure obligations

If a person's, entity's or consolidated group's proportion of the total issued securities and/or rights to securities in a company listed on a regulated market in Norway (with Norway as its home state, which will be the case for the Company) reaches, exceeds or falls below the respective thresholds of 5%, 10%, 15%, 20%, 25%, 1/3, 50%, 2/3 or 90% of the share capital or the voting rights of that company, the person, entity or group in question has an obligation under the Norwegian Securities Trading Act to notify the Oslo Stock Exchange and the issuer immediately. The same applies if the disclosure thresholds are passed due to other circumstances, such as a change in the company's share capital.

15.7 Insider trading

According to Norwegian law, subscription for, purchase, sale or exchange of financial instruments that are listed, or subject to the application for listing, on a Norwegian regulated market, or incitement to such dispositions, must not be undertaken by anyone who has inside information, as defined in Section 3-2 of the Norwegian Securities Trading Act. The same applies to the entry into, purchase, sale or exchange of options or futures/forward contracts or equivalent rights whose value is connected to such financial instruments or incitement to such dispositions.

15.8 Mandatory offer requirement

As the Securities will be listed on the Oslo Stock Exchange, the Securities will be subject to the mandatory take-over provisions set out in the Norwegian Securities Trading Act chapter 6.

The Norwegian Securities Trading Act requires any person, entity or consolidated group that becomes the owner of shares representing more than one-third of the voting rights of a company listed on a Norwegian regulated market (with the exception of certain foreign companies not including the Company) to, within four weeks, make an unconditional general offer for the purchase of the remaining shares in that company. A mandatory offer obligation may also be triggered where a party acquires the right to become the owner of shares that, together with the party's own shareholding, represent more than one-third of the voting rights in the company and the Oslo Stock Exchange decides that this is regarded as an effective acquisition of the shares in question.

The mandatory offer obligation ceases to apply if the person, entity or consolidated group sells the portion of the shares that exceeds the relevant threshold within four weeks of the date on which the mandatory offer obligation was triggered.

When a mandatory offer obligation is triggered, the person subject to the obligation is required to immediately notify the Oslo Stock Exchange and the company in question accordingly. The notification is required to state whether an offer will be made to acquire the remaining shares in the company or whether a sale will take place. As a rule, a notification to the effect that an offer will be made cannot be retracted. The offer and the offer document required are subject to approval by the Oslo Stock Exchange before the offer is submitted to the shareholders or made public.

The offer price per share must be at least as high as the highest price paid or agreed by the offeror for the shares in the six-month period prior to the date the threshold was exceeded. If the acquirer acquires or agrees to acquire additional shares at a higher price prior to the expiration of the mandatory offer period, the acquirer is obliged to restate its offer at such higher price. A mandatory offer must be in cash or contain a cash alternative at least equivalent to any other consideration offered.

In case of failure to make a mandatory offer or to sell the portion of the shares that exceeds the relevant threshold within four weeks, the Oslo Stock Exchange may force the acquirer to sell the shares exceeding the threshold by public auction. Moreover, a shareholder who fails to make an offer may not, as long as the mandatory offer obligation remains in force, exercise rights in the company, such as voting in a general meeting, without the consent of a majority of the remaining shareholders. The shareholder may, however, exercise his/her/its rights to dividends and pre-emption rights in the event of a share capital increase. If the shareholder neglects his/her/its duty to make a mandatory offer, the Oslo Stock Exchange may impose a cumulative daily fine that runs until the circumstance has been rectified.

Any person, entity or consolidated group that owns shares representing more than one-third of the votes in a company listed on a Norwegian regulated market (with the exception of certain foreign companies not including the Company) is obliged to make an offer to purchase the remaining shares of the company (repeated offer obligation) if the person, entity or consolidated group through acquisition becomes the owner of shares representing 40%, or more of the votes in the company. The same applies correspondingly if the person, entity or consolidated group through acquisition becomes the owner of shares representing 50% or more of the votes in the company. The mandatory offer obligation ceases to apply if the person, entity or consolidated group sells the portion of the shares which exceeds the relevant threshold within four weeks of the date on which the mandatory offer obligation was triggered.

Any person, entity or consolidated group that has passed any of the above mentioned thresholds in such a way as not to trigger the mandatory bid obligation, and has therefore not previously made an offer for the remaining shares in the company in accordance with the mandatory offer rules is, as a main rule, obliged to make a mandatory offer in the event of a subsequent acquisition of shares in the company.

15.9 Compulsory acquisition

Norwegian legislation regarding compulsory acquisitions is not applicable, as the Company is incorporated in Cayman Islands. See Section 14.11.4 ("*Mergers and similar arrangements*") for applicable Cayman Islands regulation.

15.10 Foreign exchange controls

There are currently no foreign exchange control restrictions in Norway that would potentially restrict the payment of dividends to a Security holder outside Norway, and there are currently no restrictions that would affect the right of Security holders of a company that has its securities registered with the VPS who are not residents in Norway to dispose of their securities and receive the proceeds from a disposal outside Norway. There is no maximum transferable amount either to or from Norway, although transferring banks are required to submit reports on foreign currency exchange transactions into and out of Norway into a central data register maintained by the Norwegian customs and excise authorities. The Norwegian police, tax authorities, customs and excise authorities, the National Insurance Administration and the Norwegian FSA have electronic access to the data in this register.

There are no foreign exchange control restrictions under Cayman Islands law that would potentially restrict the payment of dividends to a foreign Security holder.

16 TAXATION

Set out below is a summary of certain Cayman Islands, Norwegian and United States tax matters related to an investment in the Company. The summary regarding Cayman Islands, Norwegian and United States taxation is based on the laws in force in the Cayman Islands, Norway and the United States, respectively, as at the date of this Prospectus, which may be subject to any changes in law occurring after such date. Such changes could possibly be made on a retrospective basis.

The following summary does not purport to be a comprehensive description of all the tax considerations that may be relevant to a decision to purchase, own or dispose of the securities in the Company. Persons, natural or legal, who wish to clarify their own tax situation should consult with and rely upon their own tax advisors. Security holders resident in jurisdictions other than Cayman Islands and Norway and Security holders who cease to be resident in Cayman Islands or Norway for tax purposes (due to domestic tax law or tax treaty) should specifically consult with and rely upon their own tax advisors with respect to the tax position in their country of residence and the tax consequences related to ceasing to be resident in the Cayman Islands or Norway for tax purposes. The statements in the summary only apply to persons, natural or legal, who are beneficial owners of the Securities.

Please note that for the purpose of the summary below, a reference to a Norwegian or Non-Norwegian Security holder refers to the tax residency rather than the nationality of the Security holder.

16.1 Cayman Islands taxation

It is the responsibility of all persons interested in purchasing the Offer Securities to inform themselves as to any tax consequences from their investment in the Company, as well as any foreign exchange or other fiscal or legal restrictions, which are relevant to their particular circumstances in connection with the acquisition, holding or disposition of Offer Securities. Investors should therefore seek their own separate tax advice in relation to their holding of Offer Securities and accordingly the Group accepts no responsibility for the taxation consequences of any investment into the Company by an investor.

There is, at present, no direct taxation in the Cayman Islands and interest, dividends and gains payable to the Company will be received free of all Cayman Islands taxes. The Company is registered as an "exempted company" pursuant to the Cayman Islands Companies Law. The Company has received an undertaking from the Governor in Cabinet of the Cayman Islands to the effect that, for a period of twenty years from the date of the undertaking, no law that thereafter is enacted in the Cayman Islands imposing any tax or duty to be levied on profits, income or on gains or appreciation, or any tax in the nature of estate duty or inheritance tax, will apply to any property comprised in or any income arising under the Company, or to the shareholders thereof, in respect of any such property or income.

16.2 Norwegian taxation

16.2.1 Taxation of dividends

Norwegian Personal Security holders

Dividends distributed to security holders who are individuals resident in Norway for tax purposes ("**Norwegian Personal Security holders**") are taxable in Norway for such security holders currently at an effective tax rate of 30.59% to the extent the dividend exceeds a tax-free allowance; i.e. dividends received, less the tax free allowance, shall be multiplied by 1.33 which are then included as ordinary income taxable at a flat rate of 23%, increasing the effective tax rate on dividends received by Norwegian Personal Security holders to 30.59%.

The allowance is calculated on a security-by-security basis. The allowance for each security is equal to the cost price of the security multiplied by a determined risk free interest rate based on the effective rate of interest on treasury bills *(Nw.: statskasseveksler)* with three months' maturity plus 0.5 percentage points, after tax. The allowance is calculated for each calendar year, and is allocated solely to Norwegian Personal Security holders holding securities at the expiration of the relevant calendar year.

Norwegian Personal Security holders who transfer securities will thus not be entitled to deduct any calculated allowance related to the year of transfer. Any part of the calculated allowance one year exceeding the dividend distributed on the security ("**Excess Allowance**") may be carried forward and set off against future dividends received on, or gains upon realization of, the same security. Any Excess Allowance will also be included in the basis for calculating the allowance on the same security in the following years.

If certain requirements are met, Norwegian Personal Security holders are entitled to a tax credit in the Norwegian tax for withholding tax imposed on the dividends distributed in the jurisdiction where the Company is resident for tax purposes. However, any tax exceeding the withholding tax rate according to an applicable tax treaty with the country in which the Company is resident will not be deductible.

Norwegian Corporate Security holders

Dividends distributed to security holders that are limited liability companies (and certain similar entities) resident in Norway for tax purposes ("**Norwegian Corporate Security holders**"), are taxable as ordinary income in Norway for such security holders at a flat rate of currently 23%.

If certain requirements are met, Norwegian Corporate Security holders are entitled to a tax credit in the Norwegian tax for withholding tax imposed on the dividends distributed in the jurisdiction where the Company is resident for tax purposes. However, any tax exceeding the withholding tax rate according to an applicable tax treaty with the country in which the Company is resident will not be deductible.

Non-Norwegian Security holders

As a general rule, dividends received by non-Norwegian tax resident security holders ("**Non-Norwegian Security holders**") from securities in non-Norwegian tax resident companies are not subject to Norwegian taxation unless the Non-Norwegian Security holder holds the securities in connection with the conduct of a trade or business in Norway.

16.2.2 Taxation of capital gains on realization of shares

Norwegian Personal Security holders

Sale, redemption or other disposal of securities is considered a realization for Norwegian tax purposes. A capital gain or loss generated by a Norwegian Personal Security holder through a disposal of securities is taxable or tax deductible in Norway. The effective tax rate on gain or loss related to securities realized by Norwegian Personal Security holders is currently 30.59%; i.e. capital gains (less the tax free allowance) and losses shall be multiplied by 1.33 which are then included in or deducted from the Norwegian Personal Security holder's ordinary income in the year of disposal. Ordinary income is taxable at a flat rate of 23%, increasing the effective tax rate on gains/losses realized by Norwegian Personal Security holders to 30.59%.

The gain is subject to tax and the loss is tax deductible irrespective of the duration of the ownership and the number of securities disposed of.

The taxable gain/deductible loss is calculated per security as the difference between the consideration for the security and the Norwegian Personal Security holder's cost price of the security, including costs incurred in relation to the acquisition or realization of the security. From this capital gain, Norwegian Personal Security holders are entitled to deduct a calculated allowance provided that such allowance has not already been used to reduce taxable dividend income. Please refer to "Taxation of dividends — Norwegian Personal Security holders" above for a description of the calculation of the allowance. The allowance may only be deducted in order to reduce a taxable gain, and cannot increase or produce a deductible loss, i.e. any unused allowance exceeding the capital gain upon the realization of a security will be annulled.

If the Norwegian Personal Security holder owns securities acquired at different points in time, the securities that were acquired first will be regarded as the first to be disposed of, on a first-in first-out basis.

The Securities will not qualify for Norwegian share saving accounts *(Nw: aksjesparekonto)* held by Norwegian Personal Security holders since the Company is resident outside the European Economic Area for tax purposes.

Norwegian Corporate Security holders

A capital gain or loss derived by a Norwegian Corporate Security holder from a disposal of securities in the Company is taxable or tax deductible in Norway. The taxable gain/deductible loss per security is calculated as the difference between the consideration for the security and the Norwegian Corporate Security holder's cost price of the security, including costs incurred in relation to the acquisition or disposal of the security. Such capital gain or loss is included in or deducted from the basis for computation of ordinary income in the year of disposal. Ordinary income is taxable at a rate of currently 23%.

If the Norwegian Corporate Security holder owns securities acquired at different points in time, the securities that were acquired first will be regarded as the first to be disposed of, on a first-in first-out basis.

Non-Norwegian Security holders

A capital gain or loss derived from the sale or other disposal of securities by a Non-Norwegian Security holder will not be subject to taxation in Norway unless the Non-Norwegian Security holder holds the securities in connection with business activities carried out or managed from Norway.

16.2.3 Controlled Foreign Corporation ("CFC") taxation

Norwegian holders of Securities in the Company will be subject to Norwegian taxation according to the Norwegian Controlled Foreign Corporations regulations (Norwegian CFC-regulations) if Norwegian Security holders directly or indirectly own or control (hereinafter together referred to as "**Control**") the shares of the Company.

Norwegian Security holders will be considered to Control the Company if:

- Norwegian Security holders Control 50% or more of the shares or capital in the Company at the beginning of and at the end of a tax year; or

- If Norwegian Security holders Controlled the Company the previous tax year, the Company will also be considered Controlled by Norwegian Security holders in the following tax year unless Norwegian shareholders Control less than 50% of the shares or capital at both the beginning and the end of the following tax year; or

- Norwegian Security holders Control more than 60% of the shares or capital in the Company at the end of a tax year.

If less than 40% of the shares or capital are Controlled by Norwegian Security holders at the end of a tax year, the Company will not be considered Controlled by Norwegian Security holders for Norwegian tax purposes.

Under the Norwegian CFC-regulations Norwegian Security holders are subject to Norwegian taxation on their proportionate part of the taxable net income generated by the Company, calculated according to Norwegian tax regulations, regardless of whether or not any dividends are distributed from the Company.

16.2.4 Net wealth tax

The value of securities is included in the basis for the computation of net wealth tax imposed on Norwegian Personal Security holders. Currently, the marginal net wealth tax rate is 0.85% of the value assessed. The value for assessment purposes for listed securities is currently equal to eighty percent of the listed value as of 1 January in the year of assessment (i.e. the year following the relevant fiscal year). The value of debt allocated to the listed securities is reduced correspondingly (i.e. to eighty percent) for assessment purposes.

Norwegian Corporate Security holders are not subject to net wealth tax.

Non-Norwegian Security holders are not subject to Norwegian net wealth tax. Non-Norwegian Security holders who are individuals can, however, be taxable if the security holding is effectively connected to the conduct of trade or business in Norway.

16.2.5 VAT and transfer taxes

No VAT, stamp or similar duties are currently imposed in Norway on the transfer or issuance of shares.

16.2.6 Inheritance tax

A transfer of shares through inheritance or as a gift does not give rise to inheritance or gift tax in Norway.

16.3 United States taxation

The following is a discussion of certain U.S. federal income tax considerations generally applicable to the ownership and disposition of Offer Securities and the underlying Common Shares by U.S. Holders (as defined below). This discussion deals only with the Offer Securities and Common Shares held as capital assets by holders who purchase the Offer Securities or Common Shares in this offering. This discussion is based on the Internal Revenue Code of 1986, as amended (the "Code"), its legislative history, existing and proposed U.S. Treasury regulations promulgated thereunder, and published rulings and court decisions, all as in effect as of the date hereof, and all of which are subject to change, possibly with retroactive effect. This discussion does not cover all aspects of U.S. federal income taxation that may be relevant to the ownership or disposition of the Offer Securities and Common Shares by prospective investors in light of their particular circumstances. In particular, this discussion does not address all of the tax considerations that may be relevant to certain types of investors subject to special treatment under U.S. federal income tax laws, such as the following:

- brokers or dealers in securities or currencies;
- financial institutions;
- regulated investment companies;
- real estate investment trusts;
- insurance companies;
- tax-exempt entities;
- persons holding Offer Securities or Common Shares as part of a hedging, integrated or conversion transaction, a constructive sale or a straddle;
- traders in securities that elect to use a mark-to-market method of accounting for their securities;
- U.S. expatriates;
- persons who own or are deemed to own 10% or more of the Company's stock (by vote or by value);
- partnerships or entities or arrangements treated as partnerships or other pass through entities for U.S. federal tax purposes (or investors therein);
- persons required to accelerate the recognition of any item of gross income with respect to Offer Securities or Common Shares as a result of such income being recognized on an applicable financial statement; or
- U.S. Holders whose "functional currency" is not the U.S. dollar.

If a partnership (or other entity treaded as a partnership for United States federal income tax purposes) holds Offer Securities or Common Shares, the tax treatment of a partner will generally depend upon the status of the partner and the activities of the partnership. A U.S. Holder that is a partnership and the partners in such partnership should consult their tax advisors about the U.S. federal income tax consequences of the ownership and disposition of the Offer Securities or Common Shares.

This discussion does not contain a detailed description of all the United States federal income tax consequences to a United States Holder in light of its particular circumstances and does not address the Medicare tax on net investment income or the effects of any state, local or non-United States tax laws. Each prospective investor should consult its own tax advisors concerning particular United States federal income tax consequences to it of the purchase, ownership and disposition of Offer Securities and Common Shares, as well as the consequences to it arising under other United States federal tax laws and the laws of any taxing jurisdiction.

As used herein, the term "**United States Holder**" means a beneficial owner of Offer Securities or Common Shares that is, for United States federal income tax purposes, any of the following:

(i) an individual citizen or resident of the United States;

(ii) a corporation (or other entity treated as a corporation for United States federal income tax purposes) created or organized in or under the laws of the United States, or any state thereof or the District of Columbia;

(iii) an estate the income of which is subject to United States federal income taxation regardless of its source; or

(iv) a trust if (a) a court within the United States is able to exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust or (b) such trust has made a valid election to be treated as a U.S. person for U.S. federal income tax purposes.

IF YOU ARE CONSIDERING THE PURCHASE OF THE OFFER SECURITIES OR COMMON SHARES, WE URGE YOU TO CONSULT YOUR TAX ADVISORS CONCERNING THE PARTICULAR U.S. FEDERAL INCOME TAX CONSEQUENCES TO YOU OF THE OWNERSHIP AND DISPOSITION OF THE OFFER SECURITIES OR COMMON SHARES, AS WELL AS ANY CONSEQUENCES TO YOU ARISING UNDER STATE, LOCAL AND NON-U.S. TAX LAWS.

16.3.2 Taxation of dividends

The gross amount of distributions paid with respect to the Offer Securities or Common Shares (including any amounts withheld to reflect Cayman Islands withholding taxes) will generally be taxed as ordinary income to U.S. Holders to the extent that they are paid out of the Company's current or accumulated earnings and profits, as determined under U.S. federal income tax principles. To the extent that the amount of any distribution exceeds the Company's current and accumulated earnings and profits for a taxable year, the excess will first be treated as a tax-free return of capital to the extent of the holder's adjusted basis in the Offer Securities or Common Shares, causing a reduction in such adjusted basis in the same amount. The balance of the excess, if any, will be taxed as capital gain, which will be long-term capital gain if the Offer Securities or Common Shares has been held for more than one year at the time the dividend is received (as described below under "—Sale, Exchange or Other Taxable Disposition"). The Company does not, however, expect to determine earnings and profits in accordance with United States federal income tax principles. Therefore, United States Holders should expect that a distribution will generally be treated as a dividend.

Dividends received by non-corporate United States investors on shares of certain foreign corporations may be subject to United States federal income tax at lower rates than other types of ordinary income if certain conditions are met. The Company does not believe that dividends that it pays currently meet these conditions. United States Holders should consult their own tax advisors regarding the application of these rules to their particular circumstances.

The amount of any distribution paid in foreign currency will equal the U.S. dollar value of the foreign currency received calculated by reference to the exchange rate in effect on the date the distribution is received by a U.S. Holder, in the case of the Offer Securities or Common Shares, regardless of whether the foreign currency is converted into U.S. dollars. If the foreign currency received is converted into U.S. dollars on the date it is received, a U.S. Holder will generally not be required to recognize foreign currency gain or loss in respect of the distribution income. If the foreign currency received is not converted into U.S. dollars on the date of receipt, a U.S. Holder will have a basis in the foreign currency equal to its U.S. dollar value on the date of receipt. Any gain or loss realized on a subsequent conversion or other disposition of the foreign currency will be treated as U.S. source ordinary income or loss.

Dividends will generally constitute non-U.S. source income and be treated as "passive category income" for foreign tax credit limitation purposes. U.S. Holders may be eligible, subject to a number of complex limitations, to claim a foreign tax credit in respect of any nonrefundable foreign withholding tax imposed on dividends received on the Offer Securities or Common Shares. If a U.S. Holder does not elect to claim a foreign tax credit for foreign taxes withheld, such holder may instead claim a deduction for U.S. federal income tax purposes in respect of such taxes, but only for a year in which such holder elects to do so for all creditable foreign income taxes. The rules governing the foreign tax credit are complex. U.S. Holders should consult their tax advisors regarding the availability of the foreign tax credit under their particular circumstances.

16.3.3 Sale, Exchange or Other Taxable Disposition

Subject to the discussion below under "—Passive Foreign Investment Company," a U.S. Holder will generally recognize gain or loss on any sale or other disposition of the Offer Securities or Common Shares equal to the difference between the amount realized for such Offer Securities or Common Shares and such holder's tax basis in such Offer Securities or Common Shares, both as determined in United States dollars. Such gain or loss will generally be capital gain or loss. Individuals and certain other non-corporate U.S. Holders who have held such Offer Securities or Common Shares for more than one year will generally be eligible for reduced tax rates. The deductibility of capital losses is subject to limitations. Any such gain or loss recognized by a U.S. Holder will generally be treated as U.S.-source gain or loss for foreign tax credit limitation purposes.

16.3.4 Passive foreign investment company

A non-U.S. corporation will be classified as a PFIC for U.S. federal income tax purposes for any taxable year if either (i) 75% or more of its gross income for such year consists of certain types of "passive" income or (ii) 50% or more of the value of its assets (determined on the basis of a quarterly average) during such year produce or are held for the production of passive income. Passive income generally includes dividends, interest, royalties, rents, annuities, net gains from the sale or exchange of property producing such income and net foreign currency gains. For this purpose, cash is categorized as a passive asset and the company's unbooked intangibles associated with active business activity are taken into account as a non-passive asset. The Company will be treated as owning a proportionate share of the assets and earning a proportionate share of the income of any other corporation in which it owns, directly or indirectly, 25% or more (by value) of the stock.

Based on the Company's income and assets, and the value of the Offer Securities or Common Shares, the Company does not believe that it was a PFIC, for U.S. federal income tax purposes, for the taxable year ended December 31, 2017, and does not anticipate becoming a PFIC for the current taxable year or for the foreseeable future. Nevertheless, because PFIC status is a factual determination made annually after the close of each taxable year on the basis of the composition of the Company's income and assets, there can be no assurance that the Company will not be a PFIC for the current taxable year or any future taxable year. Under circumstances where revenues from activities that produce passive income significantly increase relative to the Company's revenues from activities that produce non-passive income, or where the Company determines not to deploy significant amounts of cash (including the proceeds from this offering), the risk of becoming classified as a PFIC may substantially increase. In addition, because the Company values goodwill based on the market value of the Offer Securities or Common Shares, a decrease in the market value of the Offer Securities or Common Shares may also result in the Company becoming a PFIC.

Although there is significant legal authority supporting the Company's position, including relevant statutory provisions, legislative history, case law and various pronouncements from the United States Internal Revenue Service (the "**IRS**"), there is a possibility that the Company's income from offshore drilling service contracts may be characterized as "passive" income in light of a recent case characterizing income from the time chartering of vessels as rental income as opposed to services income for other tax purposes. The IRS has formally announced that it does not agree with the decision in that case. Despite this IRS announcement, the IRS or a relevant court may not accept that the Company is not a PFIC.

If the Company were to be considered a PFIC for any taxable year during which a U.S. Holder holds the Offer Securities or Common Shares, such holder will be subject to special tax rules with respect to any “excess distribution” that such holder receives on the Offer Securities or Common Shares and any gain such holder realizes from a sale or other disposition (including a pledge) of the Offer Securities or Common Shares, unless such holder makes a “mark-to-market” election as discussed below. Distributions received by a U.S. Holder in a taxable year that are greater than 125% of the average annual distributions such holder received during the shorter of the three preceding taxable years or such holder’s holding period for the Offer Securities or Common Shares will be treated as an excess distribution. Under these special tax rules:

- the excess distribution or gain will be allocated ratably over the U.S. Holder’s holding period for the Offer Securities or Common Shares;
- amounts allocated to the current taxable year and any taxable years in the U.S. Holder’s holding period prior to the first taxable year in which the Company is classified as a PFIC (a “pre-PFIC year”) will be subject to tax as ordinary income; and
- amounts allocated to each prior taxable year, other than the current taxable year or a pre-PFIC year, will be subject to tax at the highest tax rate in effect applicable to the U.S. Holder for that year, and such amounts will be increased by an additional tax equal to interest on the resulting tax deemed deferred with respect to such years.

If the Company were to be considered a PFIC for any taxable year during which a U.S. Holder holds the Offer Securities or Common Shares and any of the Company's non-U.S. subsidiaries are also PFICs, such holder will be treated as owning a proportionate amount (by value) of the shares of each such non-U.S. subsidiary classified as a PFIC for purposes of the application of these rules.

Alternatively, a U.S. Holder may make a mark-to-market election for such stock of a PFIC to elect out of the tax treatment discussed in the second preceding paragraph. If a U.S. Holder makes a valid mark-to-market election for the Offer Securities or Common Shares, the U.S. Holder will include in income each year an amount equal to the excess, if any, of the fair market value of the Offer Securities or Common Shares as of the close of such holder’s taxable year over such holder’s adjusted basis in such the Offer Securities or Common Shares. The U.S. Holder is allowed a deduction for the excess, if any, of such holder’s adjusted basis in the Offer Securities or Common Shares over their fair market value as of the close of the taxable year. Deductions are allowable however, only to the extent of any net mark-to-market gains on the Offer Securities or Common Shares included in the U.S. Holder’s income for prior taxable years. Amounts included in the U.S. Holder’s income under a mark-to-market election, as well as gain on the actual sale or other disposition of the Offer Securities or Common Shares, are treated as ordinary income. Ordinary loss treatment also applies to the deductible portion of any mark-to-market loss on the Offer Securities or Common Shares, as well as to any loss realized on the actual sale or disposition of the Offer Securities or Common Shares, to the extent that the amount of such loss does not exceed the net mark-to-market gains previously included for such Offer Securities or Common Shares. The U.S. Holder’s basis in the Offer Securities or Common Shares will be adjusted to reflect any such income or loss amounts. If a U.S. Holder makes such a mark-to-market election, tax rules that apply to distributions by corporations which are not PFICs would apply to distributions by the Company (except that the lower applicable capital gains rate for qualified dividend income would not apply). If a U.S. Holder makes a valid mark-to-market election, and the Company subsequently cease to be classified as a PFIC, such U.S. Holder will not be required to take into account the mark-to-market income or loss described above during any period that the Company is not classified as a PFIC. The mark-to-market election is available only for “marketable stock” which is stock that is traded in other than de minimis quantities on at least 15 days during each calendar quarter (“regularly traded”) on a qualified exchange or other market, as defined in applicable Regulations.

In addition, because, as a technical matter, a mark-to-market election cannot be made for any lower-tier PFICs that the Company may own, a U.S. Holder may continue to be subject to the PFIC rules with respect to such holder’s indirect interest in any investments held by the Company that are treated as an equity interest in a PFIC for U.S. federal income tax purposes.

The Company does not intend to provide information necessary for U.S. Holders to make qualified electing fund elections, which, if available, would result in tax treatment different from the general tax treatment for PFICs described above.

If a U.S. Holder owns the Offer Securities or Common Shares during any taxable year that the Company is a PFIC, such holder must generally file an annual report with the IRS. U.S. Holders should consult their tax advisors concerning the U.S. federal income tax considerations of owning and disposing of the Offer Securities or Common Shares if the Company is or becomes a PFIC, including the availability and possibility of making a mark-to-market election.

THE PRECEDING DISCUSSION OF U.S. FEDERAL INCOME TAX CONSIDERATIONS IS INTENDED FOR GENERAL INFORMATION ONLY AND DOES NOT CONSTITUTE TAX ADVICE. U.S. HOLDERS SHOULD CONSULT THEIR TAX ADVISORS AS TO THE U.S. FEDERAL, STATE, LOCAL AND NON-U.S. TAX CONSIDERATIONS TO THEM OF THE OWNERSHIP AND DISPOSITION OF THE OFFER SECURITIES OR COMMON SHARES IN THEIR PARTICULAR CIRCUMSTANCES.

17 THE TERMS OF THE OFFERING

17.1 Overview of the Offering

The Offering consists of an offer of New Securities to raise gross proceeds of the NOK equivalent of minimum USD 200 million and maximum of USD 250 million (based on a conversion from NOK to USD on the date of allocation of the New Securities, using the then prevailing exchange rate), by the subscription of up to 29,411,679 New Securities (assuming that the Offer Price is set at the mid-point of the Indicative Price Range and that the USD/NOK exchange rate is 8.0588), each with a par value of USD 0.01. The Company reserves the right to reduce the gross proceeds from the offer of New Securities.

In addition, the Managers may elect to over-allot a number of Additional Securities equaling up to 15% of the final number of New Securities sold in the Offering. In this respect, some or all of the Sponsors are expected to grant to the Stabilisation Manager (DNB Markets), on behalf of the Managers, a Lending Option to borrow a number of Securities equal to the number of Additional Securities in order to facilitate such over-allotment. Further, the Sponsors are expected to grant to the Stabilisation Manager, on behalf of the Managers, a Greenshoe Option to purchase a number of Securities up to the number of Additional Securities at a price per Security equal to the Offer Price in order to facilitate re-delivery of the borrowed Securities. See Section 17.8 ("*Over-allotment and stabilisation activities*") for further information in this regard.

The Offering consists of:

- An Institutional Offering, in which Offer Securities are being offered to (a) institutional and professional investors in Norway, (b) investors outside Norway and the United States, subject to applicable exemptions from any prospectus and registration requirements, and (c) in the United States to QIBs, as defined in, and in reliance on Rule 144A of the U.S. Securities Act or another available exemption from registration under the U.S. Securities Act. The Institutional Offering is subject to a lower limit per application of NOK 2,000,000.

- A Retail Offering, in which Offer Securities are being offered to the public in Norway subject to a lower limit per application of an amount of NOK 10,500 and an upper limit per application of NOK 1,999,999 for each investor. Investors who intend to place an order in excess of NOK 1,999,999 must do so in the Institutional Offering. Multiple applications by one applicant in the Retail Offering will be treated as one application with respect to the maximum application limit. The Retail Offering may also comprise an offer of Offer Securities to employees of, and other persons related to, the Group as well as members of the Board of Directors, provided that such offer will not be unlawful or require registration, publication of a prospectus or other measures to be taken in the relevant jurisdiction.

All offers and sales outside the United States will be made to non-U.S. persons in offshore transactions in compliance with Regulation S of the U.S. Securities Act.

This Prospectus does not constitute an offer of, or an invitation to purchase, the Offer Securities in any jurisdiction in which such offer or sale would be unlawful. For further details, see "Important Information" and Section 18 ("*Selling and Transfer Restrictions*").

The Bookbuilding Period in the Institutional Offering will take place from 13 June 2018 at 09:00 hours (CET) to 21 June 2018 at 14:00 hours (CET). The Application Period for the Retail Offering will take place from 13 June 2018 at 09:00 hours (CET) to 21 June 2018 at 12:00 hours (CET). The Company, in consultation with the Managers, reserve the right to shorten or extend the Bookbuilding Period and the Application Period at any time and at their sole discretion. Any shortening of the Bookbuilding Period and/or the Application Period will be announced through the Oslo Stock Exchange's information system on or before 09:00 hours (CET) on the prevailing expiration date of the Bookbuilding Period, provided, however, that in no event will the Bookbuilding Period and/or the Application Period expire prior to 16:30 hours (CET) on 20 June 2018. Any extension of the Bookbuilding Period and/or the Application Period will be announced through the Oslo Stock Exchange's information system on or before 09:00 hours (CET) on the first business day following the then prevailing expiration date of the Bookbuilding Period and/or the Application Period. An extension of the Bookbuilding Period and/or the Application Period can be made one or several times provided, however, that in no event will the Bookbuilding Period and/or the Application Period be extended beyond 14:00 hours (CET) on 6 July 2018. In the event of a shortening or an extension of the Bookbuilding Period and/or the Application Period, the allocation date, the payment due dates and the dates of delivery of Offer Securities will be changed accordingly, but the date of the Listing and commencement of trading on the Oslo Stock Exchange may not necessarily be changed.

The Company has, together with the Managers, set an Indicative Price Range for the Offering from NOK 64.47 to NOK 72.53 per Offer Security. Assuming that the Offer Price is set at the mid-point of this range and a conversion rate between USD/NOK of 8.0588, 23,529,343 New Securities will be sold in the Offering if the minimum gross proceeds are raised and 29,411,679 New Securities if the maximum gross proceeds are raised. The Company, in consultation with the Managers, will determine the number of Offer Securities and the Offer Price on the basis of the bookbuilding process in the Institutional Offering and the number of applications received in the Retail Offering. The bookbuilding process, which will form the basis for the final determination of the number of Offer Securities and the Offer Price, will be conducted only in connection with the Institutional Offering. The Indicative Price Range may be amended during the Bookbuilding Period. Any such amendments to the Indicative Price Range will be announced through the Oslo Stock Exchange's information system.

The Company expects that it will, on or about 21 June 2018, together with the Sponsors, enter into a placement agreement (the "**Placement Agreement**") with the Managers with respect to the Offering of the Offer Securities.

On the terms and subject to the conditions set forth in the Placement Agreement, the Managers are on or about 22 June 2018 expected, in order to provide for timely delivery of the Offer Securities to investors in the Offering, to pre-fund payment for the New Securities allocated in the Offering at a total subscription price equal to the Offer Price multiplied by the number of such New Securities. In order to permit delivery in respect of over-allotments made, if any, the Sponsors will grant to the Stabilisation Manager (DNB Markets) the Lending Option to borrow from the Sponsors, on behalf of the Managers, a number of Securities equal to the number of Additional Securities. The Sponsors are further expected to grant the Stabilisation Manager, on behalf of the Managers, the Greenshoe Option to purchase a number of Securities from the Sponsors up to the number of Additional Securities at a price per Security equal to the Offer Price, exercisable, in whole or in part, within a 30-day period commencing at the time at which trading in the Securities commences on Oslo Børs (or alternatively Oslo Axess) expected to be on or about 25 June 2018, on the terms and subject to the conditions described in this Prospectus. See Section 17.8 ("*Over-allotment and stabilisation activities*") for further details.

The Offer Securities allocated in the Offering are expected to be traded on Oslo Børs (or alternatively Oslo Axess) from and including 25 June 2018.

Completion of the Offering is conditional upon, among other conditions, the Company satisfying the listing conditions and being listed on Oslo Børs (or alternatively Oslo Axess), see Section 17.15 ("*Conditions for completion of the Offering – Listing and trading of the Offer Securities*").

The Company has made certain undertakings with the Managers in the mandate agreement, and is expected to make certain representations and warranties in favor of, and agree to certain undertakings with, the Managers in the Placement Agreement and ancillary agreements and documents entered into in connection with the Offering and the Listing. Further, the Company, the Sponsors and the management of the Company are expected to give an undertaking that will restrict their ability to issue (the Company), sell or transfer Common Shares or Securities for 12 months (the Company and the management) and 180 days (the Sponsors), from the Institutional Closing Date. The members of the Board of Directors are expected to give an undertaking that will restrict their ability to sell or transfer Securities for 12 months from the Institutional Closing Date. Furthermore, the Company has undertaken, subject to certain conditions and limitations, to indemnify the Managers against certain liabilities arising out of or in connection with the Offering.

See Section 17.17 ("*Expenses of the Offering and the Listing*") for information regarding fees expected to be paid to the Managers and costs expected to be paid by the Company in connection with the Offering and pursuant to the Placement Agreement.

17.2 Timetable

The timetable set out below provides certain indicative key dates for the Offering (subject to shortening or extensions):

Bookbuilding Period commences	13 June 2018 at 09:00 hours (CET)
Bookbuilding Period expires	21 June 2018 at 14:00 hours (CET)
Application Period (Retail Offering) commences	13 June 2018 at 09:00 hours (CET)
Application Period (Retail Offering) expires	21 June 2018 at 12:00 hours (CET)
Allocation of the Offer Securities	On or about 22 June 2018
Pricing of the Offer Securities	On or about 22 June 2018
Publication of the results of the Offering	On or about 22 June 2018
Distribution of allocation notes/contract notes	On or about 22 June 2018
Accounts from which payment will be debited in the Retail Offering to be sufficiently funded	On or about 22 June 2018
Payment date in the Retail Offering	On or about 25 June 2018
Listing and commencement of trading in the Securities	On or about 25 June 2018
Delivery of the Offer Securities in the Retail Offering	On or about 26 June 2018
Payment date and delivery of Offer Securities in the Institutional Offering	On or about 26 June 2018

Note that the Company, in consultation with the Managers, reserves the right to shorten or extend the Bookbuilding Period and the Application Period at its sole discretion. In the event of a shortening or an extension of the Bookbuilding Period and/or the Application Period, the allocation date, the payment due dates and the dates of delivery of Offer Securities will be changed accordingly, but the date of the Listing and commencement of trading on the Oslo Stock Exchange will not necessarily be changed.

17.3 Resolutions relating to the Offering and issue of the Offer Securities

On 2 May 2017, a special resolution of the Company was passed pursuant to which the authorized share capital of the Company was increased to USD 2,010,000 divided into 201,000,000 shares of a par value of USD 0.01 each, of which 200,000,000 shares were designated as Common Shares and 1,000,000 shares were designated as Preferred Shares. Following approval of the new Articles by the extraordinary general meeting of the Company to be held on 19 June 2018 (as further described in Section 14.11) and upon the new Articles becoming effective on the Listing date, the Company's authorized share capital will be USD 1,440,634.73, divided into 144,063,473 shares, each with a par value of USD 0.01.

As at the date of the Prospectus, the Company's share capital is USD 841,153.94 (inclusive of preferred share capital) consisting of 83,115,394 Common Shares, each with a par value of USD 0.01 per share, and 1,000,000 Preferred Shares, each with a par value of USD 0.01 per share. The Board of Directors will, pursuant to the new Articles, be authorized to issue the remaining authorized share capital of USD 599,480.79 representing 59,948,079 Common Shares of par value USD 0.01 each. The Board of Directors will use its authorization to issue Common Shares, under the Offering. The underlying Common Shares will therefore be in existence at the time of issue of the Securities.

In addition to the above, the Board of Directors passed a resolution on 11 June 2018 to apply for the listing and trading of the common shares, including the new shares to be issued in connection with the Offering, on the Oslo Stock Exchange, in the form of the Securities described in this Prospectus.

Following the expiry of the Bookbuilding Period and the Application Period, the Board of Directors of the Company will on or about 22 June 2018 consider and, if thought fit, approve completion of the Offering and, in consultation with the Managers, determine the final Offer Price and the number of and allocation of the Offer Securities.

17.4 The Institutional Offering

17.4.1 Determination of the number of Offer Securities and the Offer Price

The Company has, in consultation with the Managers, set an Indicative Price Range for the Offering from NOK 64.47 to NOK 72.53 per Offer Security. The Company, in consultation with the Managers, will determine the number of Offer Securities and the Offer Price on the basis of the applications received and not withdrawn in the Institutional Offering during the Bookbuilding Period and the applications received in the Retail Offering. The Offer Price will be determined on or about 22 June 2018. The Offer Price may be set within, below or above the Indicative Price Range. Investors' applications for Offer Securities in the Institutional Offering will, after the end of the Bookbuilding Period, be irrevocable and binding regardless of whether the Offer Price is set within, above or below the Indicative Price Range. The Offer Price is expected to be announced by the Company through the Oslo Stock Exchange's information system on or about 22 June 2018 under the ticker code "SHLF".

17.4.2 Bookbuilding Period

The Bookbuilding Period for the Institutional Offering will be from 13 June 2018 at 09:00 hours (CET) to 21 June 2018 at 14:00 hours (CET), unless shortened or extended.

The Company, in consultation with the Managers, may shorten or extend the Bookbuilding Period at any time and for any reason, and extension may be made on one or several occasions. The Bookbuilding Period may in no event expire prior to 16.30 hours (CET) on 20 June 2018 or be extended beyond 14:00 hours (CET) on 6 July 2018. In the event of a shortening or an extension of the Bookbuilding Period, the allocation date, the payment due date and the date of delivery of Offer Securities will be changed accordingly, but the date of the Listing and commencement of trading on the Oslo Stock Exchange will not necessarily be changed.

17.4.3 Minimum application

The Institutional Offering is subject to a minimum application of NOK 2,000,000 per application. Multiple applications are allowed. Investors in Norway who intend to place an application for less than NOK 2,000,000 must do so in the Retail Offering.

17.4.4 Application procedure

Applications for Offer Securities in the Institutional Offering must be made during the Bookbuilding Period by informing one of the Managers shown below of the number of Offer Securities that the investor wishes to order, and the price per Offer Security that the investor is offering to pay for such Offer Securities.

DNB Markets	**Clarksons Platou Securities AS**
Dronning Eufemias Gate 30 N-0191, Oslo P.O. Box 1600 Sentrum N-0021 Oslo Norway	Munkedamsveien 62c N-0270, Oslo Norway
Arctic Securities AS	**SpareBank 1 Markets AS**
Haakon VII's gate 5 N-0123 Oslo P.O. Box 1833 Vika Norway	Olav V's gate 5 P.O. Box 1398 Vika N-0114 Oslo, Norway

All applications in the Institutional Offering will be treated in the same manner regardless of which Manager the applicant chooses to place the application with. Any orally placed application in the Institutional Offering will be binding upon the investor and subject to the same terms and conditions as a written application. The Managers may, at any time and in their sole discretion, require the investor to confirm any orally placed application in writing. Applications made may be withdrawn or amended by the investor at any time up to the expiry of the Bookbuilding Period. At the close of the Bookbuilding Period, all applications in the Institutional Offering that have not been withdrawn or amended are irrevocable and binding upon the investor.

17.4.5 Allocation, payment for and delivery of Offer Securities

The Managers expect to issue notifications of allocation of Offer Securities in the Institutional Offering on or about 22 June 2018, by issuing contract notes to the applicants by mail or otherwise.

Payment by applicants in the Institutional Offering will take place against delivery of Offer Securities. Delivery of the Offer Securities is expected to take place on or about 26 June 2018 and payment for Offer Securities is expected to take place on or about 26 June 2018 (the "**Institutional Closing Date**") through the facilities of VPS.

For late payment, interest will accrue on the amount due at a rate equal to the prevailing interest rate under the Norwegian Act on Overdue Payment of 17 December 1976 no. 100 (the "**Norwegian Act on Overdue Payment**"), which, at the date of this Prospectus, is 8.5% per annum. Should payment not be made when due, the Offer Securities allocated will not be delivered to the applicants, and the Managers reserve the right, at the risk and cost of the applicant, to cancel the application and to re-allot or otherwise dispose of the allocated Offer Securities on such terms and in such manner as the Managers may decide (and the applicant will not be entitled to any profit there from). The original applicant remains liable for payment for the Offer Securities allocated to the applicant, together with any interest, cost, charges and expenses accrued, and the Managers may enforce payment of any such amount outstanding.

In order to provide for prompt delivery of the Offer Securities, the Managers are expected to subscribe and pay for the New Securities allocated in the Offering at a total subscription amount equal to the Offer Price multiplied by the number of New Securities and to sell such New Securities onwards to the applicants at the Offer Price. Irrespective of any such subscription and payment of New Shares, the original applicant will remain liable for payment of the Offer Price for the Offer Securities allocated to the applicant, together with any interest, costs, charges and expenses accrued, and the Company and/or the Managers may enforce payment of any such amount outstanding. The subscription, payment and onwards sale by the Managers of the Offer Securities as described above constitute an integrated sales process where the investors purchase Offer Securities from the Company based on this Prospectus, which has been prepared by the Company. The investors will not have any rights or claims against any of the Managers.

17.5 The Retail Offering

17.5.1 Offer Price

The price for the Offer Securities offered in the Retail Offering will be the same as in the Institutional Offering, see Section 17.4.1 ("*Determination of the number of Offer Securities and the Offer Price*").

Each applicant in the Retail Offering will be permitted, but not required, to indicate when ordering through the VPS online application system or on the application form to be used to apply for Offer Securities in the Retail Offering, attached to this Prospectus as Appendix F (the "**Retail Application Form**"), that the applicant does not wish to be allocated Offer Securities should the Offer Price be set above the highest price in the Indicative Price Range (i.e. NOK 72.53 per Offer Security). If the applicant does so, the applicant will not be allocated any Offer Securities in the event that the Offer Price is set above the highest price in the Indicative Price Range. If the applicant does not expressly stipulate such reservation when ordering through the VPS online application system or on the Retail Application Form, the application will be binding regardless of whether the Offer Price is set within or above (or below) the Indicative Price Range, as long as the Offer Price has been determined on the basis of orders placed during the bookbuilding process described above.

17.5.2 Application Period

The Application Period during which applications for Offer Securities in the Retail Offering will be accepted will be from 13 June 2018 at 09:00 hours (CET) to 21 June 2018 at 12:00 hours (CET), unless shortened or extended. The Company, in consultation with the Managers, may shorten or extend the Application Period at any time and for any reason, and extension may be made on one or several occasions. The Application Period may in no event expire prior to 16.30 hours (CET) on 20 June 2018 or extended beyond 14:00 hours (CET) on 6 July 2018. In the event of a shortening or an extension of the Application Period, the allocation date, the payment due date and the date of delivery of Offer Securities will be changed accordingly, but the date of the Listing and commencement of trading on the Oslo Stock Exchange will not necessarily be changed.

17.5.3 Minimum and maximum application

The Retail Offering is subject to a minimum application amount of NOK 10,500 and a maximum application amount of NOK 1,999,999 for each applicant.

Multiple applications are allowed. One or multiple applications from the same applicant in the Retail Offering with a total application amount in excess of NOK 1,999,999 will be adjusted downwards to an application amount of NOK 1,999,999. If two or more identical application forms are received from the same investor, the application form will only be counted once unless otherwise explicitly stated on one of the application forms. In the case of multiple applications through the online application system or applications made both on a physical application form and through the online application system, all applications will be counted. Investors who intend to place an order in excess of NOK 1,999,999 must do so in the Institutional Offering.

17.5.4 Application procedures and application offices

Norwegian applicants in the Retail Offering who are residents of Norway with a Norwegian personal identification number are recommended to apply for Offer Securities through the VPS online application system by following the link to such online application system on the following websites: www.dnb.no/emisjoner, http://securities.clarksons.com, www.arctic.com/secno and www.sb1markets.no (such referred to as "Online Order"). orders

Applicants in the Retail Offering not having access to the VPS online application system must apply for Offer Securities using the Retail Application Form attached to this Prospectus as Appendix F "Application Form for the Retail Offering". Retail Application Forms, together with this Prospectus, can be obtained from the Company, the Company's website www.Shelf.com, the Managers' websites or the application offices set out below. Applications made through the VPS online application system must be duly registered during the Application Period. The Managers participating in the Retail Offering will be DNB Markets, Clarksons, Arctic and SPM.

The application offices for physical applications in the Retail Offering are:

DNB Markets, Registrars Department Dronning Eufemias gate 30 P.O. Box 1600 Sentrum N-0021 Oslo Norway Tel: +47 23 26 81 01 E-mail: retail@dnb.no www.dnb.no/emisjoner	**Clarksons Platou Securities AS** Munkedamsveien 62c N-0270 Oslo Norway Tel: +47 22 01 63 00 E-mail: ecm.oslo@clarksons.com http://securities.clarksons.com
Arctic Securities Haakon VII's gate 5 P.O. Box 1833 Vika N-0123 Oslo Norway Tel: +47 21 01 30 40 E-mail: subscription@arctic.com www.arctic.com/secno	**SpareBank 1 Markets AS** Olav V's gate 5 P.O. Box 1398 Vika N-0114 Oslo Norway Tel +47 24 14 74 00 E-mail: subscription@sb1markets.no www.sb1markets.no

All applications in the Retail Offering will be treated in the same manner regardless of which of the above Managers the applications are placed with. Further, all applications in the Retail Offering will be treated in the same manner regardless of whether they are submitted by delivery of a Retail Application Form or through the VPS online application system.

Retail Application Forms that are incomplete or incorrectly completed, electronically or physically, or that are received after the expiry of the Application Period, may be disregarded without further notice to the applicant. Properly completed Retail Application Forms must be received by one of the application offices listed above or registered electronically through the VPS application system by 12:00 hours (CET) on 21 June 2018, unless the Application Period is being shortened or extended. None of the Company or any of the Managers may be held responsible for postal delays, unavailable fax lines, internet lines or servers or other logistical or technical matters that may result in applications not being received in time or at all by any application office.

Subject to Section 17.5.1 ("*Offer Price*") above, all applications made in the Retail Offering will be irrevocable and binding upon receipt of a duly completed Retail Application Form, or in the case of applications through the VPS online application system, upon registration of the application, irrespective of any extension of the Application Period, and cannot be withdrawn, cancelled or modified by the applicant after having been received by the application office, or in the case of applications through the VPS online application system, upon registration of the application.

17.5.5 Allocation, payment and delivery of Offer Securities

DNB Markets, acting as settlement agent for the Retail Offering, expects to issue notifications of allocation of Offer Securities in the Retail Offering on or about 22 June 2018, by issuing allocation notes to the applicants by mail or otherwise. Any applicant wishing to know the precise number of Offer Securities allocated to it, may contact one of the application offices listed above on or about 22 June 2018 during business hours. Applicants who have access to investor services through an institution that operates the applicant's account with the VPS for the registration of holdings of securities ("**VPS Account**") should be able to see how many Offer Securities they have been allocated from on or about 22 June 2018.

In registering an application through the VPS online application system or completing a Retail Application Form, each applicant in the Retail Offering will authorize DNB Markets (on behalf of the Managers) to debit the applicant's Norwegian bank account for the total amount due for the Offer Securities allocated to the applicant. The applicant's bank account number must be stipulated on the VPS online application or on the Retail Application Form. Accounts will be debited on or about 25 June 2018 (the "**Payment Date**"), and there must be sufficient funds in the stated bank account from and including 22 June 2018. Applicants who do not have a Norwegian bank account must ensure that payment for the allocated Offer Securities is made on or before the Payment Date (expected to be 25 June 2018).

Further details and instructions will be set out in the allocation notes to the applicant to be issued on or about 22 June 2018, or can be obtained by contacting DNB Markets at telephone number +47 23 26 81 01.

Should any applicant have insufficient funds on his or her account, or should payment be delayed for any reason, or if it is not possible to debit the account, interest will accrue on the amount due at a rate equal to the prevailing interest rate under the Norwegian Act on Interest on Overdue Payments, which at the date of this Prospectus is 8.5% per annum. DNB Markets (on behalf of the Managers) reserves the right (but has no obligation) to make up to three debit attempts through 29 June 2018 if there are insufficient funds on the account on the Payment Date. Should payment not be made when due, the Offer Securities allocated will not be delivered to the applicant, and the Managers reserve the right, at the risk and cost of the applicant, to cancel at any time thereafter the application and to re-allot or otherwise dispose of the allocated Offer Securities, on such terms and in such manner as the Managers may decide (and that the applicant will not be entitled to any profit there from). The original applicant will remain liable for payment of the Offer Price for the Offer Securities allocated to the applicant, together with any interest, costs, charges and expenses accrued, and the Managers may enforce payment of any such amount outstanding.

In order to provide for prompt delivery of the Offer Securities, the Managers are expected to subscribe and pay for the New Securities allocated in the Offering at a total subscription amount equal to the Offer Price multiplied by the number of New Securities and to sell such New Securities onwards to the applicants at the Offer Price. Irrespective of any such subscription and payment of New Shares, the original applicant will remain liable for payment of the Offer Price for the New Securities allocated to the applicant, together with any interest, costs, charges and expenses accrued, and the Company and/or the Managers may enforce payment of any such amount outstanding. The subscription, payment and onwards sale by the Managers of the New Securities as described above constitute an integrated sales process where the investors purchase New Securities from the Company based on this Prospectus, which has been prepared by the Company. The investors will not have any rights or claims against any of the Managers.

Subject to timely payment by the applicant, delivery of the Offer Securities allocated in the Retail Offering is expected to take place on or about 26 June 2018 through the facilities of the VPS.

17.6 Mechanism of allocation

It has been provisionally assumed that approximately 95% of the Offering will be allocated in the Institutional Offering and that approximately 5% of the Offering will be allocated in the Retail Offering. The final determination of the number of Offer Securities allocated to the Institutional Offering and the Retail Offering will only be decided, however, by the Company, in consultation with the Managers, following the completion of the bookbuilding process for the Institutional Offering, based on among other things the level of orders or applications received from each of the categories of investors relative to the level of applications or orders received in the Retail Offering. The Company and the Managers reserve the right to deviate from the provisionally assumed allocation between tranches without further notice and at their sole discretion.

No Offer Securities have been reserved for any specific national market.

In the Institutional Offering, the Company, in consultation with the Managers, will determine the allocation of Offer Securities. An important aspect of the allocation principles is the desire to create an appropriate long-term shareholder structure for the Company. The allocation principles will, in accordance with normal practice for institutional placements, include factors such as premarketing and management road-show participation and feedback, timeliness of the order, price level, relative order size, sector knowledge, investment history, perceived investor quality and investment horizon. The Company and the Managers further reserve the right, at their sole discretion, to take into account the creditworthiness of any applicant. The Company and the Managers may also set a maximum allocation, or decide to make no allocation to any applicant.

In the Retail Offering, no allocations will be made for a number of Offer Securities representing an aggregate value of less than NOK 10,500 per applicant, however, all allocations will be rounded down to the nearest number of whole Offer Securities and the payable amount will hence be adjusted accordingly. One or multiple orders from the same applicant in the Retail Offering with a total application amount in excess of NOK 1,999,999 will be adjusted downwards to an application amount of NOK 1,999,999. In the Retail Offering, allocation will be made solely on a pro rata basis using the VPS' automated simulation procedures. The Company and the Managers reserve the right to limit the total number of applicants to whom Offer Securities are allocated if the Company and the Managers deem this to be necessary in order to keep the number of owners in the Company at an appropriate level and such limitation does not have the effect that any conditions for the Listing regarding the number of owners will not be satisfied. If the Company and the Managers should decide to limit the total number of applicants to whom Offer Securities are allocated, the applicants to whom Offer Securities are allocated will be determined on a random basis by using the VPS' automated simulation procedures and/or other random allocation mechanism. Notwithstanding the above, any primary insider in the Company who applies for Securities in the Retail Offering will receive full allocation and the Company and the Managers reserve the right in their sole discretion to give full allocation to employees of, and other persons related to, the Group as well as members of the Board of Directors having applied for Offer Securities in the Retail Offering.

17.7 VPS Account

To participate in the Offering, each applicant must have a VPS Account. The VPS Account number must be stated when registering an application through the VPS online application system or on the Retail Application Form for the Retail Offering. VPS Accounts can be established with authorized VPS registrars, which can be Norwegian banks, authorized investment firms in Norway and Norwegian branches of credit institutions established within the EEA. However, non-Norwegian investors may use nominee VPS Accounts registered in the name of a nominee. The nominee must be authorized by the Norwegian Ministry of Finance. Establishment of VPS Accounts requires verification of identification by the relevant VPS registrar in accordance with Norwegian anti-money laundering legislation. See Section 17.11 ("Mandatory anti-money laundering procedures").

17.8 Over-allotment and stabilisation activities

17.8.1 Over-allotment of Additional Shares

In connection with the Offering, the Managers may elect to over-allot a number of Additional Securities, equalling up to approximately 15% of the number of Offer Securities and, in order to permit delivery in respect of over-allotments made, the Stabilisation Manager (DNB Markets) may, pursuant to the Lending Option, require the Sponsors to lend to the Stabilisation Manager, on behalf of the Managers, a number of Securities equal to the number of Additional Securities allocated in the Offering. Further, the Sponsors are expected to grant to the Stabilisation Manager, on behalf of the Managers, the Greenshoe Option to purchase a number of Securities up to the number of Additional Securities allocated in the Offering at a price equal to the final Offer Price in the Offering, which may be exercised by the Stabilisation Manager, on behalf of the Managers within 30 days of commencement of trading in the Securities on the Oslo Stock Exchange. To the extent that the Managers have over-allotted Securities in the Offering, the Managers have created a short position in the Securities. The Stabilisation Manager may close out this short position by buying Securities in the market through stabilisation activities and/or by exercising the Greenshoe Option.

A stock exchange notice will be published on the first day of trading in the Securities on the Oslo Stock Exchange (expected to take place on 25 June 2018), announcing whether the Managers have over-allotted Securities in connection with the Offering. Any exercise of the Greenshoe Option will be promptly announced by the Stabilisation Manager through the Oslo Stock Exchange's information system.

17.8.2 Price stabilisation

The Stabilisation Manager (DNB Markets) may, upon exercise of the Lending Option, from the first day of the Listing effect transactions with a view to support the market price of the Securities at a level higher than what might otherwise prevail, through buying Securities in the open market at prices equal to or lower than the Offer Price. There is no obligation on the Stabilisation Manager to conduct stabilisation activities and there is no assurance that stabilisation activities will be undertaken. Such stabilising activities, if commenced, may be discontinued at any time, and will be brought to an end at the latest 30 calendar days after the commencement of trading in the Securities on the Oslo Stock Exchange.

Any stabilisation activities will be conducted in accordance with Section 3-12 of the Norwegian Securities Trading Act and the EC Commission Regulation 2273/2003 regarding buy-back programmes and stabilisation of financial instruments.

The Sponsors, the Company and the Managers have agreed that any profit resulting from stabilisation activities conducted by the Stabilisation Manager, on behalf of the Managers, shall be split 50/50 between the Sponsors and the Managers.

Within one week after the expiry of the 30 calendar day period of price stabilisation, the Stabilisation Manager will publish information as to whether or not price stabilisation activities were undertaken. If stabilisation activities were undertaken, the statement will also include information about: (i) the total amount of Securities sold and purchased; (ii) the dates on which the stabilisation period began and ended; (iii) the price range between which stabilisation was carried out, as well as the highest, lowest and average price paid during the stabilisation period; and (iv) the date at which stabilisation activities last occurred.

It should be noted that stabilisation activities might result in market prices that are higher than would otherwise prevail. Stabilisation may be undertaken, but there is no assurance that it will be undertaken and it may be stopped at any time.

17.9 Product governance

Solely for the purposes of the product governance requirements contained within: (a) EU Directive 2014/65/EU on markets in financial instruments, as amended (MiFID II); (b) Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593 supplementing MiFID II; and (c) local implementing measures (together, the MiFID II Product Governance Requirements), and disclaiming all and any liability, which any "manufacturer" (for the purposes of the MiFID II Product Governance Requirements) may otherwise have with respect thereto, the Securities have been subject to a product approval process, which has determined that they each are: (i) compatible with an end target market of retail investors and investors who meet the criteria of professional clients and eligible counterparties, each as defined in MiFID II; and (ii) eligible for distribution through all distribution channels as are permitted by MiFID II (the Target Market Assessment).

Notwithstanding the Target Market Assessment, Distributors should note that: the price of the Securities may decline and investors could lose all or part of their investment; the Securities offer no guaranteed income and no capital protection; and an investment in the Securities is compatible only with investors who do not need a guaranteed income or capital protection, who (either alone or in conjunction with an appropriate financial or other adviser) are capable of evaluating the merits and risks of such an investment and who have sufficient resources to be able to bear any losses that may result therefrom. Each distributor is responsible for undertaking its own Target Market Assessment in respect of the Securities and determining appropriate distribution channels.

The Target Market Assessment is without prejudice to the requirements of any contractual, legal or regulatory selling restrictions in relation to the Offering. Furthermore, it is noted that, notwithstanding the Target Market Assessment, the Joint Bookrunners will only procure investors who meet the criteria of professional clients and eligible counterparties. For the avoidance of doubt, the Target Market Assessment does not constitute: (a) an assessment of suitability or appropriateness for the purposes of MiFID II; or (b) a recommendation to any investor or group of investors to invest in, or purchase, or take any other action whatsoever with respect to the Securities.

17.10 National Client Identifier and Legal Entity Identifier

In order to participate in the Offering, applicants will need a global identification code. Physical persons will need a so called National Client Identifier ("**NCI**") and legal entities will need a so called Legal Entity Identifier ("**LEI**").

17.10.1 NCI code for physical persons

As of 3 January 2018, physical persons will need a NCI code to participate in a financial market transaction, i.e. a global identification code for physical persons. For physical persons with only a Norwegian citizenship, the NCI code is the 11 digit personal ID (*Nw.: Fødselsnummer*). If the person in question has multiple citizenships or another citizenship than Norwegian, another relevant NCI code can be used. Investors are encouraged to contact their bank for further information.

17.10.2 LEI code for legal entities

As of 3 January 2018, legal entities will need a LEI code to participate in a financial market transaction. A LEI code must be obtained from an authorised LEI issuer, which can take some time. Investors should obtain a LEI code in time for the application. For more information visit www.gleif.org.

17.11 Mandatory anti-money laundering procedures

The Offering is subject to applicable anti-money laundering legislation, including the Norwegian Money Laundering Act of 6 March 2009 no. 11 and the Norwegian Money Laundering Regulations of 13 March 2009 no. 302 (collectively, the "**Anti-Money Laundering Legislation**").

Applicants who are not registered as existing customers of any of the Managers must verify their identity to the Manager in which the order is placed in accordance with the requirements of the Anti-Money Laundering Legislation, unless an exemption is available. Applicants who have designated an existing Norwegian bank account and an existing VPS Account on the Retail Application Form, or when registering an application through the VPS online application system, are exempted, unless verification of identity is requested by any of the Managers. Applicants who have not completed the required verification of identity prior to the expiry of the Application Period may not be allocated Offer Securities.

17.12 Publication of information in respect of the Offering

In addition to press releases which will be posted on the Company's website, the Company will use the Oslo Stock Exchange's information system to publish information relating to the Offering, such as amendments to the Bookbuilding Period and Application Period (if any), the final Offer Price, the number of Offer Securities and the total amount of the Offering and first day of trading at the Oslo Stock Exchange.

The final determination of the Offer Price, the number of Offer Securities and the total amount of the Offering is expected to be published on or about 22 June 2018.

17.13 The rights conferred by the Offer Securities

The Offer Securities will in all respects carry the same rights, with the same shareholders' rights, including the rights to dividends, in the Company as the underlying Common Shares, exercisable though the VPS Registrar as set out in Section 14.6 ("*VPS registration of the Securities*").

For a description of rights attached to the Securities, see Section 14 ("*Corporate Information and Description of the Share Capital*").

17.14 VPS registration

The Offer Securities will be registered in the VPS under ISIN KYG236271055. The Offer Securities will be registered in book-entry form with the VPS, while the shares will be registered in the name of the VPS Registrar in the Company's shareholder register in the Cayman Islands. The Company's security register with the VPS is administrated by DNB Bank ASA, Dronning Eufemias gate 30, N-0191 Oslo, Norway.

17.15 Conditions for completion of the Offering – Listing and trading of the Offer Securities

The Company expects to apply for Listing of the Securities on Oslo Børs, or alternatively on Oslo Axess, on or about 14 June 2018 and the board of directors of the Oslo Stock Exchange is expected to approve the Listing application on or about 19 June 2018, conditional upon (a) the Company having a minimum of 500 Security holders, each holding Securities with a value of more than NOK 10,000 (or in the case of Oslo Axess, in excess of 100 Security holders, each holding Securities with a value of more than NOK 10,000), (b) there being a minimum free float of the Securities of at least 25% (of which both (a) and (b) are expected to be fulfilled through the Offering) and (c) the general meeting of the Company having resolved to adopt the Articles with effect from no later than the Listing date.

Completion of the Offering on the terms set forth in this Prospectus is expressly conditioned upon the board of directors of the Oslo Stock Exchange approving the application for listing of the Securities either on Oslo Børs or Oslo Axess in its meeting to be held on or about 19 June 2018, on conditions acceptable to the Company and that any such conditions are satisfied by the Company. The Offering will be cancelled in the event that the conditions are not satisfied. There can be no assurance that the board of directors of the Oslo Stock Exchange will give such approval or that the Company will satisfy these conditions.

Completion of the Offering on the terms set forth in this Prospectus is otherwise only conditional on (i) the Board of Directors, in consultation with the Managers, resolving to proceed with the Offering, (ii) the Company, in consultation with the Managers, having approved the Offer Price and the allocation of the Offer Securities to eligible investors following the bookbuilding process, (iii) the general meeting of the Company having resolved to adopt the Articles with effect from no later than the Listing, (iv) gross proceeds of the NOK equivalent of minimum USD 200 million being raised through the sale of New Securities in the Offering, and (v) the Managers, prior to the registration of the share capital increase pertaining to the issuance of the Offer Securities, having entered into the placement agreement with the Company and the Sponsors and not having terminated their commitment to pre-pay the subscription amount for the Offer Securities. There can be no assurance that these conditions will be satisfied. If the conditions are not satisfied, the Offering may be revoked or suspended.

Assuming that the conditions are satisfied, the first day of trading of the Securities, including the Offer Securities, on the Oslo Stock Exchange, is expected to be on or about 25 June 2018. The Securities are expected to trade under the ticker code "SHLF".

Applicants in the Retail Offering selling Offer Securities prior to delivery must ensure that payment for such Offer Securities is made on or prior to the Payment Date, by ensuring that the stated bank account is sufficiently funded on 22 June 2018. Applicants in the Institutional Offering selling Offer Securities prior to delivery must ensure that payment for such Offer Securities is made on or prior to the Institutional Closing Date. Accordingly, an applicant who wishes to sell its Offer Securities, following confirmed allocation of Offer Securities, but before delivery, must ensure that payment is made in order for such Offer Securities to be delivered in time to the applicant.

Prior to the Listing and the Offering, the Securities are not listed on any stock exchange or authorized market place, and no application has been filed for listing on any other stock exchanges or regulated market places than the Oslo Stock Exchange. A certain number of Securities have, however, been listed on the N-OTC since 5 May 2017.

17.16 Dilution

Following completion of the Offering, and assuming that 29,411,679 New Securities are issued in the Offering, the immediate dilution for existing shareholders is estimated to be approximately 26.14%.

17.17 Expenses of the Offering and the Listing

Assuming that the maximum gross proceeds of USD 250 million are raised through the Offering, the net proceeds to the Company will be approximately USD 237 million (approximately NOK 1,910 million), based on estimated total transaction costs of, and incidental to, the Listing and the Offering of approximately USD 13 million (approximately NOK 104.8 million) to be paid by the Company.

A fixed fee of 3.25% of the gross proceeds of the Issue, an incentive fee of up to 0.75% and a prepayment fee of 0.08% of the gross proceeds of the Issue is to be paid to the Managers related to the Offering.

No expenses or taxes will be charged by the Company or the Managers to the applicants in the Offering.

17.18 Lock-up

17.18.1 The Company

Pursuant to an undertaking to be included in the Placement Agreement, the Company is expected to undertake that it will not, without the prior written consent of DNB Markets, during the period up to and including the date falling 12 months from the first day of trading of the Securities on the Oslo Stock Exchange, issue any further shares unless in relation to (1) the sale and issue of Securities in the Offering, (2) granting of options or subscription rights or issuance of shares or Securities under ordinary employee incentive programmes or (3) the issue of new Securities as consideration in connection with acquisitions of companies and businesses (including rigs) or in connection with the redemption of all or parts of the Company's Preferred Shares, provided that the Securities are issued at a price above the Offer Price.

17.18.2 The Sponsors

The Sponsors are expected to undertake that they will not, and that they will procure that none of their subsidiaries will, without the prior written consent of DNB Markets, during the period up to and including the date falling 180 days from the first day of trading of the Securities on the Oslo Stock Exchange, (1) sell, offer to sell, contract or agree to sell, pledge, grant any option to purchase or otherwise dispose of or agree to dispose of, directly or indirectly any Securities or Common Shares or any securities convertible into or exercisable or exchangeable for Securities or Common Shares, or warrants or other rights to purchase Securities, (2) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Securities or Common Shares or any securities convertible into or exercisable or exchangeable for Securities or Common Shares, or warrants or other rights to purchase Securities, whether any such transaction is to be settled by delivery of Securities or Common Shares or such other securities, in cash or otherwise, or (3) publicly announce an intention to effect any transaction specified in clause (1) or (2), provided, however, that the foregoing shall not apply to: (A) the transfer of Securities or Common Shares to any of the Managers pursuant to the share lending agreement entered into with the Managers, (B) any of the Preferred Shares, (C) any action (including, for the avoidance of doubt, pre-accepting such offers) in connection with a takeover offer for all Securities and/or Common Shares in accordance with chapter 6 of the Norwegian Securities Trading Act or a legal merger, (D) any transfer of Securities or Common Shares to (i) any entity that is directly or indirectly controlled by, controls or is under common control with the Sponsor or (ii) any of the Sponsor's affiliates or any of its affiliates' directors and officers, in each case who assume the same lock-up obligations as undertaken by the transferring Sponsor or (E) any Securities or Common Shares acquired following the completion of the Offering or (F) the transfer of any Securities or Common Shares held by the Sponsor upon exercise of the Greenshoe Option.

17.18.3 Senior management and Directors

Pursuant to additional lock-up undertakings, the primary insiders of the Company, including the senior management and Directors will undertake that they will not, without the prior written consent of the Managers, during the period up to and including the date falling 12 months from the first day of trading of the Securities on the Oslo Stock Exchange, directly or indirectly, (1) offer, sell, contract to sell, sell any option or contract to purchase, purchase any option or contract to sell, grant any option, right or warrant to purchase, lend, pledge or otherwise transfer or dispose of any Securities or Common Shares or any securities convertible into or exercisable or exchangeable for Securities or Common Shares or (2) enter into any swap or other arrangement that transfers to another, in whole or in part, any of the economic consequences of ownership of Securities or Common Shares, whether any such transaction described in clause (1) or (2) above is to be settled by delivery of Securities, Common Shares or such other securities, in cash or otherwise, or (3) agree or publicly announce an intention to effect any transaction specified in clause (1) or (2), provided, however, that the foregoing shall not apply to: (A) any action (including, for the avoidance of doubt, pre-accepting such offer) in connection with a takeover offer for all Securities and/or Common Shares in accordance with chapter 6 of the Norwegian Securities Trading Act or (B) any transfer of Securities or Common Shares to any entity directly or indirectly controlled by the shareholder who assume the same lock-up obligations as undertaken by the shareholder.

17.19 Interest of natural and legal persons involved in the Offering

The Managers or their affiliates have provided from time to time, and may provide in the future, investment and commercial banking services to the Company and its affiliates in the ordinary course of business, for which they may have received and may continue to receive customary fees and commissions. The Managers do not intend to disclose the extent of any such investments or transactions otherwise than in accordance with any legal or regulatory obligation to do so. The Managers will receive a management fee in connection with the Offering, which will be based on the amount of gross proceeds received from investors. See Section 17.17 ("*Expenses of the Offering and the Listing*") for information on fees to the Managers in connection with the Offering.

Beyond the above-mentioned, the Company is not aware of any interest, including conflicting ones, of any natural or legal persons involved in the Offering.

17.20 Participation of major existing shareholders and members of the Management, supervisory and administrative bodies in the Offering

None of the members of the Board of Directors and Management have indicated an intention to apply for Offer Securities, but are expected to consider any possible applications during the application period.

The Company is not aware of whether any major shareholders of the Company or other members of the Management, supervisory or administrative bodies intend to apply for Offer Securities in the Offering, or whether any person intends to apply for more than 5% of the Offer Securities.

17.21 Governing law and jurisdiction

This Prospectus, the Retail Application Form and the terms and conditions of the Offering shall be governed by and construed in accordance with Norwegian law. Any dispute arising out of, or in connection with, this Prospectus, the Retail Application Form or the Offering shall be subject to the exclusive jurisdiction of the courts of Norway, with the Oslo District Court as the legal venue.

18 SELLING AND TRANSFER RESTRICTIONS

18.1 General

As a consequence of the following restrictions, prospective investors are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the Securities offered hereby.

Other than in Norway, the Company is not taking any action to permit a public offering of the Securities in any jurisdiction. Receipt of this Prospectus will not constitute an offer in those jurisdictions in which it would be illegal to make an offer and, in those circumstances, this Prospectus is for information only and should not be copied or redistributed. Except as otherwise disclosed in this Prospectus, if an investor receives a copy of this Prospectus in any jurisdiction other than Norway, the investor may not treat this Prospectus as constituting an invitation or offer to it, nor should the investor in any event deal in the Securities, unless, in the relevant jurisdiction, such an invitation or offer could lawfully be made to that investor, or the Securities could lawfully be dealt in without contravention of any unfulfilled registration or other legal requirements. Accordingly, if an investor receives a copy of this Prospectus, the investor should not distribute or send the same, or transfer Securities, to any person or in or into any jurisdiction where to do so would or might contravene local securities laws or regulations.

18.2 Selling restrictions

18.2.1 United States

The Offer Securities have not been, and will not be, registered under the U.S. Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States, and may not be offered or sold except: (i) within the United States to QIBs in reliance on Rule 144A or pursuant to another exemption from the registration requirements of the U.S. Securities Act; or (ii) to non-U.S. persons in offshore transactions in compliance with Regulation S under the U.S. Securities Act, and in accordance with any applicable securities laws of any state or territory of the United States or any other jurisdiction. Accordingly, each Manager has represented and agreed that it has not offered or sold, and will not offer or sell, any of the Offer Securities as part of its allocation at any time other than to QIBs in the United States in accordance with Rule 144A or pursuant to another exemption from the registration requirements of the U.S. Securities Act or outside of the United States in compliance with Regulation S. Transfer of the Offer Securities will be restricted and each purchaser of the Offer Securities in the United States will be required to make certain acknowledgements, representations and agreements, as described under Section 18.3.1 ("*United States*").

Any offer or sale in the United States will be made solely by affiliates of the Managers who are broker-dealers registered under the U.S. Exchange Act. In addition, until 40 days after the commencement of the Offering, an offer or sale of Offer Securities within the United States by a dealer, whether or not participating in the Offering, may violate the registration requirements of the U.S. Securities Act if such offer or sale is made otherwise than in accordance with Rule 144A or another exemption from the registration requirements of the U.S. Securities Act and in connection with any applicable state securities laws.

Clarksons is not a US registered broker-dealer and will only participate in the Offering outside of the United States and, to the extent that the Offering by Clarksons is within the United States, Clarksons will offer to and place Securities with investors through Clarksons Platou Securities, Inc., an affiliated US broker-dealer. The activities of Clarksons in the United States will be effected only to the extent permitted by Rule 15a-6 under the U.S. Securities Act.

18.2.2 The UK

In the UK, this Prospectus is only being distributed to and is only directed at persons (i) who have professional experience in matters falling within Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (the Order); (ii) falling within Article 49(2)(a) to (d) (high net worth companies, unincorporated associations etc.) of the Order; and/or (iii) to whom it may lawfully be communicated or caused to be communicated (the "**Relevant Persons**"). The Offer Securities are only available to, and any invitation, offer or agreement to subscribe, purchase or otherwise acquire such Securities will be engaged in only with, Relevant Persons. Any person who is not a Relevant Person should not act or rely on this Prospectus or any of its contents.

Each Manager has represented, warranted and agreed that:

a) it has only communicated or caused to be communicated and will only communicate or cause to be communicated any invitation or inducement to engage in investment activity (within the meaning of Section 21 of the Financial Services and Markets Act 2000 (the "**FSMA**") received by it in connection with the issue or sale of any Offer Securities in circumstances in which Section 21(1) of the FSMA does not apply to the Company; and

b) it has complied and will comply with all applicable provisions of the FSMA with respect to everything done by it in relation to the Offer Securities in, from or otherwise involving the United Kingdom.

18.2.3 The European Economic Area

In relation to each Member State, each Manager has represented and agreed that with effect from and including the date on which the EU Prospectus Directive is implemented in that Member State (the "**Relevant Implementation Date**"), it has not made and will not make an offer to the public of any Offer Securities which are the subject of the offering contemplated by this Prospectus may not be made in that Member State, other than the offering in Norway as described in this Prospectus, once the Prospectus has been approved by the competent authority in Norway and published in accordance with the EU Prospectus Directive (as implemented in Norway), except that it may, with effect from and including the Relevant Implementation Date, make an offer to the public in that Member State:

a) to legal entities which are qualified investors as defined in the EU Prospectus Directive;

b) to fewer than 150 natural or legal persons (other than qualified investors as defined in the EU Prospectus Directive), as permitted under the EU Prospectus Directive, subject to obtaining the prior consent of the Managers for any such offer, or

c) in any other circumstances falling within Article 3(2) of the EU Prospectus Directive;

provided that no such offer of Offer Securities shall require the Company or any Manager to publish a prospectus pursuant to Article 3 of the EU Prospectus Directive or supplement a prospectus pursuant to Article 16 of the EU Prospectus Directive. Each person in a Member State who initially acquires any Offer Securities or to whom any offer is made will be deemed to have represented, acknowledged and agreed to and with the Company and the Managers that it is a "qualified investor" within the meaning of the law in that Member State implementing Article 2(1)(e) of the EU Prospectus Directive.

For the purposes of this provision, the expression an "offer to the public" in relation to any Offer Securities in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any securities to be offered so as to enable an investor to decide to purchase any Offer Securities, as the same may be varied in that Member State by any measure implementing the EU Prospectus Directive in that Member State the expression "EU Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Member State), and includes any relevant implementing measure in each Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

This European Economic Area selling restriction is in addition to any other selling restrictions set out in this Prospectus.

18.2.4 Cayman Islands

No offer or invitation to subscribe for Securities may be made to the public in the Cayman Islands.

18.2.4.1 Other jurisdictions

The Offer Securities may not be offered, sold, resold, transferred or delivered, directly or indirectly, in or into, Japan, Australia or any other jurisdiction in which it would not be permissible to offer the Offer Securities.

In jurisdictions outside the United States and the EEA where the Offering would be permissible, the Offer Securities will only be offered pursuant to applicable exceptions from prospectus requirements in such jurisdictions.

18.3 Transfer restrictions

18.3.1 United States

The Offer Securities have not been and will not be registered under the U.S. Securities Act or with any securities regulatory authority of any state or other jurisdiction in the United States, and may not be offered or sold except: (i) within the United States only to QIBs in reliance on Rule144A or pursuant to another exemption from the registration requirements of the U.S. Securities Act; and (ii) to non-U.S. persons in offshore transactions in compliance with Regulation S under the U.S. Securities Act, and in accordance with any applicable securities laws of any state or territory of the United States or any other jurisdiction. Terms defined in Rule 144A or Regulation S shall have the same meaning when used in this Section 18.3.1.

Each purchaser of the Offer Securities outside the United States pursuant to Regulation S will be deemed to have acknowledged, represented and agreed that it has received a copy of this Prospectus and such other information as it deems necessary to make an informed decision and that:

- The purchaser is authorized to consummate the purchase of the Offer Securities in compliance with all applicable laws and regulations.

- The purchaser acknowledges that the Offer Securities have not been and will not be registered under the U.S. Securities Act, or with any securities regulatory authority of any state or other jurisdiction of the United States, and are subject to significant restrictions on transfer.

- The purchaser is, and the person, if any, for whose account or benefit the purchaser is acquiring the Offer Securities was located outside the United States at the time the buy order for the Offer Securities was originated and continues to be located outside the United States and has not purchased the Offer Securities for the benefit of any person in the United States or entered into any arrangement for the transfer of the Offer Securities to any person in the United States.

- The purchaser is not an affiliate of the Company or a person acting on behalf of such affiliate, and is not in the business of buying and selling securities or, if it is in such business, it did not acquire the Offer Securities from the Company or an affiliate thereof in the initial distribution of such Securities.

- The purchaser is aware of the restrictions on the offer and sale of the Offer Securities pursuant to Regulation S described in this Prospectus.

- The Offer Securities have not been offered to it by means of any "directed selling efforts" as defined in Regulation S.

- The Company shall not recognize any offer, sale, pledge or other transfer of the Offer Securities made other than in compliance with the above restrictions.

- The purchaser acknowledges that these representations are required in connection with the securities laws of the United States and that the Company, the Managers and their respective advisers will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

Each purchaser of the Offer Securities within the United States pursuant to Rule 144A or another available exemption under the U.S. Securities Act will be deemed to have acknowledged, represented and agreed that it has received a copy of this Prospectus and such other information as it deems necessary to make an informed investment decision and that:

- The purchaser is authorized to consummate the purchase of the Offer Securities in compliance with all applicable laws and regulations.

- The purchaser acknowledges that the Offer Securities have not been, and will not be, registered under the U.S. Securities Act or with any securities regulatory authority of any state or other jurisdiction of the United States and are subject to significant restrictions to transfer.

- The purchaser (i) is a QIB (as defined in Rule 144A), (ii) is aware that the sale to it may be made in reliance on Rule 144A and (iii) is acquiring such Offer Securities for its own account or for the account of a QIB, in each case for investment and not with a view to any resale or distribution to the Offer Securities, as the case may be.

- The purchaser is aware that the Offer Securities are being offered in the United States in a transaction not involving any public offering in the United States within the meaning of the U.S. Securities Act.

- If, in the future, the purchaser decides to offer, resell, pledge or otherwise transfer such Offer Securities, as the case may be, such Securities may be offered, sold, pledged or otherwise transferred only (i) to a person whom the beneficial owner and/or any person acting on its behalf reasonably believes is a QIB in a transaction meeting the requirements of Rule 144A, (ii) outside the United States in a transaction meeting the requirements of Regulation S, (iii) in accordance with Rule 144 (if available), (iv) pursuant to any other exemption from the registration requirements of the U.S. Securities Act, subject to the receipt by the Company of an opinion of counsel or such other evidence that the Company may reasonably require that such sale or transfer is in compliance with the U.S. Securities Act or (v) pursuant to an effective registration statement under the U.S. Securities Act, in each case in accordance with any applicable securities laws of any state or territory of the United States or any other jurisdiction.

- The purchaser is not an affiliate of the Company or a person acting on behalf of such affiliate, and is not in the business of buying and selling securities or, if it is in such business, it did not acquire the Offer Securities from the Company or an affiliate thereof in the initial distribution of such Securities.
- The New Securities are "restricted securities" within the meaning of Rule 144(a) (3) and no representation is made as to the availability of the exemption provided by Rule 144 for resales of any Offer Securities, as the case may be.
- The Company shall not recognize any offer, sale pledge or other transfer of the Offer Securities made other than in compliance with the above-stated restrictions.
- The purchaser acknowledges that these representations and undertakings are required in connection with the securities laws of the United States and that the Company, the Managers and their respective advisers will rely upon the truth and accuracy of the foregoing acknowledgements, representations and agreements.

18.3.2 European Economic Area

Each person in a Member State (other than, in the case of paragraph (a), persons receiving offers contemplated in this Prospectus in Norway) who receives any communication in respect of, or who acquires any Offer Securities under, the offers contemplated in this Prospectus will be deemed to have represented, warranted and agreed to and with each Manager and the Company that:

a) it is a "qualified investor" as defined in the EU Prospectus Directive; and

b) in the case of any Offer Securities acquired by it as a financial intermediary, as that term is used in Article 3(2) of the EU Prospectus Directive, (i) the Offer Securities acquired by it in the offer have not been acquired on behalf of, nor have they been acquired with a view to their offer or resale to, persons in any Member State other than "qualified investors", as that term is defined in the Prospectus Directive, or in circumstances in which the prior consent of the Managers has been given to the offer or resale; or (ii) where Offer Securities have been acquired by it on behalf of persons in any Member State other than qualified investors, the offer of those Securities to it is not treated under the EU Prospectus Directive as having been made to such persons.

For the purposes of this representation, the expression an "offer" in relation to any Offer Securities in any Member State means the communication in any form and by any means of sufficient information on the terms of the offer and any Offer Securities to be offered so as to enable an investor to decide to purchase or subscribe for the Offer Securities, as the same may be varied in that Member State by any measure implementing the EU Prospectus Directive in that Member State and the expression "EU Prospectus Directive" means Directive 2003/71/EC (and amendments thereto, including the 2010 PD Amending Directive, to the extent implemented in the Member State), and includes any relevant implementing measure in each Relevant Member State and the expression "2010 PD Amending Directive" means Directive 2010/73/EU.

19 ADDITIONAL INFORMATION

19.1 Auditor

The Company's independent auditor is PricewaterhouseCoopers Dubai branch, with license number 102451, and business address at Emaar Square Building 4, Level 8, Dubai, United Arab Emirates. PwC has been auditor of the Company since its inception in 2012. PwC is registered with the Public Accounting Oversight Board (United States). PwC has been registered with the Norwegian FSA.

19.2 Advisors

DNB Markets, a part of DNB BANK ASA (Dronning Eufemias Gate 30, N-0021 Oslo, Norway) is acting as Global Coordinator and Joint Bookrunners, Clarksons Platou Securities AS (Munkedamsveien 62c, N-0270 Oslo, Norway) is acting as Joint Bookrunners, and Arctic Securities AS (Haakon VII's gate 5, N-0161 Oslo, Norway) and Sparebank1 Markets AS (Olav V's gate 5, N-0161 Oslo, Norway) are acting as Co-Managers for the Offering.

Advokatfirmaet Thommessen AS (Haakon VIIs gate 10, N-0161 Oslo, Norway) is acting as Norwegian legal counsel to the Company. Walkers (190 Elgin Avenue, George Town, Grand Cayman KY1-9001, Cayman Islands) is acting as Cayman Islands legal counsel to the Company.

Wikborg Rein Advokatfirma AS (Dronning Mauds gate 11, 0250, Oslo, Norway) is acting as Norwegian legal counsel to the Managers.

19.3 Documents on display

Copies of the following documents will be available for inspection at the Company's offices at Dubai, United Arab Emirates at One JLT, Floor 12, Jumeirah Lakes Towers, during normal business hours from Sunday to Thursday each week (except public holidays) for a period of twelve months from the date of this Prospectus:

- The Company's Memorandum of Association and Articles;
- All reports, letters, and other documents, the Historical Financial Information, valuations and statements prepared by any expert at the Company's request any part of which is included or referred to in this Prospectus;
- The historical consolidated financial information of the Company for each of the three financial years preceding the publication of this Prospectus and the three months ended 31 March 2018 and 2017; and
- This Prospectus.

20 DEFINITIONS AND GLOSSARY

In the Prospectus, the following defined terms have the following meanings:

2010 PD Amending Directive	Directive 2010/73/EU amending the EU Prospectus Directive.
2012 Acquisition	The acquisition, directly and indirectly, by the Group of a total of 37 independent-leg cantilever jack-up drilling rigs and one swamp barge from Transocean on November 30, 2012.
2017 Acquired Rigs	The three premium jack-up rigs (Shelf Drilling Mentor, Shelf Drilling Tenacious and Shelf Drilling Resourceful) acquired by the Group in 2017.
8.25% Notes	A USD 600 million 8.25% senior unsecured notes due 2025.
Additional Securities	The Managers may elect to over-allot a number of additional Securities equaling up to 15% of the final number of New Securities sold in the Offering.
Adjusted EBITDA	Net loss plus interest, taxes, depreciation, amortization, losses on disposals of assets, loss on impairment of assets, sponsors' fee, acquired rig reactivation costs and share-based compensation expense, less gains on disposal of assets.
ADNOC	Abu Dhabi National Oil Company, the national oil company of Abu Dhabi.
Anti-Money Laundering Legislation	The Norwegian Money Laundering Act of 6 March 2009 no. 11 and the Norwegian Money Laundering Regulations of 13 March 2009 no. 302, collectively.
Application Period	The application period for the Retail Offering which will take place from 09:00 hours (CET) on 13 June 2018 and close at 12:00 hours (CET) on 21 June 2018, unless shortened or extended.
Arctic	Arctic Securities AS.
Articles	The Company's new memorandum and articles of association set out in Appendix A to the Prospectus, which is contemplated to be effective from the Listing.
ASU No. 2016-18	The Accounting Standards Update 2016-18 regarding restricted cash in cash flow statements, issued by the Financial Accounting Standards Board (FASB).
Bareboat Charter Agreements	The bareboat charter agreements executed by the Lessee in connection with the Sale and Leaseback Financing.
Bbl	Barrels.
Bbl/d	Barrels per day.
Board of Directors	The Company's board of directors.
BOEM	U.S. Department of the Interior's Bureau of Ocean Energy Management.
Bookbuilding Period	The offer period for the Institutional Offering which will take place 09:00 hours (CET) on 13 June 2018 to 14:00 hours (CET) on 21 June 2018, unless shortened or extended.
Bribery Act	United Kingdom Bribery Act 2010.
BSEE	The U.S. Department of the Interior's Bureau of Safety and Environmental Enforcement.
Bunker Convention	The International Convention on Civil Liability for Bunker Oil Pollution Damage, as amended.
BWM Convention	The International Convention for the Control and Management of Ships' Ballast Water and Sediments in February 2004.
CAA	The U.S. Clean Air Act.
CAGR	Compound annual growth rate.
Castle Harlan	CHP V AIV Pool 1 Ltd., CHP V AIV Pool 2, Ltd. and CHP V SD Co-Invest, LP, which are funds affiliated with Castle Harlan, Inc. and that own, directly or indirectly, shares of the Company's capital stock.
CERCLA	The Comprehensive Environmental Response, Compensation and Liability Act.
CET	Central European Time.
CHAMP Private Equity	Perpetual Trustee Company Limited as trustee of the CHAMP Buyout III Trust, Perpetual Corporate Trust Limited as trustee of the CHAMP Buyout III (SWF) Trust, P.T. Limited as trustee of the CHAMP Buyout III (WW) Trust, CHAMP Buyout III L.P. and CHAMP Shelf L.P., which are funds affiliated with, managed or advised by CHAMP III Management Pty. Ltd. and that own, directly or indirectly, shares of the Company's capital stock.
Chevron	Chevron Thailand Exploration and Production, Ltd and/or its affiliates.
Clarksons	Clarksons Platou Securities AS.
CLC	The International Convention on Civil Liability for Oil Pollution Damage, as amended.
Code	The Internal Revenue Code of 1896, as amended
Common Shares	The Company's common shares, each with a nominal value of USD 0.01.
Companies Law	The Cayman Islands Companies Law (as amended).
Co-Managers	Arctic and SPM.
Company	Shelf Drilling, Ltd.
Conversion Price	The USD equivalent of the Offer Price based on the USD/NOK exchange rate on the Oslo Stock Exchange's closing time on the Listing date.
Corporate Governance Code	The Norwegian Code of Practice for Corporate Governance, dated 30 October 2014.
CWA	The U.S. Clean Water Act.
Delivered Newbuild Rigs	The two newbuild rigs, Shelf Drilling Chaophraya and Shelf Drilling Krathong, which were delivered to the Group in September 2016 and June 2017, respectively.

Directors	The members of the Board of Directors.
DNB	DNB Bank ASA.
DNB Markets	DNB Markets, a part of DNB
DPE	Dubai Petroleum Establishment
ECAs	Emission Control Areas.
EEA	The European Economic Area.
EGP	Egyptian pound, the lawful currency of Egypt.
EU	The European Union.
EU Prospectus Directive	Directive 2003/71/EC of the European Parliament and of the Council of 4 November 2003, and amendments thereto, including the 2010 PD Amending Directive to the extent implemented in the Relevant Member State.
EUR	EU Member State currency.
Excess Allowance	Calculated allowance one year exceeding the dividend distributed on the security.
E&P	Exploration and production.
Financial Statements	The Company's audited financial statements as at, and for the years ended, 31 December 2017, 2016 and 2015.
Forward-looking Statements	statements that reflect the Company's current views with respect to future events and financial and operational performance, typically identified by the use of forward-looking terminology, such as the terms "anticipates", "assumes", "believes", "can", "could", "estimates", "expects", "forecasts", "intends", "may", "might", "plans", "projects", "should", "will", "would" or, in each case, their negative, or other variations or comparable terminology.
FPSO	Floating Production Storage and Offloading.
FSMA	The Financial Services and Markets Act 2000.
Global Coordinator	DNB Markets
Greenshoe Option	An option granted by the Sponsors to the Stabilisation Manager to purchase a number of Securities equal to up to the number of Additional Securities.
Group	The Company together with its consolidated subsidiaries.
H1	Six months' period ending 30 June.
HSE	Health, safety and the environment.
Historical Financial Information	The Financial Statements and the Interim Financial Information.
IADC	International Association of Drilling Contractors.
ILC	Independent-leg cantilever.
IMO	The United Nations' International Maritime Organization.
Indicative Price Range	The indicative price range in the Offering of NOK 64.47 to NOK 72.53 per Offer Security.
Institutional Closing Date	Delivery and payment for the Offer Securities by the applicants in the Institutional Offering is expected to take place on or about 26 June 2018.
Institutional Offering	An institutional offering, in which Offer Securities are being offered to (a) investors in Norway, (b) investors outside Norway and the United States, subject to applicable exemptions from any prospectus requirements, and (c) investors in the United States who are QIBs in reliance on Rule 144A under the U.S. Securities Act, subject to a lower limit per application of NOK 2,000,000. All offers and sales outside the United States will be made to non-U.S. persons in offshore transactions in compliance with Regulation S of the U.S. Securities Act.
Interim Financial Information	The Company's unaudited interim financial Information as at, and for the three months' period ended 31 March 2018 (with comparable figures for the three months' period ended 31 March 2017).
IOC	International Oil Company.
IRS	The United States Internal Revenue Service.
ISIN	International Securities Identification Number.
Joint Bookrunners	DNB Markets and Clarksons.
Lamprell	Lamprell plc.
LEI	Legal Entity Identifier.
Lending Option	An option granted by the Sponsor to the Stabilisation Manager, on behalf of the Managers, to borrow a number of Securities equal to the number of Additional Securities in order to facilitate an over-allotment.
Lessee	Two wholly owned subsidiaries of the Group, Shelf Drilling TBN I, Ltd and Shelf Drilling TBN II, Ltd.
Lessor	Hai Jiao 1502 Limited and Hai Jiao 1503 Limited, which are wholly owned subsidiaries of Industrial and Commercial Bank of China Leasing.
LIBOR	London Interbank Offered Rate.
Lime Rock Partners	LR-Shelf Drilling International, L.P., a fund affiliated with Lime Rock Management LP that owns, directly or indirectly, shares of the Company's capital stock.
Liquidation Preference	The per Preferred Share liquidation preference.
Listing	The listing of the Securities on the Oslo Stock Exchange
Management	The executive management team of the Company.
Managers	The Global Coordinator, the Joint Bookrunners and the Co-Managers.

MARPOL	The International Convention for the Prevention of Pollution from Ships, as amended.
Member State	Any member state of the European Economic Area, other than Norway.
MiFID II...	EU Directive 2014/65/EU on markets in financial instruments, as amended.
MiFID II Product Governance Requirements.................................	The product governance requirements contained within: (a) MiFID II; (b) Articles 9 and 10 of Commission Delegated Directive (EU) 2017/593 supplementing MiFID II; and (c) local implementing measures.
Minimum Liquidity	means the excess of (A) the average daily balance of cash and Cash Equivalents (as defined in the Articles) of the Company and its Restricted Subsidiaries (as defined in the Articles) (other than cash and Cash Equivalents that secure letters of credit, bank guarantees, performance bonds, bid bonds, customs bonds and similar security deposits in the ordinary course of business and other cash and Cash Equivalents that appear (or would be required to appear) as "restricted" on a consolidated balance sheet of the Company) plus (B) the Revolver Liquidity over (C) the average daily outstanding amounts drawn under all revolving credit and working capital facilities of the Company and its subsidiaries that are Restricted Subsidiaries, in each case during the Minimum Liquidity Test Period for the applicable Preferred Share Dividend Payment Date.
Minimum Liquidity Test Period...........	For any Preferred Share Dividend Payment Date, the 30 calendar day period commencing on the 35th day immediately preceding such Preferred Share Dividend Payment Date
Minimum Liquidity Thresholds	a) in the case of the first two Preferred Share Dividend Payment Dates after February 1, 2018, USD 50,000,000; and b) in the case of any Preferred Share Dividend Payment Dates thereafter, USD 75,000,000.
M&A..	Mergers and acquisitions.
MODU Code	The Code for the Construction and Equipment of Mobile Offshore Drilling Units.
MTSA	The U.S. Maritime Transportation Security Act of 2002.
NCI	National Client Identifier.
New SDHL Revolver	A new revolving credit facility in the amount of USD 225 million from HSBC Bank PLC, RBC Capital Markets, DNB, ING and Credit Suisse secured by Group and anticipated to be effective on or about 19 June 2018, subject to customary conditions precedent being fulfilled.
New Securities	Up to 29,411,679 new Securities to be allocated by the Company in the Offering assuming an Offer Price of NOK 68.5 and a USD/NOK exchange rate of 8.0588.
NOCs	National oil companies.
NOK..	Norwegian Kroner, the lawful currency of Norway.
Non-Norwegian Security holders........	Non-Norwegian tax resident holders of shares or Securities.
Norges Bank	The Central Bank of Norway.
Norwegian Act on Overdue Payment ..	The Norwegian Act on Overdue Payment of 17 December 1976 no. 100.
Norwegian Corporate Security holders	Holders of shares or Securities who are limited liability companies (and certain similar entities) resident in Norway for tax purposes.
Norwegian FSA...............................	The Norwegian Financial Supervisory Authority (*Nw.: Finanstilsynet*).
Norwegian Personal Security holders..	Holders of shares or Securities who are individuals resident in Norway for tax purposes.
Norwegian Securities Trading Act.......	The Norwegian Securities Trading Act of 29 June 007 no. 75.
N-OTC...	The Norwegian OTC list.
Note Guarantors.............................	SDHL's subsidiaries acting as guarantors for SDHL's obligations under the 8.25% Senior Unsecured Notes.
OCSLA	The U.S. Outer Continental Shelf Lands Act.
Offering...	The initial public offering, the Institutional Offering and the Retail Offering taken together.
Offer Price	The final offering price for the Offer Securities in the Offering, set in a range within, below or above the Indicative Price Range.
Offer Securities	The New Securities and the Additional Securities jointly.
ONGC..	Oil and Natural Gas Corporation, the national oil company of India.
Online Order	Application for Offer Securities through the VPS online application system.
OPA	The U.S. Oil Pollution Act of 1990.
OPEC	Organization of the Petroleum Exporting Countries.
Order	The UK Financial Services and Markets Act 2000 (Financial Promotion) Order 2005, as amended.
Oslo Stock Exchange.......................	Oslo Børs ASA, or, as the context may require, Oslo Børs or Oslo Axess, Norwegian regulated stock exchanges operated by Oslo Børs ASA.
Overdraft Facility	The EGP 90 unsecured overdraft facility.
Payment Date	The payment date for the Offer Securities under the Retail Offering expected to be on or about 25 June 2018.
PEMREF...	Petromin-Mobil Oil Refinery Company Ltd.
PFIC..	A passive foreign investment company.
PIS	Partially-integrated regime of taxation.
Placement Agreement	The placement agreement expected to be entered into on or about 21 June 2018 between the Company, together with the Sponsors, and the Managers.
Preferred Share Dividend..................	The cumulative preferred dividend for each Preferred Share.

Preferred Share Dividend Payment Date	31 January and 31 July of each year and on any date on which Preferred Shares are redeemed.
Preferred Share Dividend Rate	The rate at which the Preferred Share Dividend accrues.
Preferred Shares	The Company's preferred shares, each with a nominal value of USD 0.01, in total 1,000,000 shares and designated as "Preferred Shares" in the Articles.
Private Placement	The Group's offering of 28,125,000 new Common Shares at a price of USD 8.00 per share for total gross proceeds of USD 225.0 million, successfully completed on 28 April 2017.
Prospectus	This Prospectus, dated 12 June 2018.
Purchase Price	Purchase price of the Sale and Leaseback Financing entered into on October 10, 2015, between the Lessee and the Lessor, with a combined minimum of USD 296.2 million and maximum of USD 330.0 million sale and leaseback Financing.
Purchase Obligation Price	The price of the obligation to acquire the Delivered Newbuild Rigs from the Lessor for USD 82.5 million each at the maturity dates of the bareboat charter agreements.
PwC	PricewaterhouseCoopers Dubai branch, located at Emaar Square Building 4, Level 8, Dubai, United Arab Emirates.
Q1	The three months period ending on 31 March in the respective year.
QIBs	Qualified institutional buyers as defined in Rule 144A.
Recapitalization	As part of a private placement completed on 28 April 2017, all Class A shares, Class B shares, Class C shares and Class D shares were repurchased and retired, against issuance of 55,000,000 new Common Shares, and an additional 28,125,000 Common Shares were issued to the investors who participated in the private placement, taking the total amount of Common Shares issued up to 83,125,000.
Registrar Agreement	Registrar Agreement between the Company and DNB Bank ASA, Verdipapirservice, N-0021 Oslo, Norway, whereby DNB Bank ASA is appointed registrar, in order to register beneficial ownership of the Offer Shares in the VPS.
Regulation S	Regulation S under the U.S. Securities Act.
Relevant Implementation Date	In relation to each Relevant Member State, with effect from and including the date on which the EU Prospectus Directive is implemented in that Relevant Member State.
Relevant Member State	Each Member State of the EEA which has implemented the EU Prospectus Directive.
Relevant Persons	Persons in the UK that are (i) investment professionals falling within Article 19(5) of the Order or (ii) high net worth entities, and other persons to whom the Prospectus may lawfully be communicated, falling within Article 49(2)(a) to (d) of the Order.
Retail Application Form	Application form to be used to apply for Offer Securities in the Retail Offering, attached to this Prospectus as Appendix F.
Retail Offering	A retail offering, in which Offer Securities are being offered to the public in Norway, subject to a lower limit per application of an amount of NOK 10,500 and an upper limit per application of NOK 1,999,999 for each investor.
Revolver Liquidity	The average daily balance of the undrawn amount of cash available to SDHL under the New SDHL Revolver during the Minimum Liquidity Test Period up to a total amount equal to USD 65 million.
Rule 144A	Rule 144A under the U.S. Securities Act.
R&D	Research and development.
Sale and Leaseback Financing	The USD 330 million sale and leaseback financing transactions entered into by the Lessee and the Lessor.
SDA Facility	A USD 75.0 million senior secured credit facility entered into by Shelf Drilling Asset III, Ltd.
SDAIII	Shelf Drilling Asset III, Ltd.
SDHL	Shelf Drilling Holdings, Ltd.
SDHL Revolver	A USD 160 million revolving credit facility.
Security or Securities	The beneficial interest in the Company's Common Shares as registered in the VPS and listed and traded on the Oslo Stock Exchange in the form of a depository receipt.
Shelf or Company	Shelf Drilling, Ltd.
SOLAS	The International Convention for the Safety of Life at Sea of 1974.
SPM	Sparebank 1 Markets AS.
Sponsors	Collectively, Castle Harlan, CHAMP Private Equity and Lime Rock Management.
Stabilisation Manager	DNB Markets.
Tap Issue	The USD 300 tap issue under the 8.25% Notes launched and priced on 5 June 2018 and expected to close on 19 June 2018, subject to customary closing conditions, and thereby increasing the outstanding amount under the 8.25% Notes to USD 900.0 million.
Target Market Assessment	The product approval process for the Shares for the purpose of the MiFID II Product Governance Requirements.
Transocean	Transocean Inc.
TRIR	Total recordable incident rate.
UAE	The United Arab Emirates.
UK	The United Kingdom.
United States Holder	A beneficial owner of Offer Securities or shares that is, for United States federal income tax purposes, any of the following (i) an individual citizen or resident of the United States; (ii) a corporation created or organized in or under the laws of the United States, or any state thereof or the District of Columbia; (iii) an estate the income of

	which is subject to United States federal income taxation regardless of its source; or (iv) a trust if (a) is subject to the primary supervision of a court within the United States and one or more United States persons have the authority to control all substantial decisions of the trust or (b) has a valid election in effect under applicable United States Treasury regulations to be treated as a United States person.
U.S. or United States	The United States of America.
U.S. Exchange Act	The U.S. Securities Exchange Act of 1934, as amended.
U.S. Securities Act	The U.S. Securities Act of 1933, as amended.
USD or U.S. Dollar	United States Dollars, the lawful currency in the United States.
US GAAP	United States Generally Accepted Accounting Principles.
US GAAP Interim	US GAAP for interim financial information.
US Public Company Competitors	Rowan, Noble, Seadrill and Ensco.
VPS	The Norwegian Central Securities Depository (*Nw.: Verdipapirsentralen*).
VPS Account	An account with VPS for the registration of holdings of securities.
VPS Registrar	DNB Bank ASA, Verdipapirservice, N-0021 Oslo, Norway, as registrar.

APPENDIX A:

MEMORANDUM AND ARTICLES OF ASSOCIATION OF SHELF DRILLING, LTD. EFFECTIVE FROM THE FIRST DAY OF LISTING

THE COMPANIES LAW (AS AMENDED)

OF THE CAYMAN ISLANDS
COMPANY LIMITED BY SHARES

TENTH AMENDED AND RESTATED

MEMORANDUM AND ARTICLES OF ASSOCIATION

OF

SHELF DRILLING, LTD.

(Adopted by Special Resolution Dated 19 June 2018)

THE COMPANIES LAW (AS AMENDED)
OF THE CAYMAN ISLANDS
COMPANY LIMITED BY SHARES

TENTH AMENDED AND RESTATED MEMORANDUM OF ASSOCIATION OF SHELF DRILLING, LTD.

(Adopted by Special Resolution Dated 19 June 2018)

1 The name of the Company is **Shelf Drilling, Ltd.**

2 The Registered Office of the Company shall be at the offices of Centralis (Cayman) Limited, One Capital Place, 3rd Floor, George Town, Grand Cayman, Cayman Islands, or at such other place within the Cayman Islands as the Directors may decide.

3 The objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the laws of the Cayman Islands.

4 The liability of each Member is limited to the amount unpaid on such Member's shares.

5 The share capital of the Company is US$1,440,634.73 divided into 144,063,473 shares of a par value of US$0.01 each; provided always that subject to the Companies Law (as amended) of the Cayman Islands and the Articles of Association, the Company shall have power to redeem (other than Common Shares) or purchase any of its shares and to sub-divide or consolidate the said shares or any of them and to issue all or any part of its capital whether original, redeemed, increased or reduced with or without any preference, priority, special privilege or other rights or subject to any postponement of rights or to any conditions or restrictions whatsoever and so that unless the conditions of issue shall otherwise expressly provide every issue of shares whether stated to be ordinary, preference or otherwise shall be subject to the powers on the part of the Company hereinbefore provided.

6 The Company has power to register by way of continuation as a body corporate limited by shares under the laws of any jurisdiction outside the Cayman Islands and to be deregistered in the Cayman Islands.

7 Capitalised terms that are not defined in this Memorandum of Association bear the respective meanings given to them in the Articles of Association of the Company.

THE COMPANIES LAW (AS AMENDED)

OF THE CAYMAN ISLANDS

COMPANY LIMITED BY SHARES

TENTH AMENDED AND RESTATED

ARTICLES OF ASSOCIATION

OF

SHELF DRILLING, LTD.

(Adopted by Special Resolution Dated 19 June 2018)

1 Interpretation

1.1 In the Articles Table A in the First Schedule to the Statute does not apply and, unless there is something in the subject or context inconsistent therewith:

"**Affiliate**"	means, with respect to any Person, any officer, director, managing director, general partner, trustee, or manager of such Person, or any other Person directly or indirectly controlling, controlled by or under common control with such first Person. For the purposes of this definition, "control" (including, with correlative meanings, the terms "controlling", "controlled by" and "under common control with") means, with respect to any Person, the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through ownership of voting securities, by contract or otherwise. For the purposes of these Articles, (i) neither the Company nor any of its Subsidiaries will be taken to be an Affiliate of any Member or any Principal Shareholder; (ii) Castle Harlan will not be taken to be an Affiliate of any CHAMP Entity; and (iii) each of CHAMP III Management Pty Ltd. and each of the CHAMP Entities will be taken to be Affiliates of each other.
"**Articles**"	means these articles of association of the Company, as amended or substituted from time to time.
"**Auditor**"	means the person for the time being performing the duties of auditor of the Company (if any).

"**Business Day**" means any day that is not a Saturday, Sunday or other day on which the commercial banks in New York, New York or Sydney, Australia are authorized or required by law to remain closed.

"**Cash Equivalents**" means any of the following:

1. U.S. dollars, pounds sterling, euros, or the national currency of any member state in the European Union;
2. any investment in direct obligations of, or obligations guaranteed or insured by, the United States of America or any agency thereof, the United Kingdom or any country that is a member of the European Union or any agency or instrumentality thereof maturing within two years of the date of acquisition thereof;
3. investments in demand and time deposit accounts, certificates of deposit and money market deposits and Eurodollar time deposits maturing within one year of the date of acquisition thereof issued by a bank or trust company which bank or trust company has capital, surplus and undivided profits aggregating in excess of US$250,000,000 and has outstanding debt which is rated "A" (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Section 3(a)(62) of the Exchange Act) or a reasonably equivalent rating of another internationally recognized ratings agency;
4. repurchase obligations for underlying securities of the types described in clauses (2) and (3) above entered into with a financial institution meeting the qualifications described in clause (3) above;
5. investments in commercial paper, maturing not more than one year after the date of acquisition, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of "P-1" (or higher) according to Moody’s or "A-1" (or higher) according to S&P (or reasonably equivalent ratings of another internationally recognized ratings agency if both Moody’s and S&P cease publishing ratings of investments);
6. investments in securities with maturities of two years or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least "A" by S&P or "A" by Moody’s (or reasonably equivalent

ratings of another internationally recognized ratings agency if both Moody’s and S&P cease publishing ratings of investments);

7. indebtedness issued by persons (other than the Permitted Holders or any of their Affiliates) with a rating of "A" or higher from S&P or "A-2" or higher from Moody’s (or reasonably equivalent ratings of another internationally recognized ratings agency if both Moody’s and S&P cease publishing ratings of investments);

8. investments in money market funds that invest substantially all their assets in securities of the types described in clauses (1) through (7) above; and

9. instruments equivalent to those referred to in clauses (1) through (8) above denominated in euros or any other foreign currency comparable in credit quality and tenor to those referred to above and commonly used by corporations for cash management purposes in any jurisdiction outside the United States to the extent reasonably required in connection with any business conducted by any Restricted Subsidiary organized in such jurisdiction.

"**Castle Harlan**"	means, CHP V AIV Pool 1, Ltd., a Cayman Islands exempted company, CHP V AIV Pool 2, Ltd., a Cayman Islands exempted company, and CHP V SD Co-Invest, LP, a Cayman Islands exempted limited partnership.
"**CHAMP Entity**"	means each of Perpetual Trustee Company Limited as trustee of the CHAMP Buyout III Trust, an Australia trust, Perpetual Corporate Trust Limited as trustee of the CHAMP Buyout III (SWF) Trust, an Australia trust, P.T. Limited as trustee of the CHAMP Buyout III (WW) Trust, an Australia trust, CHAMP Buyout III LP, a Cayman Islands exempted limited partnership and CHAMP Shelf L.P., a Cayman Islands exempted limited partnership.
"**Change of Control**"	means any transaction pursuant to or as a result of which a single party (or group of affiliated parties), other than a holder (or Affiliate of a holder) of Shares of the Company immediately prior to the adoption of the 10th Amended and Restated Memorandum and Articles of Association of the Company, MidCo or OpCo, acquires or holds capital stock of any such entity representing a majority of the voting power of such entity’s outstanding ordinary shares.
"**Class" or "Classes**"	means any class or classes of Shares as may from time to time be issued by the Company.

"**Co-Investor**"	means with respect to any Member, any Equityholder of such Member or any other unaffiliated third party to whom such Member has transferred any Shares.
"**Conversion Date**"	has the meaning ascribed to such term in Article 5.10.
"**Conversion Notice**"	has the meaning ascribed to such term in Article 5.10.
"**Conversion Price**"	means US$[●], subject to adjustment from time to time pursuant to the terms hereof.
"**Conversion Right**"	has the meaning ascribed to such term in Article 5.9.
"**Common Share**"	means a share in the capital of the Company that is designated as a Common Share.
"**Company**"	means the above named company.
"**Competitor**"	means any Person, other than the Company and its Subsidiaries and joint ventures, engaged in the business of owning and leasing mobile offshore drilling rigs designed to drill in no more than 400 feet of water.
"**Default Dividend Rate**"	means the sum of the then prevailing Preferred Share Dividend Rate plus 2.00%.
"**Directors**"	means the directors for the time being of the Company.
"**Disinterested Directors**"	has the meaning ascribed to such term in Article 6.2.
"**Dividend**"	means any dividend (whether interim or final) resolved to be paid on Shares pursuant to the Articles.
"**Electronic Record**"	has the same meaning as in the Electronic Transactions Law.
"**Electronic Transactions Law**"	means the Electronic Transactions Law (2003 Revision) of the Cayman Islands, as amended.
"**Encumbrances**"	has the meaning ascribed to such term in Article 5.12.
"**Equityholder**"	means, with respect to any entity, the partners, members, shareholders and other equity owners of such entity.
"**Exchange**"	means Oslo Børs, or Oslo Axess, a stock exchange operated by Oslo Børs ASA.
"**Exchange Act**"	means the U.S. Securities Exchange Act of 1934, as amended.
"**Exit Event**"	means (a) the transfer (in one or a series of related transactions) of all or substantially all of the consolidated assets of the

Company and its Subsidiaries, taken as a whole, to a Person or a group of Persons acting in concert (other than to a wholly-owned Subsidiary or wholly-owned Subsidiaries of the Company), (b) the transfer (in one or a series of related transactions) of all then-outstanding Shares to one Person or a group of Persons acting in concert or (c) an amalgamation, merger or consolidation of the Company with or into another Person (other than to a wholly-owned Subsidiary or wholly-owned Subsidiaries of the Company), and in the case of clauses (b) and (c) above, under circumstances in which immediately following such transaction, a Person or group of Persons acting in concert other than the Initial Principal Shareholders or their Affiliates, collectively own a majority in voting power of the then outstanding voting power or equity securities of the Company or the surviving or resulting Person, as the case may be. In addition, a sale (or multiple related sales) of one or more Subsidiaries of the Company to a Person or group of Persons acting in concert (other than to a wholly-owned Subsidiary or wholly-owned Subsidiaries of the Company) (whether by way of amalgamation, merger, consolidation, reorganization or sale of all or substantially all assets or equity securities of such Subsidiary or Subsidiaries), which constitutes all or substantially all of the consolidated assets of the Company and its Subsidiaries, taken as a whole, shall be deemed to be an Exit Event.

"**GAAP**"	means generally accepted accounting principles in the United States of America as in effect from time to time.
"**IFRS**"	means International Financial Reporting Standards as issued from time to time by the International Accounting Standards Board.
"**Initial Principal Shareholders**"	means Castle Harlan, the CHAMP Entities, collectively, and Lime Rock.
"**IPO**"	means the consummation of the initial public offering by the Company of its Common Shares on the Exchange.
"**Governmental Authority**"	means any court, government or political subdivision or department thereof, any governmental or regulatory body, board, bureau, arbitrator or alternative dispute resolution body, administrative agency or commission, securities exchange or other governmental agency or instrumentality of competent jurisdiction.
"**Law**"	means any international, foreign, national, federal, state, provincial or local (or other political subdivision) statute, law (including common law), ordinance, Order, rule, directive, decree, judicial or administrative determination or interpretation,

judgment, code, regulation or binding requirement of any Governmental Authority.

"**LIBOR Rate**" means, with respect to any Preferred Share Dividend (as defined in Article 5.1) for any semi-annual period therefor, the rate per annum equal to the arithmetic mean (rounded to the nearest 1/100th of 1%) of the offered rates for deposits in Dollars with a term comparable to such semi-annual period that appears on Reuters Screen LIBOR01 (or such other page as may replace such page on such service for the purpose of displaying the rates at which Dollar deposits are offered by leading banks in the London interbank deposit market as designated by the Company from time to time) at approximately 11:00 a.m., London, England time, on the second full Business Day preceding the first day of such semi-annual period; provided, however, that (i) if no comparable term for a semi-annual period is available, the LIBOR Rate shall be determined using the weighted average of the offered rates for the two terms most nearly corresponding to such semi-annual period and (ii) if Reuters Screen LIBOR01 shall at any time no longer exist, "**LIBOR Rate**" shall mean, with respect to each day during each semi-annual period, the rate per annum equal to the rate at which a financial institution designated by the Company that is a major bank in the London interbank market is offered deposits in Dollars by Credit Suisse AG (or such other financial institution designated by the Company that is a major bank in the London interbank market) at approximately 11:00 a.m., London, England time, two Business Days prior to the first day of such semi-annual period in the London interbank market for delivery on the first day of such semi-annual period for the number of days comprised therein and in an amount comparable to the Liquidation Preference during such semi-annual period. "**Reuters Screen LIBOR01**" shall mean the display designated on the Reuters 3000 Xtra Page (or such other page as may replace such page on such service for the purpose of displaying the rates at which Dollar deposits are offered by leading banks in the London interbank deposit market).

"**Lime Rock**" means LR-Shelf Drilling International, L.P., a Cayman Islands exempted limited partnership.

"**Liquidation Event**" means the commencement of any liquidation or winding up of the Company, or its dissolution.

"**Liquidation Preference**" means, with respect to any issued and outstanding Preferred Share, a per Share amount equal to the Preferred Share Purchase Price plus any amounts added to the Liquidation Preference pursuant to Article 5 plus (without duplication) accrued but unpaid Preferred Share Dividends, whether or not declared, through and including the date on which such

Liquidation Preference is required to be paid, and as otherwise adjusted in accordance with these Articles.

"**Loan Facilities**" means, collectively, the Revolving Credit Agreement and the OpCo Notes Indenture.

"**Member**" has the same meaning as in the Statute.

"**Memorandum**" means the memorandum of association of the Company.

"**MidCo**" means Shelf Drilling Midco, Ltd., a Cayman Islands exempted company.

"**Minimum Liquidity**" means the excess of the sum of (A) the average daily balance of cash and Cash Equivalents of the Company and its Restricted Subsidiaries (other than cash and Cash Equivalents that secure letters of credit, bank guarantees, performance bonds, bid bonds, customs bonds and similar security deposits in the ordinary course of business and other cash and Cash Equivalents that appear (or would be required to appear) as "restricted" on a consolidated balance sheet of the Company) plus (B) the Revolver Liquidity over (C) the average daily outstanding amounts drawn under all revolving credit and working capital facilities of the Company and its Subsidiaries that are Restricted Subsidiaries, in each case during the Minimum Liquidity Test Period for the applicable Preferred Share Dividend Payment Date.

"**Minimum Liquidity Test Period**" means, for any Preferred Share Dividend Payment Date, the 30 calendar day period commencing on the 35th day immediately preceding such Preferred Share Dividend Payment Date.

"**Minimum Liquidity Threshold**" has the meaning ascribed to such term in Article 5.1(b).

"**OpCo**" means Shelf Drilling Holdings, Ltd., a Cayman Islands exempted company.

"**OpCo Notes Indenture**" means, collectively, (a) that certain Indenture, dated as of October 24, 2012 (as amended, supplemented or otherwise modified from time to time) between OpCo and Wilmington Trust, National Association, as Trustee and Notes Collateral Agent for the holders of 8.625% senior secured notes due 2018 issued under the OpCo Notes Indenture ("**OpCo Notes**") and (b) the indenture for the holders of 9.500% senior secured notes due 2020 issued under such indenture in connection with the transactions contemplated by the Transaction Support Agreement.

"**Order**" means any award, decision, injunction, judgment, order, ruling, subpoena or verdict entered, issued, made or rendered by any

	court, administrative agency or other Governmental Authority or any arbitrator.
"**Ordinary Resolution**"	means a resolution passed by the holders of more than 50% of the Shares as, being entitled to vote on the subject matter of the resolution, who vote in person or, where proxies are allowed, by proxy at a general meeting, and includes a unanimous written resolution. In computing the majority when a poll is demanded regard shall be had to the number of votes to which each Member is entitled by the Articles.
"**Permitted Holders**"	means (a) each Initial Principal Shareholder and any person controlling, controlled by, or under common control with, and any account controlled or managed by or under common control or management with such Initial Principal Shareholder, (b) any successor to any Initial Principal Shareholder and its Subsidiaries, (c) one or more investment funds managed or controlled by any Initial Principal Shareholder and any successor thereto or any of its Affiliates, (d) any employee, member of management or director of (including any of their heirs) any of the foregoing entities and their respective Affiliates and (e) any group within the meaning of Section 13(d) of the Exchange Act of which a person described in clauses (a) through (d) above is a member and in which such persons beneficially own or control a majority of the voting Shares held by such group and which such group collectively beneficially owns or controls more voting Shares than any other group of which any Initial Principal Shareholder or any of its Affiliates is not a member.
"**Person**"	means an individual, corporation, partnership, limited liability company, association, trust or other entity or organisation, including a Governmental Authority.
"**Preferred Share**"	means a preferred Share in the capital of the Company described as such and having the rights and restrictions set out in these Articles.
"**Preferred Share Dividend**"	has the meaning ascribed to such term in Article 5.1.
"**Preferred Share Dividend Payment Date**"	has the meaning ascribed to such term in Article 5.1.
"**Preferred Share Issuance Agreement**"	means that certain Contribution and Issuance Agreement dated as of January 12, 2017, by and between the Company and the Contributors (as defined therein) party thereto.
"**Preferred Share Issue Date**"	means January 12, 2017.
"**Preferred Share Purchase Price**"	means US$166.67 per Preferred Share.

"**Principal Shareholder**" means each of:

(i) Castle Harlan, collectively;

(ii) the CHAMP Entities, collectively; and

(iii) Lime Rock,

for as long as each such Person or its Affiliates hold any Shares; provided that the Shares held by such Principal Shareholder's Affiliates and Co-Investors (to the extent that such Shares are controlled by such Principal Shareholder or one or more entities that form part of such Principal Shareholder, as applicable) shall be deemed to be held by such Principal Shareholder for purposes of calculating the number of Shares held by such Principal Shareholder and determining whether such Principal Shareholder holds the requisite percentage of issued and outstanding Shares to exercise the applicable rights, and be subject to the applicable obligations, set out in these Articles.

For the purposes of a Principal Shareholder serving a notice pursuant to Article 31, such notice shall be executed by each entity that forms part of such Principal Shareholder group.

"**Register of Members**" means the register of Members maintained in accordance with the Statute and includes (except where otherwise stated) any branch or duplicate register of Members.

"**Registered Office**" means the registered office for the time being of the Company.

"**Restricted Subsidiary**" means MidCo, OpCo and at each time of determination, each "Restricted Subsidiary" as defined under any Loan Facility.

"**Revolver Liquidity**" means the average daily balance of the undrawn amount of cash available to OpCo under the Revolving Credit Agreement during the Minimum Liquidity Test Period up to a total amount equal to US$65 million.

"**Revolving Credit Agreement**" means that certain Revolving Credit Agreement, dated as of February 24, 2014 (as amended, supplemented or otherwise modified from time to time) among OpCo, as borrower, HSBC Bank plc and RBC Capital Markets, as joint lead arrangers, RBC Europe Limited, as administrative agent, and the lenders party thereto from time to time, or any replacement thereof.

"**Seal**" means the common seal of the Company and includes every duplicate seal.

"**Share**" means a share in the capital of the Company and includes a fraction of a share in the Company.

"**Special Resolution**"	means a resolution passed by the holders of more than two-thirds of the Shares as, being entitled to be voted on the subject matter of the resolution, who vote in person or, where proxies are allowed, by proxy at a general meeting, and includes a unanimous written resolution. In computing the majority when a poll is demanded regard shall be had to the number of votes to which each Member is entitled by the Articles.
"**Statute**"	means the Companies Law (as amended) of the Cayman Islands.
"**Subsidiary**"	of any Person means another Person in which such first Person holds, directly or indirectly, such number of the voting securities, or other voting ownership or voting partnership interests, as is sufficient to elect at least a majority of its board of directors or other governing body (or, if there are no such voting interests, 50% or more of the equity interests).
"**Transaction Support Agreement**"	means that certain Amended and Restated Transaction Support Agreement, dated as of December 2, 2016, by and among the Company, OpCo, MidCo, the Initial Principal Shareholders, York Management Global Advisors, LLC, and Centerbridge Partners, L.P.
"**Treasury Share**"	means a Share held in the name of the Company as a treasury share in accordance with the Statute.

1.2 In the Articles:

(a) words importing the singular number include the plural number and vice versa;

(b) words importing the masculine gender include the feminine gender;

(c) words importing persons include corporations as well as any other legal or natural person;

(d) "written" and "in writing" include all modes of representing or reproducing words in visible form, including in the form of an Electronic Record;

(e) "shall" shall be construed as imperative and "may" shall be construed as permissive;

(f) references to provisions of any law or regulation shall be construed as references to those provisions as amended, modified, re-enacted or replaced;

(g) any phrase introduced by the terms "including", "include", "in particular" or any similar expression shall be construed as illustrative and shall not limit the sense of the words preceding those terms;

(h) the term "and/or" is used herein to mean both "and" as well as "or." The use of "and/or" in certain contexts in no respects qualifies or modifies the use of the terms "and" or "or" in others. The term "or" shall not be interpreted to be exclusive and the term "and" shall not be interpreted to require the conjunctive (in each case, unless the context otherwise requires);

(i) headings are inserted for reference only and shall be ignored in construing the Articles;

(j) sections 8 and 19(3) of the Electronic Transactions Law shall not apply;

(k) the term "clear days" in relation to the period of a notice means that period excluding the day when the notice is received or deemed to be received and the day for which it is given or on which it is to take effect; and

(l) the term "holder" in relation to a Share means a person whose name is entered in the Register of Members as the holder of such Share.

2 [*Intentionally left blank.*]

3 Shares

Issue of Shares

3.1 The Shares of the Company consist of Preferred Shares and Common Shares, and such other classes or series of shares as may be authorized, from time to time, in accordance with these Articles.

3.2 Subject to the provisions of these Articles, including the provisions hereof relating to the Preferred Shares, and, if any, in the Memorandum (and to any direction that may be given by the Company in general meeting) and without prejudice to any rights attached to any existing Shares, the Directors may allot, issue, grant options over or otherwise dispose of Shares (including fractions of a Share) with or without preferred, deferred or other rights or restrictions, whether in regard to Dividend or other distribution, voting, return of capital or otherwise and to such persons, at such times and on such other terms as they think proper, and may also (subject to the Statute and the Articles) vary such rights; provided that in no event shall the Directors allot, issue or grant options over any Common Shares, whether in a single transaction or as a series of transactions, in a number that exceeds twenty per cent. of the aggregate number of then-issued and outstanding Common Shares unless such issuance, allotment or grant has first been approved by an Ordinary Resolution.

3.3 The Company shall not issue Shares to bearer.

4 Specific Rights Attaching to Common Shares

Common Share Dividends

4.1 To the extent that there are any Preferred Shares issued and outstanding at any time, the Company shall not declare any dividends in respect of the Common Shares, except as provided in Article 5.8(e). At any other time, the holders of Common Shares may be paid dividends of the Company out of amounts lawfully available for distribution, as and to the extent declared by the board of Directors in accordance with, and subject to, the provisions of Article 43.

Return of Capital on Liquidation to the Holders of Common Shares

4.2 On a return of capital on liquidation or winding up of the Company, subject to the provisions hereof relating to the Preferred Shares, the holders of Common Shares shall be entitled to return of capital in accordance with Article 48.

Voting Rights

4.3 The Common Shares shall confer upon such Shareholders the right to receive notice of and to attend and to vote at any general meeting of the Company and each holder of a Common Share shall be entitled at such general meeting to exercise one vote per Common Share held as provided in Article 25.

5 Specific Rights Attaching to Preferred Shares

Preferred Share Dividends

5.1 The holders of the Preferred Shares shall be entitled to receive a cumulative preferred dividend for each Preferred Share (the "**Preferred Share Dividend**") on a semi-annual basis, on January 31 and July 31 of each year or, if such day is not a Business Day, the next succeeding Business Day, and any date on which the Preferred Shares are redeemed (each, a "**Preferred Share Dividend Payment Date**"), accruing on a daily basis from the date of issuance of each Preferred Share until the Liquidation Preference is paid in full in cash. If the Preferred Share Dividend is not, or pursuant to the provisions of applicable law may not be, declared and paid in cash on any Preferred Share Dividend Payment Date, then the Preferred Share Dividend payable on such Preferred Share Dividend Payment Date, as determined below and pursuant to Article 6.3 (if applicable), shall be added to the Liquidation Preference. The Preferred Share Dividend shall accrue at a rate (the applicable "**Preferred Share Dividend Rate**") determined as follows:

(a) subject to the next-following sub-paragraphs, the Preferred Share Dividend shall (i) until August 1, 2020, accrue for the six month (or shorter) period prior to such Preferred Share Dividend Payment Date at a rate equal to the sum of the LIBOR Rate plus 9.00% per annum on the Liquidation Preference and (ii) for each six month (or shorter) period after August 1, 2020, accrue a rate equal to the sum of the LIBOR Rate plus 9.00% per annum plus an additional 0.50% per annum for each completed six month period since August 1, 2020 prior to such Preferred Dividend Payment Date (e.g. in the case of the period from August 1, 2020 to January 31, 2021, the Preferred Share Dividend Rate shall be the sum of the LIBOR Rate plus 9.50% per annum on the Liquidation Preference, in the case of the period from February 1, 2021 to July 31, 2021, the Preferred Share Dividend Rate shall be the sum of the LIBOR Rate plus 10.00% per annum on the Liquidation Preference, and in the case of the period from August 1, 2021 to January 31, 2021, the Preferred Share Dividend Rate shall be the sum of the LIBOR Rate plus 10.50% per annum on the Liquidation Preference);

(b) if either (1) the Company is not permitted to receive cash distributions from its Subsidiaries under its Subsidiaries' debt instruments and other credit facilities) in effect on a Preferred Share Dividend Payment Date that are sufficient to pay the Preferred Share Dividend or (2) the Minimum Liquidity as of a Preferred Share Dividend Payment Date (determined on a pro forma basis after giving effect to the payment in cash of the Preferred Share Dividend on such Preferred Share Dividend Payment Date) is less than:

(y) in the case of the first two Preferred Share Dividend Payment Dates after February 1, 2018, US$50,000,000; and

(z) in the case of any Preferred Share Dividend Payment Dates thereafter, US$75,000,000 (such amounts in subclauses (y) and (z), the "**Minimum Liquidity Threshold**")

then, unless the board of Directors declares and pays the Preferred Share Dividend entirely in cash on such Preferred Share Dividend Payment Date, the Preferred Share Dividend will only be required to be paid in cash to the extent that the payment of such cash (on a pro forma basis) both (A) is permitted by such debt instruments and other credit facilities and (B) would not cause the Minimum Liquidity to be less than the Minimum Liquidity Threshold on such Preferred Share Dividend Payment Date, and the Preferred Share Dividend to the extent not declared and paid in cash will accrue for the six month (or shorter) period prior to such Preferred Share Dividend Payment Date at a rate equal to, until August 1, 2020, the sum of the LIBOR Rate plus 9.75% per annum on the Liquidation Preference, and thereafter, the sum of the LIBOR Rate plus 9.75% per annum plus an additional 0.50% per annum for each completed six month period since August 1, 2020 prior to such Preferred Dividend Payment Date (e.g. if 40% of the Preferred Share Dividend as determined under Article 5.1(a) is paid in cash, then the Preferred Share Dividend Rate in this Article 5.1(b) would only apply to 60% of the Liquidation Preference) and shall be paid by adding such accrued and unpaid amount to the Liquidation Preference.

5.2 If (1) the Company is permitted to receive cash distributions from its Subsidiaries under its Subsidiaries' debt instruments and other credit facilities in effect on a Preferred Share Dividend Payment Date that are sufficient to pay the Preferred Share Dividend in cash, (2) the Minimum Liquidity as of such Preferred Share Dividend Payment Date is greater than the applicable Minimum Liquidity Threshold and (3) the applicable Preferred Share Dividend may lawfully be paid, such Preferred Share Dividend shall be paid in cash on such Preferred Share Dividend Payment Date to the maximum extent permitted by this Article 5. If the board of Directors does not declare and pay any such Preferred Share Dividend in cash to the maximum extent required by the previous sentence, then holders of the Preferred Shares shall be entitled to bring a legal action against the Company for the prompt payment of such Preferred Share Dividend (or portion thereof) in cash, plus the reimbursement of reasonable, documented, out-of-pocket legal fees and expenses incurred by the holders of the Preferred Shares as a result of bringing such action. The holders of Preferred Shares acknowledge and agree that the payment in cash by the Company of the maximum Preferred Share Dividend and the reimbursement of such legal fees and expenses are the sole and exclusive remedies available to the holders of Preferred Shares in the event the board of Directors does not declare and pay in cash the Preferred Share Dividend to the extent required by the first sentence of this Article 5.2, and that the holders of the Preferred Shares shall not seek and shall not be entitled to seek or obtain any other remedies, claims for damages or relief (including equitable relief) other than the payment of such amounts, notwithstanding anything to the contrary in this Article 5. To the extent the holders of the Preferred Shares receive payment in cash of the Preferred Share Dividend as a result of such action, any amounts of such Preferred Share Dividend previously added to the Liquidation Preference but then paid in cash as a result of such action shall be cancelled.

5.3 Any Preferred Share Dividend for any partial dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Preferred Share Dividends shall accumulate, be cumulative and accrue daily commencing on the Preferred Share Issue Date (whether or not declared and whether or not there shall be retained profits, amounts to the credit of the share premium account or other amounts of the Company lawfully available for distribution), through and including the Preferred Share Dividend Payment Date or such other date as dividends shall be paid in full. Each fractional Preferred Share outstanding shall be entitled to a ratably proportionate amount of all dividends or distributions accruing or made with respect to each outstanding Preferred Share and all other rights, preferences, privileges, restrictions and payment obligations of the Preferred Shares. Preferred Share Dividends will be payable to holders of record as they appear in the Register of Members at the close of business on the applicable record date. The record date for the payment of the Preferred Share Dividends shall be the fifteenth day of January or July, as the case may be, immediately preceding the relevant Preferred Share Dividend Payment Date. The Preferred Share Dividends will be paid in preference to any dividends on Common Shares or any other securities ranking by their terms junior in terms of priority to the Preferred Shares. The Company's obligation to pay the Preferred Share Dividends will not be subject to counterclaim or setoff for, or be otherwise affected by, any claim or dispute the Company or any other Person may have with any holder of any Preferred Shares.

Notwithstanding the foregoing, the board of Directors may elect to pay a cash dividend to the holders of the Preferred Shares at any other time, and from time to time, with any such dividend determined at the Preferred Share Dividend Rate for the applicable period in accordance with Article 5.1(a), and in connection with any such dividend the board of Directors may declare a record date that is no more than 30 days prior to the date on which such dividend is to be paid. After any such record date and dividend are declared, the Company will promptly provide notice to the holders of Preferred Shares of such record date and dividend.

5.4 If and to the extent that the Preferred Share Dividend lawfully available to be declared and paid by the board of Directors is not sufficient to pay the full amount of the Preferred Share Dividend due for payment in cash, then, to the extent part of the Preferred Share Dividend is paid in cash, that part shall be paid *pro rata* based on the relative Liquidation Preference of Preferred Shares. The balance of any Preferred Share Dividend otherwise due to be paid in respect of any Preferred Share Dividend Payment Date shall be paid as soon as practicable once the relevant amount may be lawfully declared and paid.

Dividends Generally

5.5 Holders of the Preferred Shares shall not be entitled to any dividends in excess of the Preferred Share Dividend as described herein. For the avoidance of doubt, the foregoing shall not be read to limit the right of holders of Preferred Shares to receive any payment of the Liquidation Preference pursuant to Article 5.6, Article 6 or Article 48.

Rights of Holders of Preferred Shares in a Liquidation Event

5.6 Upon a Liquidation Event, the holders of Preferred Shares shall be entitled to a return of capital up to the Liquidation Preference.

Voting Rights

5.7 Except as expressly provided in these Articles or as otherwise required by non-waivable Law, Preferred Shares shall confer upon holders of such Preferred Shares no right to receive notice of, nor any right to attend or to vote at, any general meeting of the Company or to otherwise approve or consent to any matter.

Reserved Matters

5.8 Notwithstanding any other provision of these Articles, for so long as any Preferred Shares are outstanding, without prior notice to, and the prior written consent of, the holders of at least 75% of the issued and outstanding Preferred Shares voting as a single Class, no action by the Company or any of its Subsidiaries, may be taken that would:

(a) alter or change in any respect adverse to the holders of the Preferred Shares the rights, restrictions, preferences, privileges or payment obligations with respect to the Preferred Shares, or increase or decrease (below the number of shares outstanding) the authorized number of Preferred Shares, including, for the sake of clarity, causing any new Preferred Shares to be issued, including such alteration or change by plan of merger, scheme of arrangement, amalgamation, consolidation, recapitalization, restructuring, continuation or otherwise;

(b) alter, amend or waive any provision of the Memorandum or these Articles in a manner that adversely affects the rights, restrictions, preferences, privileges or payment obligations with respect to the Preferred Shares;

(c) create (by reclassification or otherwise) or issue any Class or series of equity of the Company having rights, restrictions, preferences, privileges or payment obligations senior to or on parity with the Preferred Shares or allow the Company or any of its Subsidiaries to issue any equity other than:

(i) Common Shares;

(ii) preferred shares or any other equity securities issued by the Company that is junior in all respects to the Preferred Shares (including rights to dividends and payments upon liquidation and redemption);

(iii) equity issued to the Company or any of its Subsidiaries;

(iv) equity issued to a director, local shareholder, joint venture partner or consortium member in order to comply with applicable local law; or

(v) equity issued pursuant to any management equity plan or arrangement approved by the board of Directors;

(d) result in the repurchase, redemption or other acquisition by the Company or any of its Subsidiaries of equity securities of the Company or any of its Subsidiaries, other than:

(i) Preferred Shares repurchased, redeemed or otherwise acquired on a pro rata basis;

(ii) repurchases or redemptions by the Company of equity of the Company issued pursuant to any management equity plan or arrangement approved by the board of Directors; or

(iii) repurchases or redemptions by the Company or its Subsidiaries of equity of wholly owned Subsidiaries of the Company (including equity issued to a director, local shareholder, joint venture partner or consortium member in each case solely in order to comply with applicable local law);

provided, however, that notwithstanding anything in these Articles to the contrary, the Company shall be entitled to convert, exchange or reclassify its Common Shares or any junior preferred shares solely into one or more additional classes or series of Shares (provided that each such class or series of Shares is junior in all respects to the Preferred Shares (including rights to dividends and payments upon liquidation and redemption); or

(e) result in the declaration or making of any dividend or other distribution by the Company other than dividends or other distributions on the Preferred Shares.

Conversion Rights of Preferred Shares

5.9 On and after August 1, 2020, a holder of Preferred Shares shall have the right (the "**Conversion Right**"), at its option and at any time, and from time to time, to convert Preferred Shares that it holds into Common Shares. Upon exercise of the Conversion Right as provided in this Article 5.9, the Company shall deliver to such holder a number of Common Shares equal to the quotient obtained by dividing (x) the Liquidation Preference of the Preferred Shares to be converted by (y) the Conversion Price in effect on the Conversion Date. Immediately following such conversion, the right of the holder, as a holder of the converted Preferred Shares shall cease, and such holder, or the Person or Persons designated by it as provided in Article 5.10, shall be treated for all purposes as having become the owner(s) of such Common Shares with respect to the Preferred Shares that have been converted.

5.10 To convert Preferred Shares pursuant to Article 5.9, a holder must notify the Company that it elects to convert Preferred Shares and the number of Preferred Shares it wishes to convert (a "**Conversion Notice**"), which Conversion Notice shall be irrevocable and shall also state in writing the name or names in which the holder wishes any certificate or certificates for Common Shares to be issued or otherwise to be recorded on the Register of Members. No later than two Business Days after delivering a Conversion Notice, a holder converting Preferred Shares shall, (A) if the Preferred Shares are represented by a certificate or certificates, surrender the certificate or certificates evidencing the Preferred Shares to be converted, duly endorsed in a form satisfactory to the Company, at the office of the Company or transfer agent for the Preferred Shares and (B) pay any transfer or similar tax required by Article 5.12 below to be paid by the holder, if any. The Business Day immediately prior to the date on which the holder delivers the Conversion Notice is the "**Conversion Date**".

As soon as practicable, and in any event within five Business Days following the applicable Conversion Date, (x) if the Common Shares are then represented by certificates, the Company shall deliver a certificate for the number of full Common Shares issuable upon the conversion, and the Company shall record such shares on the Register of Members, and (y) if the Preferred Shares are then represented by certificates and the Company so elects, the Company shall deliver a new certificate representing the unconverted portion, if any, of the Preferred Shares represented by the certificate or certificates surrendered for conversion, and the Company shall record such shares on the Register of Members. The Person in whose name the Common Share certificate is registered, or the Person in whose name the Common Shares are recorded on the Register of Members, shall be treated as the holder of record on and after the Conversion Date.

5.11 The Company shall not issue any fractional Common Shares upon conversion of Preferred Shares. Instead the Company shall pay cash in lieu of fractional Common Shares to the holder of Preferred Shares being converted based upon the Conversion Price.

5.12 The Company shall reserve (and shall keep available and free from preemptive rights) and shall continue to reserve out of its authorized but unissued Common Shares or its Common Shares held as Treasury Shares a sufficient number of Common Shares to permit the conversion of the Preferred Shares in full. All Common Shares that may be issued upon conversion of Preferred Shares shall be fully paid and non-assessable. All Common Shares that are issued upon the conversion of Preferred Shares shall, upon issuance, be validly issued, not subject to any preemptive rights, and, be free from all taxes, liens, security interests, charges, and other encumbrances with respect to the issuance thereof (collectively, "**Encumbrances**"), other than taxes in respect of any transfer occurring contemporaneously with such issue and Encumbrances created by the holder.

5.13 The Conversion Price shall be subject to adjustment as provided in this Article 5.13.

(a) Subdivisions and Combinations. In case the outstanding Common Shares shall be consolidated and either subdivided into a greater number of Common Shares or combined into a lesser number of Common Shares, then the Conversion Price in effect at the opening of business on the day following the day upon which such subdivision or combination becomes effective shall be adjusted to equal the product of (i) the Conversion Price in effect on such date and (ii) a fraction, the numerator of which shall be the number of Common Shares outstanding immediately prior to such subdivision or combination, and the denominator of which shall be the number of Common Shares outstanding immediately after such subdivision or combination. Such adjustment shall become effective retroactively to the close of business on the day upon which such subdivision or combination becomes effective.

(b) Dividends or Distributions Payable in Common Shares. In case the Company shall pay or make a dividend or other distribution on Common Shares payable in Common Shares, the Company shall give prompt notice to the holders of the Preferred Shares of such dividend or distribution, and the Conversion Price in effect at the opening of business on the day following the date fixed for the determination of stockholders entitled to receive such dividend or other distribution shall be reduced by multiplying such Conversion Price by a fraction, the numerator of which shall be the number of Common Shares outstanding at the close of business on the date fixed for such determination and the denominator of which shall be the sum of such number of Common Shares outstanding at the close of business on the date fixed for such determination and the total number of Common Shares constituting such dividend or other distribution, such reduction to become effective retroactively to a date immediately following the close of business on the record date for the determination of the holders entitled to such dividends and distributions. For the purposes of this Article 5.13(b), the number of Common Shares at any time outstanding shall not include any Treasury Shares. The Company will not pay any dividend or make any distribution on any Treasury Shares.

5.14 If the Company takes any action which requires an adjustment in the Conversion Price pursuant to Article 5.13, the Company shall notify holders of the Preferred Shares of the proposed record or effective date, as the case may be, at least five Business Days before such date; provided, however, that the failure to provide such notice or any defect in it shall not affect the validity of any transaction. Whenever the Conversion Price shall be adjusted, the Company shall provide each holder of Preferred Shares a certificate from the Company, duly signed by an authorized officer of the Company, stating the adjusted Conversion Price and briefly stating the facts requiring the adjustment and the manner of computing it.

Other Matters

5.15 Payment of the Preferred Share Dividend, redemption price, Liquidation Preference and any other amounts payable to any holder of the Preferred Shares hereunder shall be made in lawful money of the United States of America, by wire transfer of immediately available funds to such holder's account as may be designated to the Company in writing from time to time, or in such other manner as such holder may advise the Company in writing from time to time, provided, however, that notwithstanding anything herein to the contrary if at least three Business Days prior to any Preferred Share Dividend Payment Date a holder of Preferred Shares shall have failed to designate an account to the Company for the receipt of such payment, the Company shall be entitled to make such payment to such holder by check.

5.16 Any notice to be given to any holder of Preferred Shares in accordance with these Articles shall be made by overnight courier pre-paid at the respective addresses of such holders as the same shall appear on the Register of Members and shall also be given by fax and email to any such holder that supplies a fax number and/or email address to the Company.

5.17 The rights of holders of Preferred Shares to take any action as provided in these Articles or otherwise (including without limitation the granting of any consent or waiver of any rights of such holders) may be exercised without a meeting of the holders of the Preferred Shares if a consent or counterpart consents in writing, setting forth the action so taken, shall be signed by the holder or holders of Preferred Shares having not less than the minimum number of Preferred Shares that would be necessary to take such action at a meeting of the holders of the Preferred Shares. Any such consents must be delivered to the Company at the Registered Office of the Company. Prompt notice of the taking of the action without a meeting by less than unanimous written consent shall be given to those holders of Preferred Shares who did not consent in writing to the action, provided that the failure to give such notice shall not affect the validity of such action.

5.18 For the taking of any action as provided in these Articles by the holders of Preferred Shares or for any action as to which the holders of Preferred Shares are entitled to vote, each such holder shall have one vote for each Preferred Share standing in its name on the Register of Members at the close of business on the business day next preceding the day on which notice is given, or if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held (or if there is no meeting, on the date on which the consent of the final holder of Preferred Shares that is required to approve the action is provided). Unless otherwise agreed in writing by the holder of Preferred Shares, any consent given by such holder shall be revocable prior to the time the matter for which such consent is given receives the requisite consents from the holders, and shall expire 60 days after its execution by such holder.

5.19 Upon the Company's receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of any share certificates issued in respect of any Preferred Shares, and, in the case of loss, theft or destruction, of any unsecured indemnification undertaken by the holder of Preferred Shares to the Company in customary form and, in the case of mutilation, upon surrender and cancellation of such certificates issued in respect of any Preferred Shares, the Company shall execute and deliver new share certificate(s) of like tenor and date.

5.20 Except as provided in Article 5.2, the remedies provided in these Articles shall be cumulative and in addition to all other remedies available under these Articles, at law or in equity, including a decree of specific performance and/or other injunctive relief. No remedy contained herein shall be deemed a waiver of compliance with the provisions giving rise to such remedy and nothing herein shall limit the right of a holder of Preferred Shares to pursue actual damages for any failure by the Company to comply with the terms of these Articles. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the holders of Preferred Shares for which there is no adequate remedy at law. The Company therefore agrees that, except as otherwise provided in these Articles, in the event of any such breach or threatened breach, the holders of Preferred Shares shall be entitled, in addition to all other available remedies, to an injunction restraining any breach, without the necessity of showing economic loss and without any bond or other security being required.

5.21 No failure or delay on the part of a holder of Preferred Shares in the exercise of any power, right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or of any other right, power or privilege.

5.22 If any right, preference, privilege or limitation of the Preferred Shares set forth in these Articles is invalid, unlawful or incapable of being enforced by reason of any rule of law or public policy, all other rights, preferences and limitations set forth in these Articles that can be given effect without the invalid, unlawful or unenforceable right, preference, privilege or limitation shall, nevertheless, remain in full force and effect, and no right, preference, privilege or limitation herein set forth shall be deemed dependent upon any other such right, preference, privilege or limitation unless so expressed herein.

5.23 Subject to Article 5.2, any holder of Preferred Shares may proceed to protect and enforce its rights and the rights of all holders by any available remedy by proceeding at law or in equity to protect and enforce any such rights, whether for the specific enforcement of any provision in these Articles or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

5.24 For the avoidance of doubt, the Company's redemption, purchase and other rights hereunder with respect to the outstanding Preferred Shares are not transferable.

5.25 The Preferred Shares rank senior to all other Shares as to dividends and other distributions and amounts payable upon redemption or repurchase.

6 Optional and Mandatory Redemption for Preferred Shares

6.1 In the event that the aggregate gross proceeds to the Company of the IPO attributable to sales for the account of the Company (after payment of underwriters' discounts and commissions) exceeds US$200,000,000, the Company may, at any time and from time to time thereafter redeem all or any portion of the issued and outstanding Preferred Shares for cash, out of lawfully available funds, at a price per Share equal to the product of (x) the then-applicable Liquidation Preference as of the applicable redemption date multiplied by (y) 1.03. Any such redemption in part shall be made *pro rata* among the holders of the Preferred Shares.

6.2 Subject to the provisions of Articles 6.3 through 7.4, inclusive, in the event that the aggregate gross proceeds to the Company of the IPO attributable to sales for the account of the Company (after payment of underwriters' discounts and commissions) exceeds US$200,000,000, the Company the Company shall, upon the election of (x) the holders of a majority of the outstanding Preferred Shares or (y) a majority of the Directors who are not affiliated with or designated by any of the holders of the Preferred Shares or their Affiliates ("**Disinterested Directors**"), redeem all of the Preferred Shares for cash, out of lawfully available funds, at a price per Share equal to the product of (x) the then-applicable Liquidation Preference as of the applicable redemption date multiplied by (y) 1.03:

(a) upon the occurrence of a Change of Control; or

(b) upon the occurrence of an Exit Event.

6.3 Subject to the provisions of Articles 6.5 through 7.4 inclusive, the Company shall, upon the election of the holders of a majority of the outstanding Preferred Shares (provided that such election must be made no later than 30 days after the conclusion of the Company's cure period provided below), redeem Preferred Shares (in an amount determined by the holders of Preferred Shares) for cash, out of lawfully available funds, at a price per Share equal to the then-applicable Liquidation Preference as of the applicable redemption date, upon the breach by the Company of (x) any material provision of the Preferred Share Issuance Agreement or (y) Article 5.8, in either case that is both (a) not cured within a 30 day period after the Company's receipt of notice of breach and (b) not intentionally caused by any holder of Preferred Shares (or any Director designated to the Board by any such holder), the result of which breach is that the holders of Preferred Shares are adversely affected.

6.4 Notwithstanding the provisions of Article 6.2 or 6.3, in no event will the Company be obligated to redeem any Preferred Shares to the extent and during such time that the redemption of such Preferred Shares would violate the Statute; provided, however, that in the event that such redemption would violate the Statute, the redemption will be effected to the fullest extent possible so as not to violate the Statute and the Company will as promptly as practicable continue to redeem the maximum number of Preferred Shares from time to time permitted under the Statute until all Preferred Shares required to be redeemed pursuant to Article 6.2 or 6.3 have been redeemed and during such period of time, neither the Company nor its Subsidiaries may take any action (other than redeeming the Preferred Shares) to delay or reduce the number of Preferred Shares required to be redeemed hereunder. Notwithstanding anything to the contrary contained herein, in the event of any failure by the Company to redeem any Preferred Shares as a result of the first sentence of this Article 6.4, the Preferred Share Dividend Rate shall be increased to the Default Dividend Rate until all such Preferred Shares are so redeemed. For the avoidance of doubt, to the extent that a Specified Fundamental Change Payment in respect of a Change of Control or Exit Event (x) is scheduled or contemplated to occur simultaneously with any redemption of Preferred Shares hereunder due to such Change of Control or Exit Event and (y) would otherwise result in a reduction pursuant to this Article 6.3 in the amounts to be paid to the holders of Preferred Shares or in the number of Preferred Shares to be redeemed, then such Specified Fundamental Change Payment shall not be made until after the redemption of Preferred Shares. "**Specified Fundamental Change Payment**" means (x) any payment by the Company or any third party to or for the benefit of any holder of Common Shares in connection with any Change of Control or Exit Event or (y) the provision by the Company or any third party of any other cash or non-cash financial benefits to any holder of Common Shares in connection with any Change of Control or Exit Event.

6.5 There shall be no right to redeem or repurchase Preferred Shares in favor of the Company other than as contemplated by these Articles.

6.6 In the event of a Change of Control, Exit Event or Liquidation Event, no distribution may be made to the holders of Common Shares unless the Liquidation Preference for each Preferred Share is paid in full and the Preferred Shares are fully redeemed.

7 Procedures for Redemption of Preferred Shares

7.1 Not less than 10 days (or such shorter period as may be consented to by holders of a majority of the outstanding Preferred Shares) prior to the redemption date in the case of optional redemption as provided in Article 6.1 or mandatory redemption as provided in Article 6.2 or Article 6.3, the Company shall give each applicable holder of record of Preferred Shares a notice of redemption. Such notice shall be given in the manner prescribed in Article 5.15. No failure to give such notice or any defect therein or in the mailing thereof shall affect the validity of the proceedings for the redemption of any Preferred Shares, except as to any holder to whom notice was defective or not given nor otherwise prejudices the right of the holders of the Preferred Shares hereunder, including the right to receive the redemption price on the redemption date.

7.2 In addition to any information required by Law or by these Articles, such notice shall state: (A) the redemption date; (B) the redemption price; (C) the aggregate number of Preferred Shares to be redeemed; (D) the place or places where the Preferred Shares are to be surrendered (if so required in the notice) for payment of the redemption price (if not otherwise included with the notice); and (E) that dividends will cease to accrue on such redemption date with respect to the number of Preferred Shares to be redeemed, unless the Company fails to pay the redemption price in full in all respects as required hereby. If less than all of the Preferred Shares held by any holder is to be redeemed, the notice mailed to such holder shall also specify the total number of Preferred Shares to be redeemed and the number of Preferred Shares held by such holder to be redeemed.

7.3 If fewer than all the outstanding Preferred Shares are to be redeemed, (including if and to the extent that the funds of the Company lawfully available for redemption are not sufficient to pay the full amount due with respect to any redemption) the Company will select those to be redeemed as nearly *pro rata* as practicable based upon the number of Preferred Shares of each holder then held as a percentage of the number of Preferred Shares then issued and outstanding.

7.4 Upon payment in full in cash of the Liquidation Preference with respect to a Preferred Share, such Preferred Share shall be redeemed and cancelled and shall no longer be deemed an outstanding Share of the Company and all rights of the holders of such Preferred Share will terminate. If less than all the Preferred Shares represented by any Preferred Share certificate are redeemed, upon surrender to the Company of such certificate a new certificate or certificates shall be issued evidencing the unredeemed Preferred Shares without cost to the holder thereof.

7.5 Without limiting the generality of any other provision hereof, the applicable redemption date shall occur and the related payment by the Company of the redemption price of the Preferred Shares shall be required to be made simultaneously or prior to the consummation of any Change of Control or Exit Event.

8 Transfer of Preferred Shares

8.1 The Preferred Shares are transferrable, except that the Company shall not register any transfer of Preferred Shares:

(a) that is prohibited by Law;

(b) to any Competitor of the Company or any of its Subsidiaries, or any Person that beneficially owns 5% or more of any such Competitor; or

(c) if such transfer would result in the Company becoming subject to the registration requirements of the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or the reporting requirements of the Exchange Act, the U.S. Investment Company Act of 1940, as amended, or any similar United States or applicable foreign regulation or registration or reporting requirements.

If a transfer of the Preferred Shares is purported to be made in violation of this Article 8.1, then the dividend, information or approval rights under these Articles with respect to the applicable Preferred Shares shall be suspended; provided that all suspended dividends and information shall upon the remedy of such violation (whether by transfer back to the original holder or to another holder permitted by this Article 8.1) be immediately payable and deliverable to the permitted holder.

8.2 Prior to any transfer of any Preferred Shares, the transferring holder thereof shall give written notice to the Company of such holder's intention to effect such transfer and to comply in all other respects with this Article 8.2. Each such notice shall describe the manner and circumstances of the proposed transfer and, if requested by the Company, shall be accompanied by an opinion of counsel for such holder to the effect that the proposed transfer may be effected without registration of such Preferred Shares under the Securities Act. Such holder shall thereupon be entitled to transfer such Preferred Shares in accordance with the terms of the notice delivered by such holder to the Company. Promptly after the transfer of any Preferred Shares, the transferor shall give written notice to the Company of such transfer of Preferred Shares, including the number of Preferred Shares transferred, and the price and terms at which the Preferred Shares were transferred, and the identity (including name and principal business) of the transferee. This Article 8.2 shall not apply to any transfer of Preferred Shares to the Company or its Affiliates.

8.3 Any certificate issued in respect of any Preferred Shares shall be stamped or otherwise imprinted with a legend in substantially the following form:

> "THE SHARES DESCRIBED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, SUCH REGISTRATION REQUIREMENTS. IN ADDITION, SUCH SHARES ARE SUBJECT TO THE TERMS OF THE NINTH AMENDED AND RESTATED MEMORANDUM AND ARTICLES OF ASSOCIATION, AS THE SAME MAY BE AMENDED FROM TIME TO TIME (THE "MEMORANDUM") OF SHELF DRILLING, LTD. (THE "COMPANY"). THE TERMS OF SUCH MEMORANDUM INCLUDE, AMONG OTHER THINGS, CERTAIN RESTRICTIONS ON TRANSFERS. A COPY OF THE MEMORANDUM WILL BE FURNISHED WITHOUT CHARGE BY THE COMPANY TO THE HOLDER HEREOF UPON WRITTEN REQUEST."

9 Financial Reporting Under Preferred Shares

9.1 The holders of Preferred Shares shall, upon executing and delivering a customary confidentiality agreement if requested by the Company, be entitled to receive the same level of written information with respect to the Company and its Subsidiaries as, at least as promptly as it is received by, the lenders under the Loan Facilities, including unaudited quarterly and audited annual consolidated financial statements of the Company and its Subsidiaries (and, for the avoidance of doubt, such financial statements with respect to the Company must be furnished regardless of whether furnished to the lenders) prepared in accordance with GAAP or IFRS, and any consolidated projections that are provided to lenders.

9.2 Such financial statements shall be delivered to the holders of Preferred Shares within:

(a) 60 days (or such shorter period as may be required by the Loan Facilities) after the end of the reporting period in the case of quarterly financial reports; and

(b) 90 days (or such shorter period as may be required by the Loan Facilities) after the end of the reporting period in the case of annual financial reports.

10 Register of Members

10.1 The Company shall maintain or cause to be maintained the Register of Members in accordance with the Statute.

10.2 The Directors may determine that the Company shall maintain one or more branch registers of Members in accordance with the Statute. The Directors may also determine which register of Members shall constitute the principal register and which shall constitute the branch register or registers, and to vary such determination from time to time.

11 Closing Register of Members or Fixing Record Date

11.1 Subject to the provisions hereof relating to the Preferred Shares, the Directors may fix in advance or arrears a date as the record date for any such determination of Members entitled to notice of, or to vote at any meeting of the Members or any adjournment thereof, or for the purpose of determining the Members entitled to receive payment of any Dividend or other distribution, or in order to make a determination of Members for any other purpose.

11.2 Subject to the provisions hereof relating to the Preferred Shares, if no such record date is fixed for the determination of Members entitled to notice of, or to vote at, a meeting of Members or Members entitled to receive payment of a Dividend or other distribution, the date on which notice of the meeting is sent or the date on which the resolution of the Directors resolving to pay such Dividend or other distribution is passed, as the case may be, shall be the record date for such determination of Members. When a determination of Members entitled to vote at any meeting of Members has been made as provided in this Article, such determination shall apply to any adjournment thereof.

12 Certificates for Shares

12.1 The holders of Common Shares shall only be entitled to a share certificate if the Directors resolve that share certificates shall be issued. A holder of Preferred Shares shall be entitled to a share certificate if requested by such holder and the board of Directors resolve that share certificates shall be issued. Share certificates representing Shares, if any, shall be in such form as the Directors may determine. Share certificates shall be signed by one or more Directors or other person authorised by the Directors. The Directors may authorise certificates to be issued with the authorised signature(s) affixed by mechanical process. All certificates for Shares shall be consecutively numbered or otherwise identified and shall specify the Shares to which they relate. All certificates surrendered to the Company for transfer shall be cancelled and subject to these Articles no new certificate shall be issued until the former certificate representing a like number of relevant Shares shall have been surrendered and cancelled.

12.2 The Company shall not be bound to issue more than one certificate for Shares held jointly by more than one person and delivery of a certificate to one joint holder shall be a sufficient delivery to all of them.

12.3 Subject to Article 5.18, if a share certificate is defaced, worn out, lost or destroyed, it may be renewed on such terms (if any) as to evidence and indemnity and on the payment of such expenses reasonably incurred by the Company in investigating evidence, as the Directors may prescribe, and (in the case of defacement or wearing out) upon delivery of the old certificate.

12.4 Subject to Article 5.18, every share certificate sent in accordance with these Articles will be sent at the risk of the Member or other person entitled to the certificate. The Company will not be responsible for any share certificate lost or delayed in the course of delivery.

13 Transfer of Shares

13.1 Except as provided in these Articles (including the provisions hereof relating to the Preferred Shares), and any rules or regulations applicable to any Common Shares traded on the Exchange, Shares are transferable subject to the consent of the Directors who may, in their absolute discretion, decline to register any transfer of Shares without giving any reason; provided that the Directors shall consent to any transfer made in accordance with the terms of these Articles relating to the transfer of Preferred Shares, and any beneficial rights to Common Shares traded on the Exchange. If the Directors refuse to register a transfer they shall notify the transferee within 20 days of such refusal. For the avoidance of doubt, nothing in this Article 13.1 shall permit the Directors to decline to give full effect to a transfer of Preferred Shares that complies with the provisions of Article 8 or to a transfer of beneficial rights to Common Shares that are traded on the Exchange.

13.2 The instrument of transfer of any Share, other than beneficial rights to Common Shares traded on the Exchange, shall be in writing and shall be executed by or on behalf of the transferor (and if the Directors so require, signed by or on behalf of the transferee). The transferor shall be deemed to remain the holder of a Share until the name of the transferee is entered in the Register of Members. Transfers of beneficial rights to Common Shares traded on the Exchange shall be effected in accordance with any rules or regulations applicable to such Shares.

13.3 A Member may deposit Shares held by such Member into a voting trust by transferring record ownership of such Shares to a voting trustee pursuant to the terms of a voting trust agreement (recorded in writing). In such case, the Member shall provide a copy of the voting trust agreement to the Company. For so long as the Shares are held in the voting trust, the voting trustee shall be recognized as the record holder of such Shares and shall obtain all voting power with respect to such Shares (which voting power shall be exercised in accordance with the terms of the voting trust agreement). Notwithstanding the record ownership of such Shares by the voting trustee, all other rights attached to such Shares, including any rights to receive dividends or other distributions, shall remain with the Member who deposited such Shares into the voting trust; provided, that any additional Shares or other securities issued by the Company to such Member shall be issued in the name of the voting trustee and held in the voting trust to the extent provided by the terms of the voting trust agreement.

14 Redemption, Repurchase and Surrender of Shares

14.1 Subject to the provisions of the Statute and the provisions hereof relating to the Preferred Shares, (a) the Company may issue Shares that are to be redeemed or are liable to be redeemed at the option of the Member or the Company; provided that the issue of any such Shares, and their terms of redemption (if any), are approved by Special Resolution and (b) the redemption of such Shares shall be effected in such manner and upon such other terms as the Company may, by Special Resolution, determine before the issue of the Shares.

14.2 Subject to the provisions of the Statute and the provisions hereof relating to the Preferred Shares, the Company may purchase its own Shares (including any redeemable Shares) in such manner and on such other terms as the Directors may agree with the relevant Member.

14.3 Subject to the provisions hereof relating to the Preferred Shares, the Company may make a payment in respect of the redemption or purchase of its own Shares in any manner permitted by the Statute, including out of capital.

14.4 The Directors may accept the surrender for no consideration of any fully paid Share.

15 Treasury Shares

15.1 The Directors may, prior to the purchase, redemption or surrender of any Share, determine that such Share shall be held as a Treasury Share.

15.2 The Directors may determine to cancel a Treasury Share or transfer a Treasury Share on such terms as they think proper (including, without limitation, for nil consideration).

15.3 Notwithstanding the provisions of Articles 15.1 and 15.2 above, any Preferred Shares redeemed or repurchased by the Company shall be retired and cancelled and may not be reissued.

16 Variation of Rights of Shares

16.1 All or any of the rights attached to any class of Shares (unless otherwise provided by the terms of issue of the Shares of that class) may, whether or not the Company is being wound up, be varied without the consent of the holders of the issued and outstanding Shares of that class where such variation is considered by the Directors not to have a material adverse effect upon such rights; otherwise, any such variation shall be made only with the consent in writing of the holders of not less than two thirds of the issued and outstanding Shares of that class, or with the sanction of a resolution passed by a majority of not less than two thirds of the votes cast at a separate meeting of the holders of the Shares of that class. For the avoidance of doubt, the Directors reserve the right, notwithstanding that any such variation may not have a material adverse effect, to obtain consent from the holders of Shares of the relevant class. To any such meeting all the provisions of the Articles relating to general meetings shall apply *mutatis mutandis*, except that the necessary quorum shall be Persons holding or representing by proxy at least two-thirds of the issued and outstanding Shares of the class and that any holder of Shares of the class present in person or by proxy may demand a poll.

16.2 For the purposes of a separate class meeting in accordance with Article 16.1, the Directors may treat two or more or all the classes of Shares as forming one class of Shares if the Directors consider that such class of Shares would be affected in the same way by the proposals under consideration, but in any other case shall treat them as separate classes of Shares.

16.3 The rights conferred upon the holders of the Shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the Shares of that class, be deemed to be varied by the creation or issue of further Shares ranking pari passu therewith.

16.4 This Article 16 does not apply to the Preferred Shares.

17 Commission on Sale of Shares

The Company may, in so far as the Statute permits, pay a commission to any person in consideration of his subscribing or agreeing to subscribe (whether absolutely or conditionally) or procuring or agreeing to procure subscriptions (whether absolutely or conditionally) for any Shares.

Such commissions may be satisfied by the payment of cash and/or the issue of fully or partly paid-up Shares. The Company may also on any issue of Shares pay such brokerage as may be lawful.

18 Non Recognition of Trusts

The Company shall not be bound by or compelled to recognise in any way (even when notified) any equitable, contingent, future or partial interest in any Share (for the avoidance of doubt, this does not prohibit the issuance of fractional Shares), or (except only as is otherwise provided by these Articles or the Statute) any other rights in respect of any Share other than an absolute right to the entirety thereof in the holder.

19 Transmission of Shares

19.1 If a Member dies the survivor or survivors (where he was a joint holder) or his legal personal representatives (where he was a sole holder), shall be the only persons recognised by the Company as having any title to his Shares. The estate of a deceased Member is not thereby released from any liability in respect of any Share, for which he was a joint or sole holder.

19.2 Any person becoming entitled to a Share in consequence of the death or bankruptcy or liquidation or dissolution of a Member (or in any other way than by transfer) may, upon such evidence being produced as may be required by the Directors, elect, by a notice in writing sent by him to the Company, either to become the holder of such Share or to have some person nominated by him registered as the holder of such Share. If he elects to have another person registered as the holder of such Share he shall sign an instrument of transfer of that Share to that person. The Directors shall, in either case, have the same right to decline or suspend registration as they would have had in the case of a transfer of the Share by the relevant Member before his death or bankruptcy or liquidation or dissolution, as the case may be.

19.3 A person becoming entitled to a Share by reason of the death or bankruptcy or liquidation or dissolution of a Member (or in any other case than by transfer) shall be entitled to the same Dividends, other distributions and other advantages to which he would be entitled if he were the holder of such Share. However, he shall not, before becoming a Member in respect of a Share, be entitled in respect of it to exercise any right conferred by membership in relation to general meetings of the Company and the Directors may at any time give notice requiring any such person to elect either to be registered himself or to have some person nominated by him be registered as the holder of the Share (but the Directors shall, in either case, have the same right to decline or suspend registration as they would have had in the case of a transfer of the Share by the relevant Member before his death or bankruptcy or liquidation or dissolution or any other case than by transfer, as the case may be). If the notice is not complied with within ninety days of being received or deemed to be received (as determined pursuant to these Articles) the Directors may thereafter withhold payment of all Dividends, other distributions, bonuses or other monies payable in respect of the Share until the requirements of the notice have been complied with.

20 Amendments of Memorandum and Articles of Association and Alteration of Capital

20.1 Subject to the provisions of these Articles, the Company may by Ordinary Resolution:

(a) increase its share capital by such sum as the Ordinary Resolution shall prescribe and with such rights, priorities and privileges annexed thereto, as the Company in general meeting may determine;

(b) consolidate and divide all or any of its share capital into Shares of larger amount than its existing Shares;

(c) convert all or any of its paid-up Shares into stock, and reconvert that stock into paid-up Shares of any denomination;

(d) by subdivision of its existing Shares or any of them divide the whole or any part of its share capital into Shares of smaller amount than is fixed by the Memorandum or into Shares without par value; and

(e) cancel any Shares that at the date of the passing of the Ordinary Resolution have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the Shares so cancelled;

provided, however, that the Company shall not take any action with respect to the Preferred Shares without the prior written consent of holders of 75% of the issued and outstanding Preferred Shares voting as a single class.

20.2 All new Shares created in accordance with the provisions of the preceding Article shall be subject to the same provisions of these Articles with reference to the payment of calls, liens, transfer, transmission, forfeiture and otherwise as the Shares in the original share capital.

20.3 Subject to the provisions of the Statute and the provisions of these Articles as regards the matters to be dealt with by Ordinary Resolution, and subject to the provisions hereof relating to the Preferred Shares, to the extent applicable, the Company may by Special Resolution:

(a) change its name;

(b) alter or add to these Articles;

(c) alter or add to the Memorandum with respect to any objects, powers or other matters specified therein; and

(d) reduce its share capital or any capital redemption reserve fund.

21 Offices and Places of Business

Subject to the provisions of the Statute, the Company may by resolution of the Directors change the location of its Registered Office. The Company may, in addition to its Registered Office, maintain such other offices or places of business as the Directors determine.

22 General Meetings

22.1 All general meetings other than annual general meetings shall be called extraordinary general meetings.

22.2 The Company shall, in each year, hold a general meeting as its annual general meeting, and shall specify the meeting as such in the notices calling it. Any annual general meeting shall be held at such time and place as the Directors shall appoint and if no other time and place is prescribed by them, it shall be held at the Registered Office within fifteen months of the date of the prior year's annual general meeting. At these meetings the report of the Directors (if any) shall be presented.

22.3 The Directors may call general meetings, and they shall on a Members' requisition forthwith proceed to convene an extraordinary general meeting of the Company.

22.4 A Members' requisition is a requisition of Members holding at the date of deposit of the requisition not less than ten per cent in par value of the issued and outstanding Shares which as at that date carry the right to vote at general meetings of the Company.

22.5 The Members' requisition must state the objects of the meeting and must be signed by the requisitionists and deposited at the Registered Office, and may consist of several documents in like form each signed by one or more requisitionists.

22.6 If there are no Directors as at the date of the deposit of the Members' requisition or if the Directors do not within twenty-one days from the date of the deposit of the Members' requisition duly proceed to convene a general meeting to be held within a further twenty-one days, the requisitionists, or any of them representing more than one-half of the total voting rights of all of the requisitionists, may themselves convene a general meeting, but any meeting so convened shall be held no later than the day which falls three months after the expiration of the said twenty-one day period.

22.7 A general meeting convened as aforesaid by requisitionists shall be convened in the same manner as nearly as possible as that in which general meetings are to be convened by Directors.

23 Notice of General Meetings

23.1 At least fourteen clear days' notice shall be given of any general meeting. Every notice shall specify the place, the day and the hour of the meeting and the general nature of the business to be conducted at the general meeting and shall be given in the manner hereinafter mentioned or in such other manner if any as may be prescribed by the Company, provided that a general meeting of the Company shall, whether or not the notice specified in this Article has been given and whether or not the provisions of these Articles regarding general meetings have been complied with, be deemed to have been duly convened if it is so agreed:

(a) in the case of an annual general meeting, by all of the Members entitled to attend and vote thereat; and

(b) in the case of an extraordinary general meeting, by a majority in number of the Members having a right to attend22.4 and vote at the meeting, together holding not less than ninety five per cent in par value of the Shares giving that right.

23.2 The accidental omission to give notice of a general meeting to, or the non receipt of notice of a general meeting by, any person entitled to receive such notice shall not invalidate the proceedings of that general meeting.

24 Proceedings at General Meetings

24.1 No business shall be transacted at any general meeting unless a quorum is present. The quorum for any general meeting shall be one Member present in person or by proxy or (in the case of a corporation or other non-natural person) by its duly authorised representative or proxy.

24.2 A person may participate at a general meeting by conference telephone or other communications equipment by means of which all the persons participating in the meeting can communicate with each other; provided that such person participating by conference telephone or other communications equipment is not present at the time in Australia, the United Kingdom or any other jurisdiction designated by the board of Directors. Participation by a person in a general meeting in this manner is treated as presence in person at that meeting.

24.3 A resolution of the Members (including a Special Resolution) in writing (in one or more counterparts) signed by or on behalf of all of the Members for the time being entitled to receive notice of and to attend and vote at general meetings (or, being corporations or other non-natural persons, signed by their duly authorised representatives) shall be as valid and effective as if the resolution had been passed at a general meeting of the Company duly convened and held.

24.4 The Directors may, at any time prior to the time appointed for the meeting to commence, appoint any person to act as chairman of a general meeting of the Company or, if the Directors do not make any such appointment, the chairman, if any, of the board of Directors shall preside as chairman at such general meeting. If there is no such chairman, or if he shall not be present within fifteen minutes after the time appointed for the meeting to commence, or is unwilling to act, the Directors present shall elect one of their number to be chairman of the meeting.

24.5 If no Director is willing to act as chairman or if no Director is present within fifteen minutes after the time appointed for the meeting to commence, the Members present shall choose one of their number to be chairman of the meeting.

24.6 The chairman may, with the consent of a meeting (and shall if so directed by the meeting) adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.

24.7 When a general meeting is adjourned for thirty days or more, notice of the adjourned meeting shall be given as in the case of an original meeting. Otherwise it shall not be necessary to give any such notice of an adjourned meeting.

24.8 A resolution put to the vote of the meeting shall be decided on a show of hands unless before, or on the declaration of the result of, the show of hands, the chairman demands a poll, or any other Member or Members collectively present in person or by proxy (or in the case of a corporation or other non-natural person, by its duly authorised representative or proxy) and holding at least ten percent in par value of the Shares giving a right to attend and vote at the meeting demand a poll.

24.9 Unless a poll is duly demanded and the demand is not withdrawn a declaration by the chairman that a resolution has been carried or carried unanimously, or by a particular majority, or lost or not carried by a particular majority, an entry to that effect in the minutes of the proceedings of the meeting shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

24.10 The demand for a poll may be withdrawn.

24.11 Except on a poll demanded on the election of a chairman or on a question of adjournment, a poll shall be taken as the chairman reasonably directs, and the result of the poll shall be deemed to be the resolution of the general meeting at which the poll was demanded.

24.12 A poll demanded on the election of a chairman, on a question of adjournment or on any other question shall be taken forthwith.

24.13 In the case of an equality of votes, whether on a show of hands or on a poll, the chairman shall not be entitled to a second or casting vote.

25 Votes of Members

25.1 Subject to a matter requiring a separate vote of the holders of any class of Shares under these Articles or the Statute, the holders of the Common Shares will vote together on all matters as a single class.

25.2 Subject to any rights or restrictions attached to any Shares, including pursuant to Article 3 and pursuant to the provisions of these Articles regarding the Preferred Shares, on a show of hands every Member who (being an individual) is present in person or by proxy or, if a corporation or other non-natural person is present by its duly authorised representative or by proxy, shall have one vote and on a poll every Member present in any such manner shall have one vote for every Share of which he is the holder.

25.3 In the case of joint holders the vote of the senior holder who tenders a vote, whether in person or by proxy (or, in the case of a corporation or other non-natural person, by its duly authorised representative or proxy), shall be accepted to the exclusion of the votes of the other joint holders, and seniority shall be determined by the order in which the names of the holders stand in the Register of Members.

25.4 A Member of unsound mind, or in respect of whom an order has been made by any court, having jurisdiction in lunacy, may vote, whether on a show of hands or on a poll, by his committee, receiver, curator bonis, or other person on such Member's behalf appointed by that court, and any such committee, receiver, curator bonis or other person may vote by proxy.

25.5 No person shall be entitled to vote at any general meeting unless he is registered as a Member on the record date for such meeting nor unless all calls or other monies then payable by him in respect of Shares have been paid.

25.6 No objection shall be raised as to the qualification of any voter except at the general meeting or adjourned general meeting at which the vote objected to is given or tendered and every vote not disallowed at the meeting shall be valid. Any objection made in due time in accordance with this Article shall be referred to the chairman whose decision shall be final and conclusive.

25.7 On a poll or on a show of hands votes may be cast either personally or by proxy (or in the case of a corporation or other non-natural person by its duly authorised representative or proxy). A Member may appoint more than one proxy or the same proxy under one or more instruments to attend and vote at a meeting. Where a Member appoints more than one proxy the instrument of proxy shall state which proxy is entitled to vote on a show of hands and shall specify the number of Shares in respect of which each proxy is entitled to exercise the related votes.

25.8 On a poll, a Member holding more than one Share need not cast the votes in respect of his Shares in the same way on any resolution and therefore may vote a Share or some or all such Shares either for or against a resolution and/or abstain from voting a Share or some or all of the Shares and, subject to the terms of the instrument appointing him, a proxy appointed under one or more instruments may vote a Share or some or all of the Shares in respect of which he is appointed either for or against a resolution and/or abstain from voting a Share or some or all of the Shares in respect of which he is appointed.

25.9 Nothing in these Articles shall give, or be deemed to give, any holder of a Preferred Share a right to vote on matters except where these Articles expressly specify that a holder of "Preferred Shares" (and not "Shares") has the right to vote on such matter.

26 Proxies

26.1 The instrument appointing a proxy shall be in writing and shall be executed under the hand of the appointor or of his attorney duly authorised in writing, or, if the appointor is a corporation or other non natural person, under the hand of its duly authorised representative. A proxy need not be a Member.

26.2 Subject to Article 26.3 below, the Directors may, in the notice convening any meeting or adjourned meeting, or in an instrument of proxy sent out by the Company, specify the manner by which the instrument appointing a proxy shall be deposited and the place and the time (being not later than the time appointed for the commencement of the meeting or adjourned meeting to which the proxy relates) at which the instrument appointing a proxy shall be deposited. In the absence of any such direction from the Directors in the notice convening any meeting or adjourned meeting or in an instrument of proxy sent out by the Company, the instrument appointing a proxy shall be deposited physically at the Registered Office not less than 48 hours before the time appointed for the meeting or adjourned meeting to commence at which the person named in the instrument proposes to vote.

26.3 An instrument of proxy relating to any class meeting or adjourned class meeting of the Preferred Share holders may be deposited physically at the Registered Office at any time prior to such meeting or deposited at the meeting at any time during the meeting at which the person named in the instrument proposes to vote.

26.4 The chairman may in any event at his discretion declare that an instrument of proxy shall be deemed to have been duly deposited. An instrument of proxy that is not deposited in the manner permitted, or which has not been declared to have been duly deposited by the chairman, shall be invalid.

26.5 The instrument appointing a proxy may be in any usual or common form (or such other form as the Directors may approve) and may be expressed to be for a particular meeting or any adjournment thereof or generally until revoked. An instrument appointing a proxy shall be deemed to include the power to demand or join or concur in demanding a poll.

26.6 Votes given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insanity of the principal or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the Share in respect of which the proxy is given unless notice in writing of such death, insanity, revocation or transfer was received by the Company at the Registered Office before the commencement of the general meeting, or adjourned meeting at which it is sought to use the proxy.

27 Corporate Members

Any corporation or other non-natural person which is a Member may in accordance with its constitutional documents, or in the absence of such provision by resolution of its directors or other governing body, authorise such person as it thinks fit to act as its representative at any meeting of the Company or of any class of Members, and the person so authorised shall be entitled to exercise the same powers on behalf of the corporation which he represents as the corporation could exercise if it were an individual Member.

28 Shares that May Not be Voted

Shares in the Company that are beneficially owned by the Company shall not be voted, directly or indirectly, at any meeting and shall not be counted in determining the total number of issued and outstanding Shares at any given time.

29 Directors

There shall be a board of Directors consisting of eleven persons (exclusive of alternate Directors); provided that, subject to the provisions of Articles 31.1 to 31.4, this limit may be increased or decreased by Ordinary Resolution.

30 Powers of Directors

30.1 Subject to the provisions of the Statute, the Memorandum and these Articles and to any directions given by Special Resolution, the business of the Company shall be managed by the Directors who may exercise all the powers of the Company. No alteration of the Memorandum or Articles and no such direction shall invalidate any prior act of the Directors which would have been valid if that alteration had not been made or that direction had not been given. A duly convened meeting of Directors at which a quorum is present may exercise all powers exercisable by the Directors.

30.2 All cheques, promissory notes, drafts, bills of exchange and other negotiable or transferable instruments and all receipts for monies paid to the Company shall be signed, drawn, accepted, endorsed or otherwise executed as the case may be in such manner as the Directors shall determine by resolution.

30.3 The Directors acting by unanimous resolution on behalf of the Company may pay a gratuity or pension or allowance on retirement to any Director who has held any other salaried office or place of profit with the Company or to his widow or dependants and may make contributions to any fund and pay premiums for the purchase or provision of any such gratuity, pension or allowance.

30.4 The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof and to issue debentures, debenture stock, mortgages, bonds and other such securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.

31 Appointment and Removal of Directors

31.1 For as long as a Principal Shareholder holds at least 14% of the issued and outstanding Common Shares, such Principal Shareholder may appoint up to two individuals as Directors.

31.2 For as long as a Principal Shareholder holds at least 7% but less than 14% of the issued and outstanding Common Shares, such Principal Shareholder may appoint one individual as a Director.

31.3 Subject to Article 31.4, each Principal Shareholder may appoint, replace or remove Directors appointed in accordance with Articles 31.1 and 31.2 by written notice to the Company; provided that such Principal Shareholder may not appoint or replace any such Directors if such Principal Shareholder's ownership of Common Shares is below the threshold specified in such Articles at any time after the time of such appointment. The appointment, replacement or removal shall take effect when the notice is delivered to the Company, unless the notice indicates a later effective time.

31.4 In the event that any Director appointed in accordance with Article 31.1 or 31.2 for any reason ceases to serve as a Director, the Principal Shareholder that appointed such individual shall have the right to appoint a different individual pursuant to Articles 31.1 or 31.2 to fill the vacant directorship; provided that such Principal Shareholder may not appoint or replace any such Director if such Principal Shareholder's ownership of Common Shares is below the threshold specified in such Articles at the relevant time. If any Principal Shareholder ceases at any point in time to hold the requisite percentage of the issued and outstanding Common Shares necessary to designate the number of Directors that had previously been designated by such Principal Shareholder, then the Principal Shareholders shall cause the appropriate number of Directors designated by such Principal Shareholder to immediately be removed as Directors by written notice to the Company and the authorised number of Directors shall be reduced by the number of Directors who are so removed; provided that if after the removal of such Directors, such Principal Shareholder would still have the power to designate one Director, then such Principal Shareholder shall be permitted to decide which of its designees are removed as Directors.

31.5 Subject to the provisions of Articles 31.1 to 31.4 and to Article 31.6, and to any maximum number imposed by Article 29, the Company may by Ordinary Resolution appoint any person as a Director of the Company and may in like manner remove from office any person so appointed.

31.6 The Chief Executive Officer of the Company (who shall be appointed and may be removed by the Directors) shall be appointed as a Director. If the Chief Executive Officer ceases to serve as Chief Executive Officer, then he or she shall be immediately removed as a Director and the new Chief Executive Officer, if any, shall be appointed as a Director.

31.7 For so long as a Principal Shareholder holds at least 7% of the issued and outstanding Common Shares, it shall be entitled to designate one observer (a "**Board Observer**") to participate in all meetings, including telephonic meetings, of the Directors and all committees that the Directors may establish. No Board Observer shall have any voting rights with respect to any action brought by the Directors or any fiduciary obligations to the Company or the Shareholders. Notwithstanding the foregoing, Board Observers shall not be entitled to attend any portion of a meeting of the Directors or any committee thereof that would constitute, or be deemed to constitute, a waiver of the attorney-client privilege. Board Observers shall be entitled to receive all materials provided to members of the Directors or any committee thereof in preparation for meetings unless the provision of such materials would constitute, or be deemed to constitute, a waiver of the attorney-client privilege. Board Observers shall receive notice of all actions taken by the Directors or any committee thereof, whether such action is taken at a meeting. Each Board Observer shall be bound by the same confidentiality obligations as the members of the Board. Each such Principal Shareholder may cause its Board Observer to resign and/or appoint a replacement Board Observer from time to time by giving written notice to the Company.

32 Vacation of Office of Director

The office of a Director shall be vacated if:

(a) the Director gives notice in writing to the Company that he resigns the office of Director; or

(b) the Director dies; or

(c) the Director is found to be or becomes of unsound mind; or

(d) the Director is removed in accordance with Article 31.

33 Proceedings of Directors

33.1 The quorum for the transaction of the business of the Directors shall be a majority in voting power of all the Directors from time to time being present at a meeting of the Directors held in accordance with these Articles. If a quorum shall not be present at any meeting of the Directors, the Directors present at such meeting may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

33.2 A person who holds office as an alternate Director shall, if his appointor is not present, be counted in the quorum. A Director who also acts as an alternate Director shall, if his appointor is not present, count twice towards the quorum.

33.3 All meetings of the Directors or any committee of Directors shall be held outside Australia, the United Kingdom and any other jurisdiction designated by the Directors and subject to the guidelines adopted or to be adopted by the Directors.

33.4 Subject to the provisions of the Articles, the Directors may regulate their proceedings as they deem appropriate. Any matter requiring the vote or consent of the Directors or a committee thereof shall (subject to any express provision of these Articles) require approval of a majority of the voting power of the Directors or members of such committee.

33.5 Each Director shall have one vote; provided, however, that any Director appointed by a Principal Shareholder shall be entitled to cast more than one vote under the following circumstances: (i) if any Director appointed by a Principal Shareholder pursuant to Article 31.1 is not present at such meeting or is unable to vote, then one Director appointed by such Principal Shareholder who is present at the meeting shall be given an aggregate number of additional votes equal to the aggregate number of absent Directors and Directors unable to vote appointed by such Principal Shareholder (and such Directors who are absent or unable to vote shall be deemed to have given a proxy to vote at such meeting to any other such Director who is present at such meeting and able to vote and was appointed by the same Principal Shareholder to serve as a Director); or (ii) if any Principal Shareholder has the right under Article 31.1 to appoint up to two Directors, but has not appointed one such Director, then any Director appointed by such Principal Shareholder shall be given one additional vote.

33.6 A Director who is also an alternate Director shall be entitled in the absence of his appointor to a separate vote on behalf of his appointor in addition to his own vote.

33.7 A person may participate in a meeting of the Directors or committee of Directors by conference telephone or other communications equipment by means of which all the persons participating in the meeting can communicate with each other at the same time; provided that such person participating by conference telephone or other communications equipment is not present at the time in Australia, the United Kingdom or any other jurisdiction designated by the board of Directors. Participation by a person in a meeting in this manner is treated as presence in person at that meeting. Unless otherwise determined by the Directors the meeting shall be deemed to be held at the place where the chairman is located at the start of the meeting.

33.8 A resolution of the Directors may not be passed in writing.

33.9 Unless notice is waived: (i) in writing by each Director (or their alternates) that did not receive such notice; or (ii) by the attendance at the relevant meeting of such Director(s) that did not receive such notice for any purpose other than solely to protest the inadequacy of such notice:

(a) a schedule of regular meetings of the Directors may be adopted by the Directors from time to time (in accordance with Article 27.4), such meetings to be held at such places and times as determined by the Directors; provided that notice of the adoption of a schedule of regular meetings of the Board, if any, shall be given to any Directors (or Board Observers) who were not present at the meeting at which such schedule was adopted; and

(b) special meetings of the Directors may be called by any two Directors. Any such meeting shall be held on such date, at such place and at such time as the Directors calling such meeting shall specify in the notice of the meeting which shall be delivered to each other Director (and each Board Observer) at least 96 hours prior to such meeting (unless waived (i) in writing by each Director and Board Observer that did not receive such notice or (ii) by the attendance at such meeting of each such Director and Board Observer, as applicable, that did not receive such notice for any purpose other than solely to protest the inadequacy of such notice). The purpose of and business to be transacted at such special meeting must be specified in the notice (or waiver of notice) of such meeting.

To any such notice of a meeting of the Directors the provisions of Article 47.1 relating to the giving of notices by the Company to the Members shall apply *mutatis mutandis*.

33.10 Unless the Directors have appointed a chairman of the board, the Directors present at any meeting may choose one of their number to act as the chairman solely for such meeting.

33.11 All acts done by any meeting of the Directors or of a committee of the Directors (including any person acting as an alternate Director) shall, notwithstanding that it is afterwards discovered that there was some defect in the appointment of any Director or alternate Director, and/or that they or any of them were disqualified, and/or had vacated their office and/or were not entitled to vote, be as valid as if every such person had been duly appointed and/or not disqualified to be a Director or alternate Director and/or had not vacated their office and/or had been entitled to vote, as the case may be.

33.12 A Director but not an alternate Director may be represented at any meetings of the board of Directors by a proxy appointed in writing by him. The proxy shall count towards the quorum and the vote of the proxy shall for all purposes be deemed to be that of the appointing Director.

34 [*Intentionally left blank.*]

35 Directors' Interests

35.1 A Director or alternate Director may hold any other office or place of profit under the Company (other than the office of Auditor) in conjunction with his office of Director for such period and on such terms as to remuneration and otherwise as the Directors may determine.

35.2 A Director or alternate Director may act by himself or by, through or on behalf of his firm in a professional capacity for the Company and he or his firm shall be entitled to remuneration for professional services as if he were not a Director or alternate Director.

35.3 A Director or alternate Director may be or become a director or other officer of or otherwise interested in any company promoted by the Company or in which the Company may be interested as a shareholder, a contracting party or otherwise, and no such Director or alternate Director shall be accountable to the Company for any remuneration or other benefits received by him as a director or officer of, or from his interest in, such other company.

35.4 No person shall be disqualified from the office of Director or alternate Director or prevented by such office from contracting with the Company, either as vendor, purchaser or otherwise, nor shall any such contract or any contract or transaction entered into by or on behalf of the Company in which any Director or alternate Director shall be in any way interested be or be liable to be avoided, nor shall any Director or alternate Director so contracting or being so interested be liable to account to the Company for any profit realised by or arising in connection with any such contract or transaction by reason of such Director or alternate Director holding office or of the fiduciary relationship thereby established. A Director (or his alternate Director in his absence) shall be at liberty to vote in respect of any contract or transaction which he is interested provided that the nature of the interest of any Director or alternate Director in any such contract or transaction shall be disclosed by him at or prior to its consideration and any vote thereon.

35.5 A general notice that a Director or alternate Director is a shareholder, director, officer or employee of any specified firm or company and is to be regarded as interested in any transaction with such firm or company shall be sufficient disclosure for the purposes of voting on a resolution in respect of a contract or transaction in which he has an interest, and after such general notice it shall not be necessary to give special notice relating to any general transaction.

36 Minutes

The Directors shall cause minutes to be made in books kept for the purpose of all appointments of officers made by the Directors, all proceedings at meetings of the Company or the holders of any class of Shares and of the Directors, and of committees of the Directors, including the names of the Directors or alternate Directors present at each meeting.

37 Delegation of Directors' Powers

37.1 The Directors may delegate any of their powers, authorities and discretions, including the power to sub-delegate, to any committee consisting of one or more Directors. They may also delegate to any managing director or any Director holding any other executive office such of their powers, authorities and discretions as they consider desirable to be exercised by him provided that an alternate Director may not act as managing director and the appointment of a managing director shall be revoked forthwith if he ceases to be a Director. Any such delegation may be made subject to any conditions the Directors may impose and either collaterally with or to the exclusion of their own powers and any such delegation may be revoked or altered by the Directors. Subject to any such conditions, the proceedings of a committee of Directors shall be governed by these Articles regulating the proceedings of Directors, so far as they are capable of applying.

37.2 The Directors may establish any committees, local boards or agencies or appoint any person to be a manager or agent for managing the affairs of the Company and may appoint any person to be a member of such committees, local boards or agencies. Any such appointment may be made subject to any conditions the Directors may impose, and either collaterally with or to the exclusion of their own powers and any such appointment may be revoked or altered by the Directors. Subject to any such conditions, the proceedings of any such committee, local board or agency shall be governed by the Articles regulating the proceedings of Directors, so far as they are capable of applying.

37.3 The Directors may by power of attorney or otherwise appoint any person to be the agent of the Company on such conditions as the Directors may determine, provided that the delegation is not to the exclusion of their own powers and may be revoked by the Directors at any time.

37.4 The Directors may by power of attorney or otherwise appoint any company, firm, person or body of persons, whether nominated directly or indirectly by the Directors, to be the attorney or authorised signatory of the Company for such purpose and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Directors under the Articles) and for such period and subject to such conditions as they may think fit, and any such powers of attorney or other appointment may contain such provisions for the protection and convenience of persons dealing with any such attorneys or authorised signatories as the Directors may think fit and may also authorise any such attorney or authorised signatory to delegate all or any of the powers, authorities and discretions vested in him.

37.5 The Directors may appoint such officers of the Company (including, for the avoidance of doubt and without limitation, any secretary) as they consider necessary on such terms, at such remuneration and to perform such duties, and subject to such provisions as to disqualification and removal as the Directors may think fit. Unless otherwise specified in the terms of his appointment an officer of the Company may be removed by resolution of the Directors or Members. An officer of the Company may vacate his office at any time if he gives notice in writing to the Company that he resigns his office.

38 Alternate Directors

38.1 Any Director (but not an alternate Director) may by writing appoint any other Director, or any other person willing to act, to be an alternate Director and by writing may remove from office an alternate Director so appointed by him.

38.2 An alternate Director shall be entitled to receive notice of all meetings of Directors and of all meetings of committees of Directors of which his appointor is a member, to attend and vote at every such meeting at which the Director appointing him is not personally present and generally to perform all the functions of his appointor as a Director in his absence.

38.3 An alternate Director shall cease to be an alternate Director if his appointor ceases to be a Director.

38.4 Any appointment or removal of an alternate Director shall be by notice to the Company signed by the Director making or revoking the appointment or in any other manner approved by the Directors.

38.5 Subject to the provisions of these Articles, an alternate Director shall be deemed for all purposes to be a Director and shall alone be responsible for his own acts and defaults and shall not be deemed to be the agent of the Director appointing him.

39 No Minimum Shareholding

The Company in general meeting may fix a minimum shareholding required to be held by a Director, but unless and until such a shareholding qualification is fixed a Director is not required to hold Shares.

40 Remuneration of Directors

40.1 Directors shall be entitled to prompt reimbursement by the Company of all reasonable out-of-pocket expenses (including travel expenses) incurred in the course of the performance of their duties, and shall otherwise be entitled to such compensation for their services in their capacity as Directors as the Company may approve by Ordinary Resolution from time to time.

40.2 The Directors may by resolution approve additional remuneration to any Director for any services which in the opinion of the Directors go beyond his ordinary routine work as a Director. Any fees paid to a Director who is also counsel, attorney or solicitor to the Company, or otherwise serves it in a professional capacity shall be in addition to his remuneration as a Director.

41 [*Intentionally left blank.*]

42 Seal

42.1 The Company may, if the Directors so determine, have a Seal. The Seal shall only be used by the authority of the Directors or of a committee of the Directors authorised by the Directors. Every instrument to which the Seal has been affixed shall be signed by at least one person who shall be either a Director or some officer of the Company or other person appointed by the Directors for the purpose.

42.2 The Company may have for use in any place or places outside the Cayman Islands a duplicate Seal or Seals each of which shall be a facsimile of the common Seal of the Company and, if the Directors so determine, with the addition on its face of the name of every place where it is to be used.

42.3 A Director or officer, representative or attorney of the Company may without further authority of the Directors affix the Seal over his signature alone to any document of the Company required to be authenticated by him under seal or to be filed with the Registrar of Companies in the Cayman Islands or elsewhere wheresoever.

43 Dividends, Distributions and Reserve

43.1 Subject to the Statute and these Articles, including the provisions hereof relating to the Preferred Shares, and except as otherwise provided by the rights and restrictions attached to any Shares, (a) the Directors may resolve to pay Dividends and other distributions on Shares in issue and authorise payment of the Dividends or other distributions out of the funds of the Company lawfully available therefor and (b) a Dividend (other than a Dividend with respect to the Preferred Shares) shall be deemed to be an interim Dividend unless the terms of the resolution pursuant to which the Directors resolve to pay such Dividend specifically state that such Dividend shall be a final Dividend. No Dividend or other distribution shall be paid except out of the realised or unrealised profits of the Company, out of the share premium account or as otherwise permitted by the Statute.

43.2 Subject to the Statute and this Article and except as otherwise provided by the rights and restrictions attached to any Shares, the Company by Ordinary Resolution may declare dividends, but no dividend shall exceed the amount recommended by the Directors.

43.3 Except as otherwise provided by the rights and restrictions attached to any Shares, all Dividends and other distributions shall be declared and paid according to the amounts paid up on the Shares on which the Dividend and other distribution is paid and except as otherwise provided by the rights attached to any Shares, all Dividends and other distributions shall be apportioned and paid proportionately according to the amounts paid up on the Shares during any portion or portions of the period in respect of which the Dividend and other distribution is paid. If any Share (including the Preferred Shares) is issued on terms providing that it shall rank for Dividend as from a particular date, that Share shall rank for Dividend accordingly.

43.4 The Directors may deduct from any Dividend or other distribution payable to any Member all sums of money (if any) then payable by him to the Company on account of calls or otherwise.

43.5 Subject to the provisions hereof relating to the Preferred Shares, the Directors may resolve that any Dividend or other distribution be paid wholly or partly by the distribution of specific assets and in particular (but without limitation) by the distribution of shares, debentures, or securities of any other company or in any one or more of such ways and where any difficulty arises in regard to such distribution, the Directors may settle the same as they think expedient and in particular may issue fractional Shares and may fix the value for distribution of such specific assets or any part thereof and may determine that cash payments shall be made to any Members upon the basis of the value so fixed in order to adjust the rights of all Members and may vest any such specific assets in trustees in such manner as may seem expedient to the Directors.

43.6 Except as otherwise provided by the rights attached to any Shares (including Preferred Shares), (a) Dividends and other distributions may be paid in any currency and (b) the Directors may determine the basis of conversion for any currency conversions that may be required and how any costs involved are to be met.

43.7 Other than with respect to the Preferred Shares, the Directors may, before resolving to pay any Dividend or other distribution, set aside such sums as they think proper as a reserve or reserves which shall, at the discretion of the Directors, be applicable for any purpose of the Company and pending such application may, at the discretion of the Directors, be employed in the business of the Company.

43.8 Subject to the provisions of these Articles regarding the Preferred Shares, any Dividend, other distribution, interest or other monies payable in cash in respect of Shares may be paid in any manner as the Directors may determine, including by inter-bank transfer, electronic form, electronic means or other means approved by the Directors directly to an account (of a type approved by the Directors) nominated in writing by the Member, or by cheque or warrant or other similar financial instrument made payable to the Member entitled to it and sent through the post directed to the registered address of the holder or, in the case of joint holders, to the registered address of the holder who is first named on the Register of Members or to such person and to such address as such holder or joint holders may in writing direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent. Any one of two or more joint holders may give effectual receipts for any Dividends, other distributions, bonuses, or other monies payable in respect of the Share held by them as joint holders. Different methods of payment may apply to different Members or groups of Members.

43.9 No Dividend or other distribution payable in respect of a Share shall bear interest against the Company unless otherwise provided by the rights attached to such Share.

43.10 Any Dividend or other distribution which cannot be paid to a Member (including because the Directors determine that payments will be made by electronic transfer to an account (of a type approved by the Directors) nominated by a Member, but no such account is nominated by the Member or an electronic transfer into a nominated account is rejected or refunded) and/or remains unclaimed after six months from the date on which such Dividend or other distribution becomes payable may, in the discretion of the Directors, be paid into a separate account in the Company's name, provided that the Company shall not be constituted as a trustee in respect of that account and the Dividend or other distribution shall remain as a debt due to the Member. Any Dividend or other distribution which remains unclaimed after a period of six years from the date on which such Dividend or other distribution becomes payable shall be forfeited and shall revert to the Company.

43.11 The Company shall be entitled to cease sending dividend warrants and cheques by post or otherwise to a Member if those instruments have been returned undelivered to, or left uncashed by, that Member on at least two consecutive occasions, or, following one such occasion, reasonable enquiries have failed to establish the Member's new address. The entitlement conferred on the Company under this Article in respect of any Member shall cease if the Member claims a Dividend or cashes a dividend warrant or cheque.

44 Capitalisation

The Directors may at any time capitalise any sum standing to the credit of any of the Company's reserve accounts or funds (including the share premium account and capital redemption reserve fund) or any sum standing to the credit of the profit and loss account or otherwise available for distribution; appropriate such sum to Members in the proportions in which such sum would have been divisible amongst such Members had the same been a distribution of profits by way of Dividend or other distribution; and apply such sum on their behalf in paying up in full unissued Shares for allotment and distribution credited as fully paid-up to and amongst them in the proportion aforesaid. In such event the Directors shall do all acts and things required to give effect to such capitalisation, with full power given to the Directors to make such provisions as they think fit in the case of Shares becoming distributable in fractions (including provisions whereby the benefit of fractional entitlements accrue to the Company rather than to the Members concerned). The Directors may authorise any person to enter on behalf of all of the Members interested into an agreement with the Company providing for such capitalisation and matters incidental or relating thereto and any agreement made under such authority shall be effective and binding on all such Members and the Company.

45 Books of Account

45.1 The Directors shall cause proper books of account (including, where applicable, material underlying documentation including contracts and invoices) to be kept with respect to all sums of money received and expended by the Company and the matters in respect of which the receipt or expenditure takes place, all sales and purchases of goods by the Company and the assets and liabilities of the Company. Such books of account must be retained for a minimum period of five years from the date on which they are prepared. Proper books shall not be deemed to be kept if there are not kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions.

45.2 The Directors shall determine whether and to what extent and at what times and places and under what conditions or regulations the accounts and books of the Company or any of them shall be open to the inspection of Members not being Directors and no Member (not being a Director) shall have any right of inspecting any account or book or document of the Company except as conferred by Statute or authorised by the Directors or by the Company in general meeting.

45.3 The Directors may cause to be prepared and to be laid before the Company in general meeting profit and loss accounts, balance sheets, group accounts (if any) and such other reports and accounts as may be required by law.

46 Audit

46.1 The Directors may appoint an Auditor of the Company who shall hold office on such terms as the Directors determine.

46.2 Every Auditor of the Company shall have a right of access at all times to the books and accounts and vouchers of the Company and shall be entitled to require from the Directors and officers of the Company such information and explanation as may be necessary for the performance of the duties of the Auditor.

46.3 Auditors shall, if so required by the Directors, make a report on the accounts of the Company during their tenure of office at the next annual general meeting following their appointment in the case of a company which is registered with the Registrar of Companies as an ordinary company, and at the next extraordinary general meeting following their appointment in the case of a company which is registered with the Registrar of Companies as an exempted company, and at any other time during their term of office, upon request of the Directors or any general meeting of the Members.

47 Notices

47.1 Except as otherwise provided herein with respect to the Preferred Shares, all notices, requests, claims, demands and other communications given to Members or the Company shall be in writing and shall be delivered by hand, sent by facsimile or sent, postage prepaid, return receipt requested, by registered, certified or express mail or overnight courier service and shall be deemed given when so delivered by hand or facsimile (if received prior to 5:00 pm in the place of receipt and such day is a Business Day in the place of receipt, otherwise, any such notice, request or communication shall be deemed not to have been received until the next succeeding Business Day in the place of receipt), or if mailed, three calendar days after mailing (one Business Day in the case of express mail or overnight courier service), to the Company or Members at the last addresses given by such Member to the Company.

47.2 A notice may be given by the Company to the person or persons which the Company has been advised are entitled to a Share or Shares in consequence of the death or bankruptcy of a Member in the same manner as other notices which are required to be given under these Articles and shall be addressed to them by name, or by the title of representatives of the deceased, or trustee of the bankrupt, or by any like description at the address supplied for that purpose by the persons claiming to be so entitled, or at the option of the Company by giving the notice in any manner in which the same might have been given if the death or bankruptcy had not occurred.

47.3 Notice of every general meeting shall be given in any manner authorised by these Articles to every holder of Shares carrying an entitlement to receive such notice on the record date for such meeting except that in the case of joint holders the notice shall be sufficient if given to the joint holder first named in the Register of Members and every person upon whom the ownership of a Share devolves by reason of his being a legal personal representative or a trustee in bankruptcy of a Member where the Member but for his death or bankruptcy would be entitled to receive notice of the meeting, and no other person shall be entitled to receive notices of general meetings.

48 Winding Up

48.1 The Company shall not commence voluntary winding up without the approval of a Special Resolution.

48.2 If the Company shall be wound up, the liquidator shall apply the assets of the Company in satisfaction of creditors' claims in such manner and order as such liquidator thinks fit. Subject to the rights attaching to any Shares, including Preferred Shares, in a winding up:

(a) if the assets available for distribution amongst the Members shall be insufficient to repay the whole of the Company's issued and outstanding share capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the Members in proportion to the par value of the Shares held by them; or

(b) if the assets available for distribution amongst the Members shall be more than sufficient to repay the whole of the Company's issued and outstanding share capital at the commencement of the winding up, the surplus shall be distributed amongst the Members in proportion to the par value of the Shares held by them at the commencement of the winding up subject to a deduction from those Shares in respect of which there are monies due, of all monies payable to the Company for unpaid calls or otherwise.

48.3 Subject to Article 48.1, if the Company shall be wound up, the liquidator may, subject to the rights attaching to any Shares and with the sanction of a Special Resolution, divide among the Members in kind the whole or any part of the assets of the Company (whether such assets shall consist of property of the same kind or not) and may for that purpose value any assets and determine how the division shall be carried out as between the Members or different classes of Members. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the Members as the liquidator, with the like sanction, shall think fit, but so that no Member shall be compelled to accept any asset upon which there is a liability.

49 Indemnity and Insurance

49.1 To the maximum extent permitted by applicable Law, no Director shall be liable to the Company, any Member or any other Person for losses sustained or liabilities incurred as a result of any act or omission, including any breach of a duty (fiduciary or otherwise), that such Director may have taken or omitted with respect to the Company, such Member, or such other Person, unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that, in respect of such act or omission, and taking into account the acknowledgments and agreements set forth in these Articles, such Director engaged in wilful misconduct or actual fraud.

49.2 Every Director (each an "**Indemnified Director**") shall be indemnified and held harmless by the Company (but only to the extent of the Company's assets), to the fullest extent permitted by applicable Law, from and against any and all losses, liabilities and expenses (including taxes; penalties; judgments; fines; amounts paid or to be paid in settlement; costs of investigation and preparations; and reasonable fees, expenses and disbursements of attorneys (as incurred), whether or not the dispute or proceeding involves the Company or any Director or Member) incurred or suffered by any such Indemnified Director in connection with the activities of the Company or its subsidiaries; provided that, such Indemnified Director shall not be so indemnified and held harmless if there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that, in respect of the matter for which such Indemnified Director is seeking indemnification or seeking to be held harmless hereunder, such Indemnified Director engaged in wilful misconduct or actual fraud. An Indemnified Director shall not be denied indemnification in whole or in part under this Article 49.2 because such Indemnified Director had an interest in the transaction with respect to which the indemnification applies if the transaction was otherwise permitted by these Articles.

49.3 Every officer of the Company (each an "**Indemnified Officer**", and collectively with the Indemnified Directors, the "**Indemnified Persons**") shall be indemnified and held harmless by the Company (but only to the extent of the Company's assets), to the fullest extent permitted by applicable Law, from and against any and all losses, liabilities and expenses (including taxes, penalties, judgments, fines, amounts paid or to be paid in settlement; costs of investigation and preparations and reasonable fees, expenses and disbursements of attorneys (as incurred), whether or not the dispute or proceeding involves the Company or any Director or Member) incurred or suffered by any such Indemnified officer in connection with the activities of the Company or its subsidiaries; provided that, such Indemnified officer shall not be so indemnified and held harmless if there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that, in respect of the matter for which such Indemnified Officer is seeking indemnification or seeking to be held harmless hereunder, such Indemnified Officer engaged in wilful misconduct or actual fraud or failed to act in good faith and in a manner such Indemnified Officer reasonably believed to be in the best interests of the Company. An Indemnified Officer shall not be denied indemnification in whole or in part under this Article 49.3 because such Indemnified Officer had an interest in the transaction with respect to which the indemnification applies if the transaction was otherwise permitted by these Articles.

49.4 An Indemnified Person shall be fully protected in relying in good faith, and shall incur no liability in acting or refraining from acting, upon the records of the Company and upon such resolutions, certificates, instruments, information, opinions, reports, statements, notices, requests, consents, orders, bonds, debentures, signatures or writings reasonably believed by it to be genuine and presented to the Company and may rely on a certificate signed by an officer, agent or representative of any Person as to matters the Indemnified Person reasonably believes are within the professional or expert competence of such Person and who has been selected with reasonable care by or on behalf of the Company, including such documents, certificates, information, opinions, reports or statements as to the value and amount of the assets, liabilities, income, loss or any other facts pertinent to the existence and amount of assets from which distributions to Members might properly be paid, in each case, unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that, in respect of such reliance, action or inaction, such Indemnified Director engaged in wilful misconduct or actual fraud or such Indemnified Officer engaged in wilful misconduct or actual fraud or failed to act in good faith and in a manner such Indemnified Officer reasonably believed to be in the best interests of the Company, as applicable.

49.5 The Company shall advance to an Indemnified Person the reasonable, documented expenses incurred by such Indemnified Person for which such Indemnified Person could reasonably be expected to be entitled to indemnification under this Article 49 in defending any civil, criminal, administrative or investigative action, suit or proceeding in advance of the final disposition of such action, suit or proceeding upon receipt by the Company of the written affirmation of such Indemnified Person of its good faith belief that it is entitled to indemnification hereunder and an undertaking by such Indemnified Person to repay any such advances if it is subsequently determined that such Indemnified Person is not entitled to be indemnified hereunder.

49.6 Certain of the Indemnified Persons ("**Third-Party Indemnitees**") have certain rights to indemnification, advancement of expenses or insurance provided by a Member or certain of its Affiliates (collectively, the "**Third-Party Indemnitors**"). To the extent lawfully permitted (and by the terms of any other agreement between the Company and a Third-Party Indemnitee), (a)(i) the Company is the indemnitor of first resort (i.e., its obligations to each Third-Party Indemnitee are primary and any obligation of the Third-Party Indemnitors to advance expenses or to provide indemnification for the same expenses or liabilities incurred by any Third-Party Indemnitee are secondary) and (ii) the Company shall be required to advance the full amount of expenses incurred by any Third-Party Indemnitee and shall be liable for the full amount of all expenses, judgments, penalties, fines and amounts paid in settlement, without regard to any rights that a Third-Party Indemnitee may have against the Third-Party Indemnitors and (b) the Company irrevocably waives, relinquishes and releases the Third-Party Indemnitors from any and all claims for contribution, subrogation or any other recovery of any kind in respect of any of the matters described in clause (a) of this sentence for which any Third-Party Indemnitee has received indemnification or advancement from the Company. No advancement or payment by any Third-Party Indemnitor on behalf of any Third-Party Indemnitee with respect to any claim for which a Third-Party Indemnitee has sought indemnification from the Company shall affect the foregoing, and the Third-Party Indemnitors shall have a right of contribution and/or be subrogated to the extent of such advancement or payment to all of the rights of recovery of such Third-Party Indemnitee against the Company.

49.7 The rights to indemnification and advancement of expenses provided by this Article 49 shall be in addition to any other rights to which an Indemnified Person may be entitled under any agreement, as a matter of law or otherwise, both as to actions in such Indemnified Person's capacity as an Indemnified Person hereunder and as to actions in any other capacity, and shall continue as to an Indemnified Person who has ceased to serve in such capacity as an Indemnified Person and shall inure to the benefit of the heirs, successors, assigns and administrators of such Indemnified Person.

49.8 Any indemnification or advance of expenses under this Article 49 shall be made only against a written request therefore submitted by or on behalf of the Person seeking such indemnification or advance. All expenses (including reasonable attorneys' fees) incurred by such Person in connection with successfully establishing such Person's right to indemnification or advance of expenses under this Article 49, in whole or in part, shall also be indemnified by the Company.

49.9 Each Indemnified Person may consult with outside legal counsel approved by the Company in connection with any matter the subject of this Article 49, which approval shall not be unreasonably withheld, and any action or omission taken or suffered reasonably and in good faith in reliance and accordance with the written opinion or advice of such counsel will be conclusive evidence that such action or omission does not constitute wilful misconduct or actual fraud or in the case of an Indemnified Officer failure to act in good faith and in a manner such Indemnified Officer reasonably believed to be in the best interests of the Company, as applicable.

49.10 Unless there is a specific finding that an Indemnified Person's actions constituted engaging in wilful misconduct or actual fraud or in the case of an Indemnified Officer failure to act in good faith and in a manner such Indemnified Officer reasonably believed to be in the best interests of the Company, as applicable, (or, in any such case, where any such finding is an essential element of a judgment or order), the termination of any action, suit or proceeding by judgment, order or settlement, or upon a plea of nolo contendere or its equivalent, will not, of itself, create a presumption for the purposes of this Article 49 as to whether or not such Indemnified Person engaged in wilful misconduct or actual fraud or in the case of an Indemnified Officer failed to act in good faith and in a manner such Indemnified Officer reasonably believed to be in the best interests of the Company, as applicable.

49.11 The obligations of the Company to the Indemnified Persons provided in this Article 49 or arising under Law are solely the obligations of the Company, and no personal liability whatsoever shall attach to, or be incurred by, any Indemnified Person or any Member for such obligations, to the fullest extent permitted by applicable Law. Where the foregoing provides that no personal liability shall attach to or be incurred by an Indemnified Person, any claims against or recourse to such Indemnified Person for or in connection with such liability, whether arising in common law or equity or created by rule of law, statute, constitution, contract or otherwise, are expressly released and waived under this Article 49, to the fullest extent permitted by applicable Law.

49.12 The provisions of this Article 49 will inure to the benefit of the successors, assigns, heirs, and personal representatives of the Indemnified Persons.

49.13 The Directors will promptly notify the Principal Shareholders of any payment made by the Company to any Indemnified Person in respect of indemnification pursuant to this Article 49.

49.14 The Directors may authorise the Company to enter into any deed poll, indemnity agreement or other agreement to extend the benefit of the provisions of this Article 49 to any Indemnified Person and/or Third-Party Indemnitor.

49.15 The Company may purchase and maintain insurance for the benefit of any Indemnified Person against any liability which, by virtue of any rule of law, would otherwise attach to such person in respect of any negligence, default, breach of duty or breach of trust of which such person may be guilty in relation to the Company.

50 Financial Year

Unless the Directors otherwise prescribe, the financial year of the Company shall end on 31st December in each year and, following the year of incorporation, shall begin on 1st January in each year.

51 Transfer by Way of Continuation

If the Company is exempted as defined in the Statute, it shall, and subject to the provisions of the Statute and with the approval of a Special Resolution and the Directors, have the power to register by way of continuation as a body corporate under the Laws of any jurisdiction outside the Cayman Islands and to be deregistered in the Cayman Islands.

52 Mergers and Consolidations

52.1 The Company shall, with the approval of a Special Resolution and the Directors, have the power to merge or consolidate with one or more constituent companies (as defined in the Statute), upon such terms as the Directors may determine.

APPENDIX B:

FINANCIAL STATEMENTS FOR THE YEARS ENDED 31 DECEMBER 2017, 2016 AND 2015

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

CONTENTS

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 cross-

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default provisions that would be triggered upon acceleration under other debt instruments. In the event of an acceleration or payment default by us under one of our debt agreements, the creditors under our other existing debt agreements could determine that we are in default under our other financing agreements. This could lead to an acceleration and enforcement of such agreements by our creditors.

These restrictions will also limit our ability to plan for, or react to, market conditions, meet capital needs or otherwise restrict our activities or business plans and adversely affect our ability to finance our operations, enter into acquisitions or to engage in other business activities that would be in our interest.

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

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

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

Consolidated Balance Sheets as of December 31, 2015

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

(1) This adjustment primarily relates to SDHL receivable from SDL for costs SDHL paid mainly for start-up costs and 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.

SHELF DRILLING

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	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

PricewaterhouseCoopers (Dubai Branch), License no. 102451,
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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

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

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, 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.

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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.

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	December 31, 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.

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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.

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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	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.

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.

SHELF DRILLING, LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

SHELF DRILLING, LTD.
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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	$ -

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.

Shelf Drilling, Ltd.

Consolidated financial statements
for the year ended December 31, 2016

SHELF DRILLING, LTD.
CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2016
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Independent Auditor's Report

To the Board of Directors

We have audited the accompanying consolidated financial statements of Shelf Drilling, Ltd. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2016 and December 31, 2015, and the related consolidated statements of operations, comprehensive income, equity, and cash flows for the years ended December 31, 2016, 2015 and 2014.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Shelf Drilling, Ltd. and its subsidiaries at December 31, 2016 and December 31, 2015, and the results of their operations and their cash flows for the years ended December 31, 2016, 2015 and 2014 in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers

Dubai, United Arab Emirates
February 22, 2017

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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,		
	2016	2015	2014
Revenues			
Operating revenues	$ 668,649	$ 1,012,757	$ 1,213,700
Amortization of drilling contract intangibles	-	983	31,522
Other operating revenue	15,668	17,558	20,804
	684,317	1,031,298	1,266,026
Operating costs and expenses			
Operating and maintenance	353,802	534,156	667,162
Depreciation	71,780	87,421	81,711
Amortization of deferred costs	91,763	80,984	48,809
General and administrative	46,889	139,722	107,093
	564,234	842,283	904,775
Gain on insurance recovery	-	25,432	-
Loss on impairment of assets	(47,094)	(271,469)	-
Loss on disposal of assets	(4,826)	(11,299)	(2,921)
Operating income / (loss)	68,163	(68,321)	358,330
Other (expense) / income, net			
Interest income	356	102	21
Interest expense and financing charges	(80,120)	(80,537)	(88,928)
Other, net	1,522	(873)	(329)
	(78,242)	(81,308)	(89,236)
(Loss) / income before income taxes	(10,079)	(149,629)	269,094
Income tax expense	19,757	30,373	43,032
Net (loss) / income	$ (29,836)	$ (180,002)	$ 226,062
(Loss) / earnings per share:			
Basic - Class A shares	$ (66.99)	$ (403.12)	$ 506.40
Diluted - Class A shares	$ (66.99)	$ (403.12)	$ 506.24
Basic and Diluted - Class B shares	nil	nil	nil
Basic and Diluted - Class C shares	nil	nil	nil
Weighted average shares outstanding:			
Basic - Class A shares	445,386	446,525	446,407
Diluted - Class A shares	445,386	446,525	446,553
Basic - Class B shares	17,500	15,142	12,419
Diluted - Class B shares	20,954	23,297	23,152
Basic - Class C shares	5,119	5,133	5,131
Diluted - Class C shares	5,119	5,774	5,969

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

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

	Years ended December 31,		
	2016	**2015**	**2014**
Net (loss) / income	$ (29,836)	$ (180,002)	$ 226,062
Other comprehensive income, net of tax			
Foreign currency forward exchange contracts			
Changes in unrealized gains	427	-	-
Reclassification of net gain from other comprehensive income to net income	(427)	-	-
	$ -	$ -	$ -
Total comprehensive (loss) / income	$ (29,836)	$ (180,002)	$ 226,062

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, 2016	December 31, 2015
Assets		
Cash and cash equivalents	$ 213,139	$ 115,685
Accounts and other receivables, net	125,312	166,109
Other current assets	95,235	118,500
Total current assets	433,686	400,294
Property and equipment	1,326,361	1,175,054
Less accumulated depreciation	295,685	230,421
Property and equipment, net	1,030,676	944,633
Deferred tax assets	3,137	3,697
Other assets	118,441	135,259
Total assets	$ 1,585,940	$ 1,483,883
Liabilities and equity		
Accounts payable	$ 70,605	$ 89,968
Accrued income taxes	-	546
Interest payable	15,773	15,773
Obligations under sale and leaseback	15,977	-
Other current liabilities	32,665	46,672
Total current liabilities	135,020	152,959
Long-term debt	809,016	803,053
Obligations under sale and leaseback	228,728	74,703
Deferred tax liabilities	8,525	8,788
Other long-term liabilities	25,197	33,601
Total long-term liabilities	1,071,466	920,145
Commitments and contingencies		
Ordinary shares of $0.01 par value; 5,000,000 shares authorized at December 31, 2016 and 2015; 475,768 and 477,326 shares issued and outstanding at December 31, 2016 and 2015, respectively	5	5
Shares held in trust of $0.01 par value; 15,844 and 15,487 shares at December 31, 2016 and 2015, respectively	-	-
Additional paid-in capital	462,914	464,403
Accumulated losses	(83,465)	(53,629)
Total equity	379,454	410,779
Total liabilities and equity	$ 1,585,940	$ 1,483,883

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

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

	Years ended December 31,			Years ended December 31,		
	2016	2015	2014	2016	2015	2014
		Shares			Amount	
Ordinary shares						
Balance, beginning of year	477,326	477,717	474,540	$ 5	$ 5	$ 5
Issuance of shares under share-based compensation plans	-	-	1,350	-	-	-
Shares issued to trust	2,835	-	2,274	-	-	-
Repurchase and retirement of shares	(4,393)	(391)	(447)	-	-	-
Balance, end of year	475,768	477,326	477,717	$ 5	$ 5	$ 5
Shares held in trust						
Balance, beginning of year	15,487	15,678	13,751	$ -	$ -	$ -
Shares issued to trust	2,835	-	2,274	-	-	-
Retirement of shares	(2,478)	(191)	(347)	-	-	-
Balance, end of year	15,844	15,487	15,678	$ -	$ -	$ -
Additional paid-in capital						
Balance, beginning of year				$ 464,403	$ 464,005	$ 460,774
Capital contributions				-	-	1,350
Share-based compensation expense, net of forfeitures				179	638	1,981
Repurchase and retirement of shares				(1,668)	(240)	(100)
Balance, end of year				$ 462,914	$ 464,403	$ 464,005
(Accumulated losses) / retained earnings						
Balance, beginning of year				$ (53,629)	$ 126,443	$ 23,091
Ordinary shares dividend				-	-	(122,710)
Repurchase and retirement of shares				-	(70)	-
Net (loss) / income				(29,836)	(180,002)	226,062
Balance, end of year				$ (83,465)	$ (53,629)	$ 126,443
Total equity						
Balance, beginning of year				$ 410,779	$ 590,453	$ 483,870
Capital contributions				-	-	1,350
Issuance of shares under share-based compensation plans				-	-	-
Share-based compensation expense, net of forfeitures				179	638	1,981
Repurchase and retirement of shares				(1,668)	(310)	(100)
Ordinary shares dividend				-	-	(122,710)
Total comprehensive (loss) / income				(29,836)	(180,002)	226,062
Balance, end of year				$ 379,454	$ 410,779	$ 590,453

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

SHELF DRILLING

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

	Years ended December 31, 2016	2015	2014
Cash flows from operating activities			
Net (loss) / income	$ (29,836)	$ (180,002)	$ 226,062
Adjustments to reconcile net (loss) / income to net cash provided by operating activities			
Depreciation	71,780	87,421	81,711
Amortization of deferred costs	91,763	80,984	48,809
Loss on impairment of assets	47,094	271,469	-
Gain on foreign currency forward exchange contracts	(427)	-	-
Gain on insurance recovery	-	(25,432)	-
Amortization of deferred revenue	(23,511)	(41,026)	(33,330)
(Reversal of) / provision for doubtful accounts, net	(401)	87,431	22,600
Amortization of drilling contract intangibles	-	(983)	(31,522)
Share-based compensation expense, net of forfeitures	179	638	1,981
Amortization of debt issue costs and discounts	7,663	9,232	13,514
Loss on disposal of assets	4,826	11,299	2,921
Deferred tax expense / (benefit)	297	1,292	(3,724)
Proceeds from settlement of foreign currency forward exchange contracts	427	-	-
Changes in operating assets and liabilities	22,523	(7,757)	55,301
Net cash provided by operating activities	192,377	294,566	384,323
Cash flows from investing activities			
Additions to property and equipment *	(53,541)	(157,193)	(168,404)
Additions to deferred costs *	(55,845)	(161,553)	(147,752)
Proceeds from disposal of property and equipment	1,490	547	844
Proceeds from sale and leaseback	16,880	18,515	-
Payments of transaction costs for sale and leaseback	-	(7,555)	-
Proceeds from insurance recovery	-	45,000	-
Change in restricted cash	(421)	(6,827)	-
Net cash used in investing activities	(91,437)	(269,066)	(315,312)
Cash flows from financing activities			
Payments for redemption of ordinary shares	(1,668)	(310)	(100)
Payments for obligations under sale and leaseback	(1,818)	-	-
Ordinary shares dividend paid	-	-	(122,710)
Payments to retire long-term debt	-	-	(74,250)
Payments of debt issuance costs	-	(551)	(6,720)
Advanced to related party	-	-	(30,039)
Received from related party	-	-	30,039
Net cash used in financing activities	(3,486)	(861)	(203,780)
Net increase / (decrease) in cash and cash equivalents	97,454	24,639	(134,769)
Cash and cash equivalents at beginning of year	115,685	91,046	225,815
Cash and cash equivalents at end of year	$ 213,139	$ 115,685	$ 91,046

* See Note 21 – Supplemental Cash Flow Information for a reconciliation of cash payments for additions to property and equipment and deferred costs to total capital expenditures and deferred costs.

The accompanying notes are an integral part of these 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. The Company's corporate offices are in Dubai, United Arab Emirates ("UAE"), geographically close to its operations in the Middle East, South East Asia, India, West Africa and the Mediterranean. The principal investors in the Company are affiliates of Castle Harlan, Inc., CHAMP Private Equity and Lime Rock Partners (together, the "Sponsors").

SDL, through its majority and wholly owned subsidiaries, provides safe and reliable fit-for-purpose independent cantilever jackup drilling services. The Company is primarily engaged in development and workover activity on producing assets in shallow water of up to 400 feet in water depth. The Company owns 35 independent cantilever jackup rigs, one swamp barge and one new build jackup under construction.

In May 2014, the Company signed a contract with Lamprell Energy Limited (the "Builder") to construct two new build high specification jackup rigs (the "Newbuilds"). On September 29, 2016, the Company took delivery of one of the Newbuilds from the Builder and on December 1, 2016, the rig commenced a five-year contract with Chevron Thailand Exploration and Production, Ltd ("Chevron"). The second rig under construction is expected to be delivered and to commence a five-year contract with Chevron during the second quarter of 2017. See Note 8 – Property and Equipment and Note 11 – Sale and Leaseback.

Acquisition Related Matters

On September 9, 2012, the Company entered into definitive agreements with Transocean Inc. (the "Seller"), providing for the acquisition (the "Acquisition"), both directly and through the purchase of certain of the Seller's affiliates, of 37 shallow water drilling rigs and one swamp barge (the "business"). The Acquisition closed on November 30, 2012.

Through a number of individual rig operating agreements entered into with the Seller concurrently with the closing of the Acquisition ("Operating Agreements"), the Seller agreed on behalf of the Company to operate, for a transitional period of time, certain rigs acquired by the Company, and to submit invoices and collect revenue from the customers under the associated drilling contracts and pay direct costs and expenses incurred while operating the rigs. Pursuant to the Operating Agreements, the Seller also agreed to transfer the net amount of each drilling contract (customer collections less direct costs and expenses and taxes paid by the Seller) to the Company on a monthly basis. In addition, the Company agreed to pay the Seller a daily pre-determined fixed fee for in country onshore support and a daily fixed fee per rig for corporate services. The Operating Agreements for each individual rig remained in effect until the expiration, novation, or assignment to the Company of the underlying drilling contracts that were in place at the time of the Acquisition, originally resulting in effective terms ranging from 9 months to 27 months. Until the expiration, novation, or assignment of the underlying drilling contracts, the Seller retained possession of the materials and supplies associated with the rigs that the Seller operated under the Operating Agreements. Upon novation, assignment or expiration of the related drilling contracts, the individual rig Operating Agreements were terminated and the Company assumed operation of the rigs. One rig was subject to the Operating Agreements as of December 31, 2014. No rig remained subject to the Operating Agreements as of January 1, 2015.

Under a separate Transition Services Agreement entered into with the Seller concurrently with the closing of the Acquisition, the Seller agreed to provide various corporate and local services to the Company for Company operated rigs. These services were generally provided on a daily fixed fee. The services included use of the Seller's enterprise resource planning ("ERP") system for accounting, fixed assets, treasury, supply chain management, maintenance scheduling, human resource systems, information technology infrastructure and helpdesk support. The Seller agreed to provide certain of these transition services for a period of up to 18 months following the completion of the Acquisition. As of December 31, 2014, all services previously provided under the Transition Services Agreement were assumed by the Company.

To fund the Acquisition, in addition to equity contributions of $450 million from the Sponsors, SDL used a combination of debt and Seller financing. On October 24, 2012, Shelf Drilling Holdings, Ltd. ("SDHL"), an indirect wholly owned subsidiary of SDL, completed the issuance and sale of $475 million aggregate principal amount of senior secured notes at a coupon rate of 8.625% due November 1, 2018 ("8.625% Senior Secured Notes").

On November 30, 2012, SDHL also entered into a credit agreement, which consisted of a $75 million term loan facility and a $50 million credit facility to issue fully cash collateralized letters of credit. This facility was fully repaid on February 28, 2014 out of existing funds and the credit agreement, along with the associated $50 million cash collateralized letter of credit facility, was cancelled. There were no issued or outstanding letters of credit against the facility at that time.

SHELF DRILLING, LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Concurrent with the Acquisition, on November 30, 2012, Shelf Drilling Intermediate, Ltd ("SDIL"), an indirect wholly-owned subsidiary of SDL, issued 195,000 preferred shares for a deemed value of $195 million to the Seller. These preferred shares were fully redeemed on October 8, 2013. On the same date, SDIL also settled in cash all accumulated and outstanding dividends on the outstanding preferred shares.

2016 Events

In April, 2016, the Company sold two stacked rigs, Adriatic V and Adriatic VI. See Note 8 – Property and Equipment.

On December 1, 2016, one of the Newbuilds which is part of the sale and leaseback transactions, commenced a five-year contract with Chevron. See Note 8 – Property and Equipment.

On December 2, 2016, SDL and its wholly owned subsidiaries, Shelf Drilling Midco, Ltd. ("Midco") and SDHL signed an Amended and Restated Transaction Support Agreement with certain equity sponsors and holders, in the aggregate, of (a) approximately 85.6% of principal amount of the 8.625% Senior Secured Notes and (b) 100% of principal amount of the $350 million Midco Term Loan to support certain transactions to refinance the Company's debt facilities. On January 12, 2017, the Company successfully concluded the refinancing of its debt facilities. See Note 26 – Subsequent Events.

At December 31, 2016, the Company recorded a non-cash impairment loss of $47.1 million in relation to three rigs out of which one rig was impaired to salvage value. This non-cash impairment was included in loss on impairment of assets in the consolidated statements of operations. See Note 8 – Property and Equipment.

Note 2 — Significant Accounting Policies

Basis of Presentation — The Company has prepared its consolidated financial statements in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). The consolidated financial statements include the Company's accounts, those of the Company's wholly-owned subsidiaries and entities in which the Company holds a controlling financial interest. Entities that meet the criteria for variable interest entities for which the Company is deemed to be the primary beneficiary for accounting purposes are consolidated. As of December 31, 2016, the Company's consolidated financial statements include four joint ventures that meet the definition of variable interest entities. Intercompany transactions and accounts are eliminated in consolidation. The Company applies the equity method of accounting for investments in which it has the ability to exercise significant influence but for which; (i) the entity does not meet the variable interest entity criteria, or; (ii) the entity meets the variable interest entity criteria but the Company is not deemed the primary beneficiary. As of December 31, 2016, none of the Company's investments meet the criteria established for application of the equity method of accounting. Certain amounts in prior periods have been reclassified to conform to the current year presentation.

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 "Hein & Associates LLP", an independent third party expert, to estimate the fair market value of the acquired rigs including inventory and drilling contract intangibles.

On an ongoing basis, these estimates and assumptions are evaluated, including those related to allowance for doubtful accounts, property and equipment, income taxes, other post-retirement benefits and contingencies. The Company bases its estimates and assumptions on various factors that management believes are reasonable, the results of which form the basis for making judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. While management believes current estimates are appropriate and reasonable, actual results could materially differ from those estimates.

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

Revenue Recognition — Revenues generated by rigs owned by the Company and operated by the Seller under the Operating Agreements were recorded as net revenue. Net revenue represents the customer revenue less the expenses related to the operation of the rigs (including personnel, asset management and maintenance, operating, miscellaneous and administration expenses), shore based fixed fees, corporate services fixed fee and taxes paid by the Seller. The Company deemed the Seller as the principal regarding the drilling service contracts during the term of the Operating Agreements based on the following:

- The Seller is the contractual primary obligor under the drilling services contracts with customers; and
- The Seller is responsible for fulfillment of drilling services under the contracts subject to the Operating Agreements, including the provision of rigs, rig crew, and all of the related goods and services including general inventory risk.

While the Seller effectively earned no profit under the Operating Agreements and the Company retained the general credit risks, indicating that the Company may be the principal, the Company views the other factors discussed above as more indicative and determined that net revenue presentation was appropriate.

Operating revenues generated by the Company owned and operated rigs under the Transition Services Agreement are recorded on a gross basis. Revenue is recognized when earned and realizable, based on contractual dayrates.

Upon completion of the transition periods related to the Operating Agreements with the Seller, revenue is recognized on a gross basis as earned and realizable, based on contractual dayrates. Amounts earned prior to the beginning of a drilling contract period, such as for mobilization, contract preparation and capital upgrades, are deferred and recognized on a straight-line basis over the primary term of the contract to which they relate. Upon completion of drilling contracts, any demobilization fees are immediately recognized as revenue when collectability is reasonably assured.

Other operating revenue consists of amounts billed for goods and services which are acquired by the Company from other sources and re-billed to customers.

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 the period between regularly scheduled overhauls of the same nature.

Foreign Currency — The Company's functional currency is the U.S. dollar. As is customary in the oil and gas industry, the majority of the Company's revenues and expenditures are denominated in U.S. dollar. As such, the Company's exposure to non U.S. dollar denominated currency exchange rate fluctuations is limited. Certain revenues and expenditures incurred by certain subsidiaries are denominated in currencies other than the U.S. dollar. Non U.S. dollar revenues and costs are recorded in U.S. dollars at the prevailing exchange rate as of the date of recognition. Cash receipts and payments made in other currencies are recorded in U.S. dollars at the prevailing exchange rate as of the transaction date. Transaction gains or losses are recorded in net income and include, where applicable, unrealized gains and losses to record the carrying value of foreign currency forward exchange ("forex") contracts not designated as accounting hedges, as well as realized gains and losses from the settlement of such contracts. Monetary assets and liabilities denominated in foreign currency are re-measured to U.S. dollars at the rate of exchange in effect at the end of each month and unrealized exchange gains or losses are recognized in the consolidated statements of operations.

Cash and Cash Equivalents — Cash and cash equivalents is comprised of cash on hand, cash in banks and highly liquid funds with an original maturity of three months or less. Other bank deposits, if any, with maturity of less than a year are classified as short-term bank deposits within other current assets in the consolidated balance sheets. Bank overdrafts, if any, are shown within other current liabilities in the consolidated balance sheets.

Accounts Receivable and Allowance for Doubtful Accounts — Receivables, including accounts receivable, are recorded in the consolidated balance sheets at their nominal amounts less allowance for doubtful accounts. An allowance for doubtful accounts is established on a case-by-case basis, considering changes in the financial position of a customer, when it is believed that the required payment of specific amounts owed is unlikely to occur.

Drilling Contract Intangibles — In connection with the Acquisition, the Company acquired certain existing drilling contracts for future contract drilling services. The terms of these contracts include fixed dayrates that were above or below the market dayrates that were estimated to be available for similar contracts as of the date of the Acquisition. Drilling contract intangibles were recorded as current and non-current assets and liabilities and amortized on a straight-line basis over the respective contract periods.

Property and Equipment — Property and equipment was stated at fair market value as of the date of the Acquisition. Inventory acquired with the business was capitalized as part of the rigs and is maintained at a level to support the operations of the rig. Costs incurred that substantially enhance, improve or increase the useful lives of existing assets are capitalized. Routine expenditures for repairs and maintenance are expensed as incurred.

Construction in progress is stated at cost. Cost consists of direct costs of construction, interest capitalized during the period of rig construction and other direct costs necessary to bring the asset to the condition and location necessary for its intended use. When the asset is ready, it is transferred from construction in progress to the appropriate category under property and equipment. Depreciation commences upon capitalization.

Land is not depreciated.

Depreciation on other items of property and equipment is computed using the straight-line method, after allowing for salvage value of 10% where applicable, over the estimated useful lives of the assets.

The estimated useful lives of property and equipment are as follows:

	Years
Drilling rigs	30
Drilling equipment and Spares	9-13
Building	30
Other	3-5

The remaining estimated average useful life of existing drilling rigs in the Company's fleet at December 31, 2016 and 2015 is 10 and 11 years, respectively.

The Company evaluates property and equipment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. An impairment loss on property and equipment exists when the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. Any actual impairment loss recognized represents the excess of the asset's carrying value over the estimated fair value. The Company estimates the fair values of property and equipment by applying a combination of income and market approaches, using projected discounted cash flows and estimates of the exchange price that would be received for the assets in the principal or most advantageous market for the assets in an orderly transaction between market participants as of the measurement date.

When assets are sold, retired or otherwise disposed of, the cost and related accumulated depreciation are written off, net of any proceeds received, and any gain or loss is reflected in the consolidated statements of operations.

Capitalization of Interest — The Company capitalizes interest costs in connection with major construction programs, including the Newbuilds. Capitalized interest is recorded as part of the asset to which it relates and is subsequently depreciated over the asset's useful life.

Goodwill — Impairment testing for goodwill, if any, is performed annually in the fourth quarter, or when an event occurs or circumstances change that may indicate a reduction in the fair value of a reporting unit below its carrying value. A segment constitutes a business for which financial information is available and is regularly reviewed by management. The Company has one reportable segment that is contract drilling services. The individual drilling rigs are components of the segment.

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 segment 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 segment to the estimated fair value of the segment to determine that it is more likely than not that the goodwill is impaired. The fair value is estimated using projected discounted future cash flows, publicly traded company multiples and / or acquisition multiples. If the estimated fair value of the Company's goodwill is less than the carrying value, the Company considers goodwill impaired and performs a second step to measure the amount of the impairment loss, if any.

Sale and Leaseback — Leases that transfer to the Company substantially all the risks and benefits incidental to ownership of the leased item are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between interest expense and reduction of the lease liability. Interest cost is disclosed as part of interest expense and financing charges in the consolidated statements of operations.

Leased capital assets are depreciated over the useful lives of the assets. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful lives of the assets and the lease term.

Any loss arising on sale and leaseback transaction as a result of sale price lower than fair value is recognized immediately in the consolidated statements of operations. In situations where loss on sale of asset under sale and leaseback is compensated for by future lease payments at below market price, it is deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used.

Where the sale price is above fair value, the excess over fair value is deferred and amortized over the period for which the asset is expected to be used. In the case of profits arising on sale and leaseback transactions resulting in capital leases, the excess of sale proceeds over the carrying amount is deferred and amortized over the lease term.

When the Company determines that a sale and leaseback transaction is a financing activity, no gain or loss is recognized.

Lease classification is changed only if, at any time during the lease, the parties to the lease agreement agree to change the provisions of the lease (without renewing it) in a way that it would have been classified differently at inception had the changed terms been in effect at that time. The revised agreement is considered as a new agreement and accounted for prospectively over the remaining term of the lease.

Operating Lease — Operating leases are recognized as an operating expense in the consolidated statements of operations on a straight-line basis over the lease term.

Income Taxes — Income taxes are provided for based on relevant tax laws and rates in effect in the countries in which the Company operates and earns income or in which the Company is considered resident for income tax purposes. The current income tax expense reflects an estimate of the Company's income tax liability for the current year, including changes in prior year tax estimates as returns are filed, and any tax audit adjustments. Deferred income tax assets and liabilities, including net operating loss carry-forwards which the Company anticipates utilizing at the subsidiary level, reflect anticipated future tax effects of differences between the financial statement basis and tax basis of assets and liabilities based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. When necessary, valuation allowances are established to reduce deferred income tax assets to the amount expected to be realized. Reserves are recorded to offset tax benefits related to tax positions that have been taken that are more likely than not to ultimately be denied upon examination or audit by tax authorities. Any interest and penalties related to such reserves are included as a component of the income tax expense.

The Company is subject to the tax laws, including relevant regulations, treaties, and court rulings, of the countries and jurisdictions in which the Company operates. The provision for income taxes is based upon interpretation of the relevant tax laws in effect at the time the expense was incurred. If the relevant taxing authorities do not agree with the Company's interpretation and application of such laws, or if any such laws are changed retroactively, additional tax may be imposed which could significantly increase the Company's effective tax rate related to its worldwide earnings.

Contingencies — Assessments of contingencies are performed on an ongoing basis to evaluate the appropriateness of liabilities and disclosures for such contingencies. Liabilities are established for estimated loss contingencies when a loss is believed to be probable and the amount can be reasonably estimated. Corresponding assets are recognized for those loss contingencies that are assessed as probable of being recovered through insurance. Once established, the carrying amount of a contingent liability is adjusted upon the occurrence of a recognizable event when facts and circumstances change which alter previous assumptions with respect to the likelihood or amount of loss. Legal costs are expensed as incurred in the consolidated statements of operations.

Share-based Compensation — Share-based compensation is recognized in the consolidated statements of operations based on its fair value and the estimated number of shares or units that are ultimately expected to vest. For awards which vest based on service conditions, the value of the portion of the award that is ultimately expected to vest is recognized as an expense over a five year vesting period. For awards which vest only after an exit event or Initial Public Offering ("IPO"), compensation expense is recognized upon the occurrence of the event.

Employee Benefits — Statutory requirements of certain countries in which the Company operates mandate the payment of various benefits to employees who terminate employment and who have met certain minimum service requirements. The Company recognizes period costs associated with these benefits and accrues a liability for their ultimate payment. Actuarial assumptions based on employee census and historical data are incorporated into the calculation of these benefits costs. These end of service liabilities are not funded and are included in other current and other long-term liabilities in the consolidated balance sheets.

Certain employees are covered under a plan which is accounted for as a defined benefit plan. Elements of benefit obligations, net periodic benefit costs and funded status of the plan were calculated based on census and related data provided by the Company.

The Company makes contributions to a Trust fund and defined contribution savings plans which cover certain employees. Benefits under these plans vary and are generally tied to service years. These amounts are expensed as incurred.

Deferred Financing Costs — Financing costs are deferred and amortized over the life of the associated debt. In the event of early retirement of debt, any unamortized financing costs associated with the retired debt are immediately expensed.

Earnings / (Loss) Per Share — The Company presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the net income attributable to ordinary shares by the weighted average number of those shares outstanding during the period, adjusted for any treasury shares held. Diluted EPS adjusts the figures used in the determination of basic EPS to take into account the effect associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Basic and diluted EPS are computed in conformity with the two class method and applied to the three classes of common shares issued by the Company. Earnings are allocated to the three classes based on a "Waterfall" methodology which specifies the accretion of earnings to the three classes at different rates, giving effect to total cumulative earnings since issuance of the shares. This Waterfall treatment was established and defined in the Amended and Restated Memorandum and Articles of Association (the "Articles") of the Company.

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

Comprehensive Income / (Loss) - Comprehensive income / (loss) is the change in equity of a business enterprise during a period due to transactions and other events and circumstances except transactions resulting from investments by and distributions to owners. Comprehensive income / (loss) includes net income / (loss) and unrealized holding gains and losses on financial derivatives designated as cash flow accounting hedges.

Subsequent Events — Subsequent events are evaluated through the date of issuance of the financial statements.

Note 3 — New Accounting Pronouncements

Recently adopted accounting standards

In January 2015, the Financial Accounting Standards Board ("FASB") issued Accounting Standards Update ("ASU") No. 2015-01, Income Statement – Extraordinary and Unusual Items. This ASU simplifies income statement classification by removing the concept of extraordinary items from U.S. GAAP. As a result, items that are both unusual and infrequent will no longer be separately reported net of tax after continuing operations. The guidance is effective for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2015 and early adoption is permitted. The Company has adopted this ASU from its effective date with no impact on the consolidated financial statements. However, if the Company has extraordinary or unusual items in the future, the adoption could have a material impact on the consolidated financial statements.

In April 2015, the FASB issued ASU No. 2015-03 ("ASU 2015-03"): Interest – Imputation of Interest; Simplifying the Presentation of Debt Issuance Costs, effective for annual and interim periods beginning after December 15, 2015 for public entities. This ASU 2015-03 requires that all costs incurred to issue debt be presented in the balance sheet as a direct deduction from the carrying value of the debt. It is applied retrospectively for all prior periods presented in the financial statements prepared after the adoption. In August 2015, the FASB issued ASU 2015-15 to specifically address the presentation and subsequent measurement of debt issuance costs related to line-of-credit arrangements. ASU 2015-15 allows entities to defer and present debt issuance costs related to line-of-credit arrangements as an asset and amortize the costs ratably over the term of the line-of-credit arrangement. The Company has adopted ASU 2015-03 and ASU 2015-15 from their effective dates and has applied the new guidance to debt issuance costs. As a result of this adoption, the Company has reclassified debt issuance cost of $5.4 million and $10.1 million from other current assets and other assets, respectively, to long-term debt on the consolidated balance sheets as of December 31, 2015. See Note 10 - Debt.

Recently issued accounting standards

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. Management believes that the adoption will not have material effect on the consolidated financial statements.

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

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

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

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

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

This ASU is effective for fiscal years beginning after December 15, 2018 and December 15, 2019 for public and private entities, respectively. The Company does not intend to early adopt this standard and is evaluating the impact of this standard on the consolidated financial statements.

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

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

The Company does not intend to early adopt this standard. The Company is evaluating the impact of this standard on the consolidated financial statements.

Note 4 — Operating Revenues

The Company earned operating revenues from i) rigs operated by the Company and ii) rigs operated by the Seller under the Operating Agreements. See Note 1 – Nature of Business and Note 2 – Significant Accounting Policies. As of January 1, 2015, all rigs formerly operated by the Seller under the Operating Agreements are being operated by the Company. In addition, the Company earned revenue from one of its rigs under an operating lease which is reported under other operating revenue.

Operating revenues were as follows (in thousands):

	Years ended December 31,		
	2016	**2015**	**2014**
Operating revenues			
Revenue from rigs operated by the Company	$ 668,649	$ 1,012,757	$ 1,173,441
Net revenue from rigs under Operating Agreements	-	-	40,259
	$ 668,649	$ 1,012,757	$ 1,213,700

Net revenue from rigs under Operating Agreements is comprised of (in thousands):

	Years ended December 31,		
	2016	**2015**	**2014**
Gross revenue from rigs under Operating Agreements	$ -	$ -	$ 115,485
Costs and expenses			
Operating and maintenance	-	-	(64,946)
General and administrative	-	-	(1,986)
Income tax expense	-	-	(8,307)
Other income	-	-	13
Net revenue from rigs under Operating Agreements	$ -	$ -	$ 40,259

Effective January 1, 2015, the Company entered into an extension of a fixed dayrate contract with one of its customers which included a dayrate linked to the Brent crude oil price. The Company qualifies for an exemption on derivative accounting due to the correlation of the Brent crude oil price with the global offshore drilling unit dayrates. Therefore, the Company is not required to separate the embedded derivative from the drilling contract. The Company records revenue under this contract similarly to other drilling contracts.

During April 2016, the Company signed a contract amendment with the customer agreeing that the dayrate is no longer linked to the Brent crude oil price.

Note 5 — Variable Interest Entities

The Company, through its wholly owned indirect subsidiary SDHL, is the primary beneficiary of four variable interest entities which are included in these consolidated financial statements.

Note 6 — 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 a non-cash impairment charge of $9.3 million which was included in the loss on impairment of assets in the consolidated statements of operations. As a result, the carrying value of the goodwill as of December 31, 2015 was nil. In 2014, there were no impairment indicators identified hence no impairment of goodwill was recognized.

Note 7 — 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 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 8 — Property and Equipment

Property and equipment as of December 31, 2016 and 2015 consisted of the following (in thousands):

	December 31,	
	2016	2015
Drilling rigs and equipment	$ 1,138,016	$ 955,640
Construction in progress	136,834	179,261
Spares	33,866	23,947
Land and building	1,228	-
Other	16,417	16,206
Total property and equipment	$ 1,326,361	$ 1,175,054
Less: Accumulated depreciation	(295,685)	(230,421)
Total property and equipment, net	$ 1,030,676	$ 944,633

The Company added one new build rig to its drilling fleet during 2016 while there were no rig additions in 2015. As a result of this addition, the Company transferred $228.6 million from construction in progress to drilling rigs and equipment. Total capital expenditures for the years ended 2016 and 2015 were $202.8 million and $171.9 million, respectively. This includes $190.0 million and $95.3 million related to progress payments, internal project costs, change orders, owner furnished equipment and capitalized interest for the Newbuilds during 2016 and 2015, respectively. This also includes land and building acquired in 2016 for a total cost of $1.2 million, of which $564 thousand was allocated to the cost of the land which is not depreciated. The purchases of inventory are expensed as the impact on the consolidated statements of operations is broadly commensurate with the expense that would have been recorded had inventory been separately recorded on the consolidated balance sheets.

Total capital expenditures through December 31, 2016 and 2015 on the Newbuilds were $361.5 million and $171.5 million, respectively, of which $239.1 million and $74.1 million, respectively, were paid by the Lessor (see Note 11 – Sale and Leaseback).

Interest capitalized on the Newbuild rigs totaled $16.9 million and $9.4 million for the years ended December 31, 2016 and 2015, respectively. Interest capitalized during 2016 and 2015 includes $9.9 million and $1.8 million, respectively, related to the sale and leaseback financing agreements.

The Company sold two stacked rigs, Adriatic V and Adriatic VI, for $750 thousand during 2016. The carrying value of both rigs was $1.6 million and disposal costs were $260 thousand, which resulted in a loss on disposal of $1.1 million. No rig was sold by the Company during 2015. Disposals of other property and equipment were $7.5 million and $15.5 million at cost and $4.7 million and $12.0 million at net book value which resulted in a loss on disposal of assets of $3.7 million and $11.3 million during 2016 and 2015, respectively.

On March 22, 2015, a fire broke out on one of the Company's jackup drilling rigs. There was neither human casualty nor environmental damage. The rig was covered under the Company's Hull and Machinery and Excess Liability coverage for an insured value of $45 million. On August 26, 2015, the Company insurance underwriters declared the rig a Constructive Total Loss at a value of $45 million. As a result, the Company recognized an overall net gain of $25.4 million during the year ended December 31, 2015. The Company wrote-off $10.6 million net book value and $1.2 million of unamortized deferred costs, and recorded $6.8 million direct and $977 thousand other indirect costs, partly offset with the insurance proceeds received as of December 31, 2015.

Drilling rigs under capital and operating leases

The net carrying amount of property and equipment includes the newbuild rig held under a capital lease and one rig held under a bareboat charter contract accounted as an operating lease. The rig under operating lease commenced its three year bareboat charter contract (with two 12 month extension options) with a private limited liability company on February 8, 2016. These rigs are included under drilling rigs and equipment as of December 31, 2016 (2015: nil).

As of December 31, 2016, the drilling rig under capital lease had a total cost of $228.6 million and accumulated depreciation of $1.1 million and the rig under bareboat charter contract had a carrying value of $16.4 million and accumulated depreciation of $7.0 million. There were no such transactions for the year ended December 31, 2015.

As of December 31, 2016, following is the summary of future minimum rentals on operating lease (in thousands):

For the twelve months ending December 31,		
2017	$	7,759
2018		8,395
2019		713
Thereafter		-
Total future minimum rentals	$	16,867

Loss on Impairment of Assets - The Company assesses the recoverability of the Company's long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. During the fourth quarter ended December 31, 2016, the Company identified indicators of impairment impacting the Company, 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.

An impairment loss on property and equipment exists when the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. Any actual impairment loss recognized represents the excess of the asset's carrying value over the estimated fair value.

The fair value of the drilling rigs using the income approach is based on estimated discounted cash flows expected to result from the use of the rigs. The estimate of fair value required the Company to use significant unobservable inputs, representative of a Level 3 fair value measurement, including assumptions related to the future performance of the rigs, such as projected demand, rig utilization rates and dayrates. Such estimates of future undiscounted cash flows are highly subjective and are based on numerous assumptions about future operations and market conditions. The Company determined the fair value of the fleet by using the income approach and utilizing a weighted average cost of capital of 11.6% for all the rigs including the Newbuilds.

As a result of the analysis and impairment testing, the Company recognized an impairment loss of $47.1 million on three of the Company's rigs, out of which one rig was impaired to salvage value and $262.2 million on 13 of the Company's rigs, out of which five rigs were impaired to salvage values, which were included in loss on impairment of assets in the consolidated statements of operations for the years ended December 31, 2016 and 2015, respectively. The impairment loss includes the write-off of current deferred costs of $4.1 million and $11.1 million and non-current deferred costs of $4.4 million and $25.6 million for the years ended December 31, 2016 and 2015, respectively. There was no impairment recorded for the year ended December 31, 2014.

Note 9 — Income Taxes

Tax Rate — SDL is exempt from all income taxation in the Cayman Islands.

The provision for income taxes is based on the tax laws and rates applicable in the jurisdictions in which the Company operates and earns income or is considered resident for income tax purposes. The relationship between the provision for or benefit from income taxes and the income or loss before income taxes can vary significantly from period to period considering, among other factors, (a) the overall level of income before income taxes, (b) changes in the blend of income that is taxed based on gross revenues rather than income before taxes, (c) rig movements between taxing jurisdictions and (d) rig operating structures.

The annual effective tax rate for the Company's continuing operations was (196.0)%, (20.3)% and 16.0% for 2016, 2015 and 2014, respectively. The effective tax rate for the 2014 period does not include taxes attributed to the rigs operated by the Seller as such taxes were the legal liability of the Seller. As of January 1, 2015, the Seller no longer operates any rig owned by the Company.

Income Tax Expense — Income tax expense was $19.8 million, $30.4 million and $43.0 million for 2016, 2015 and 2014, respectively. The components of the provisions for income taxes were as follows (in thousands):

	Years ended December 31,		
	2016	2015	2014
Current tax expense	$ 19,461	$ 29,081	$ 46,756
Deferred tax expense / (benefit)	296	1,292	(3,724)
Income tax expense	$ 19,757	$ 30,373	$ 43,032

The following is a reconciliation of the differences between the income tax expense for the Company's operations computed at the Cayman statutory rate of zero percent and the Company's reported provision for income taxes (in thousands):

	Years ended December 31,		
	2016	2015	2014
Income tax expense at the Cayman statutory rate	$ -	$ -	$ -
Taxes on earnings subject to rates different than Cayman statutory rate	17,604	33,051	42,046
Change in reserve for uncertain tax positions, including interest and penalties	1,098	(2,962)	-
Other	1,055	284	986
Income tax expense	$ 19,757	$ 30,373	$ 43,032

Deferred Taxes — The significant components of the Company's deferred tax assets and liabilities are as follows (in thousands):

	December 31,	
	2016	2015
Deferred tax assets		
Net operating loss carry-forwards of subsidiaries	$ 4,112	$ 3,697
Valuation allowance	(975)	-
	$ 3,137	$ 3,697

	December 31,	
	2016	2015
Deferred tax liabilities		
Unremitted earnings	$ 8,525	$ 8,788

At December 31, 2016 and 2015, the Company's deferred tax liabilities include liabilities related to the future income tax cost of repatriating the unremitted earnings of certain subsidiaries that are not indefinitely reinvested or that will not be indefinitely reinvested in the future. If unforeseen law changes or other facts and circumstances cause a change in expectations regarding the future tax cost of repatriating these earnings, the resulting adjustments to the deferred tax balances could have a material effect on the Company's consolidated financial statements. The Company's deferred tax assets include subsidiary level net operating loss carry-forwards which are expected to be utilized in future periods. To the extent that insufficient taxable income is generated by the relevant subsidiaries in future years to fully utilize these net operating loss carry-forwards, any remaining carry-forwards will expire by 2024.

Liabilities for Uncertain Tax Positions — The Company has tax liabilities related to various tax positions that have been taken on the tax returns of certain subsidiaries that have resulted in a reduction in tax liabilities for those subsidiaries. In management's judgment, these tax positions are "uncertain" in that they are likely to be successfully challenged by the relevant tax authorities in the future. As such, the tax benefits related to these uncertain tax positions have been offset by a corresponding tax liability. The Company acquired a portion of these liabilities from the Seller as part of the Acquisition and is fully indemnified by the Seller for all such acquired liabilities, including any related interest and penalties. Any interest and penalties related to such liabilities are included as a component of income tax expense. Not considering any indemnification, the liabilities related to uncertain tax positions, including related interest and penalties, were as follows (in thousands):

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	December 31,	
	2016	2015
Liabilities for uncertain tax positions, excluding interest and penalties	$ 2,455	$ 1,357
Interest and penalties	-	-
Liabilities for uncertain tax positions, including interest and penalties	$ 2,455	$ 1,357

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

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

The Company engages in ongoing discussions with tax authorities regarding the resolution of tax matters in the various jurisdictions in which it operates. Both the ultimate outcome of these tax matters and the timing of any resolution or closure of the tax audits are uncertain. While the Company cannot predict or provide assurance as to the final outcome of these proceedings, it does not expect the ultimate liability to have a material adverse effect on its consolidated financial statements. Further, the Company is indemnified from any tax liabilities of subsidiaries previously owned by the Seller related to the periods prior to the Acquisition.

Tax Returns — The Company is currently subject to or expects to be subject to income tax examinations in various jurisdictions where the Company operates or has previously operated. While the Company cannot predict or provide assurance as to the final outcome of any tax proceedings, the Company does not expect the ultimate tax liability to have a material adverse effect on its consolidated balance sheets or consolidated statements of operations. Any tax liability relating to entities acquired by the Company from the Seller and relating to periods prior to the Acquisition are indemnified by the Seller.

Other Tax Matters — Operations are conducted through various subsidiaries in a number of countries throughout the world. Each country has its own tax regimes with varying nominal rates, deductions and tax attributes. From time to time, changes to previously evaluated tax positions may be identified that could result in adjustments to the current recorded assets and liabilities. Although it is not possible to predict the outcome of these changes, it is not expected that the effect, if any, resulting from these assessments to have a material adverse effect on the consolidated balance sheets, statements of operations or statements of cash flows.

Note 10 — Debt

Debt is comprised of the following (in thousands):

	December 31,	
	2016	2015
8.625% Senior Secured Notes, due November 1, 2018 (see note (i) below)	$ 466,857	$ 464,204
Term Loan Facility, due October 8, 2018 (see note (ii) below)	342,159	338,849
Revolving Credit Facility, due April 30, 2018 (see note (iii) below)	-	-
Total debt	$ 809,016	$ 803,053

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

For the twelve months ending December 31,	
2017	$ -
2018	809,016
Total debt	$ 809,016

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

	December 31, 2016		
	Principal Amount	Unamortized Discount and Debt Issuance Costs	Carrying Value
8.625% Senior Secured Notes, due November 1, 2018	$ 475,000	$ 8,143	$ 466,857
Term Loan Facility, due October 8, 2018	350,000	7,841	342,159
Total	$ 825,000	$ 15,984	$ 809,016

	December 31, 2015		
	Principal Amount	Unamortized Discount and Debt Issuance Costs	Carrying Value
8.625% Senior Secured Notes, due November 1, 2018	$ 475,000	$ 10,796	$ 464,204
Term Loan Facility, due October 8, 2018	350,000	11,151	338,849
Total	$ 825,000	$ 21,947	$ 803,053

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

	Year ended December 31, 2016			
	Coupon Interest	Amortization of Discount	Amortization of Debt Issuance Costs	Total Interest
8.625% Senior Secured Notes, due November 1, 2018	$ 40,969	$ -	$ 2,653	$ 43,622
Term Loan Facility, due October 8, 2018	35,583	2,131	1,179	38,893
	$ 76,552	$ 2,131	$ 3,832	$ 82,515

	Year ended December 31, 2015			
	Coupon Interest	Amortization of Discount	Amortization of Debt Issuance Costs	Total Interest
8.625% Senior Secured Notes, due November 1, 2018	$ 40,969	$ -	$ 3,528	$ 44,497
Term Loan Facility, due October 8, 2018	35,486	1,911	1,533	38,930
	$ 76,455	$ 1,911	$ 5,061	$ 83,427

The outstanding debt balances as of December 31, 2016 and 2015 reflect the adoption of ASU 2015-03 as discussed in Note 3 – New Accounting Pronouncements. The effective interest rates on 8.625% Senior Secured Notes and Midco Term Loan Facility are 9.79% and 10.79%, respectively.

(i) 8.625% Senior Secured Notes, due November 2018

On October 24, 2012, SDHL completed the issuance and sale of $475 million aggregate principal amount of the 8.625% senior secured notes due November 1, 2018. The 8.625% Senior Secured Notes were sold at par and SDHL received net proceeds from the offering of the 8.625% Senior Secured Notes of $452.8 million after deducting the offering expenses of $22.2 million. Interest on the 8.625% Senior Secured Notes accrues from October 25, 2012 at a rate of 8.625% per year and is payable semi-annually in arrears on May 1 and November 1 of each year, beginning May 1, 2013.

SDHL's obligations under the 8.625% Senior Secured Notes are guaranteed by a majority of SDHL's subsidiaries (collectively, the "Note Guarantors"), subject to certain exceptions. The obligations of the Note Guarantors are secured by liens on the rigs and other assets owned by the Note Guarantors. These liens are subordinate to the liens securing the obligations of the Note Guarantors under the Revolving Credit Facility ("SDHL Revolver").

SDHL may redeem the 8.625% Senior Secured Notes, in whole or part, at the redemption prices set forth below, together with accrued and unpaid interest to the redemption date.

Period	Redemption Price
On or after May 1, 2015	104.313%
On or after November 1, 2016	102.156%
On or after November 1, 2017 and thereafter	100.000%

If SDHL experiences a change of control, as defined in the indenture governing the 8.625% Senior Secured Notes (the "Indenture"), it must offer to repurchase the 8.625% Senior Secured Notes at an offer price in cash equal to 101% of their principal amount, plus accrued and unpaid interest. Furthermore, following certain asset sales, SDHL may be required to use the proceeds to offer to repurchase the 8.625% Senior Secured Notes at an offer price in cash equal to 100% of their principal amount, plus accrued and unpaid interest.

On January 12, 2017, the Company exchanged and cancelled $444.585 million of 8.625% Senior Secured Notes at 100% redemption price. See Note 26 – Subsequent Events.

(ii) Term Loan Facility, due October 2018

On October 8, 2013, Midco entered into a credit agreement ("Midco Term Loan") providing for a $350 million five-year term loan facility issued at an original discount of 3% (issue price 97%). All borrowings under the term loan facility mature on October 8, 2018.

Midco received $331.2 million proceeds net of discount and $8.3 million of transaction costs. Borrowings under the Midco Term Loan agreement bear interest, at Midco's option, at either (i) the Alternate Base Rate ("ABR") which is defined as the highest of the base rate of interest, as determined by the administrative agent, 2% per year, the federal funds rate plus 0.5%, or the one-month Adjusted LIBOR Rate (which is subject to a floor of 1% and is defined in the Midco Term Loan) plus 1%, plus an applicable margin of 8% per year, or (ii) the Adjusted Libor Rate plus an applicable margin of 9% per year. Interest is paid semi-annually on March 31 and September 30. The first and last interest installments must be paid in cash; other interest installments may be paid in kind at the option of the Company if certain conditions are met. Interest paid in kind accrues at the otherwise applicable interest rate plus 0.75% per year.

Midco may, at its option, redeem all or part of the term loan a) at any time during the third year of the loan at a price of 102% of the principal being redeemed; b) at any time during the fourth year of the loan at a price of 101% of the principal being redeemed; and (c) thereafter at a price of 100% of the principal being redeemed. These redemption prices do not apply to redemptions from the net cash proceeds of one or more qualified or public equity offerings. The net cash proceeds from qualified equity offerings can be used to redeem up to 35% of the aggregate principal of the loan outstanding without any premium and the net cash proceeds of public equity offerings can be used to redeem up to 100% of the aggregate principal of the loan outstanding at a price of 102% of the principal being redeemed. Redemption from equity offerings must occur within 180 days after the closing of the equity offering.

Midco's obligations under the Midco Term Loan are secured by liens on the majority of Midco's assets, including Midco's shares in SDIL, subject to certain exceptions.

On January 12, 2017, the Company fully settled the outstanding balance of $350 million under its term loan facility. See Note 26 – Subsequent Events.

(iii) Revolving Credit Facility, due April 2018

On February 24, 2014, SDHL entered into a $150 million Revolving Credit Facility which was available for utilization on February 28, 2014. The SDHL Revolver can be drawn as cash, letters of credit or bank guarantees, or a mixture of cash, letters of credit and guarantees, subject to the satisfaction of customary conditions set forth in the underlying credit agreement. All borrowings under the SDHL Revolver mature on April 30, 2018, and letters of credit and bank guarantees issued under the SDHL Revolver expire no later than five business days prior to April 30, 2018. On June 11, 2014 in accordance with the terms of the SDHL Revolver, the Company sought and was granted, an increase in the total amount available under the SDHL Revolver to $200 million.

The Company issued bank guarantees and performance bonds totalling $28.5 million and $48.3 million as of December 31, 2016 and 2015, respectively, against the SDHL Revolver. As a result, the remaining available balance under the Revolving Credit Facility is $171.5 million and $151.7 million as of December 31, 2016 and 2015, respectively. The second lien note indenture currently restricts the SDHL Revolver capacity to $170 million, as such the available amount for drawdown under the SDHL Revolver as of December 31, 2016 was $141.5 million.

Cash borrowings under the SDHL Revolver bear interest, at SDHL's option, at either (i) the Adjusted Libor Rate plus Applicable Margin, as defined in the SDHL Revolver or (ii) the Alternate Base Rate ("ABR", the highest of the prime rate, the federal funds rate plus 0.5% per year, or the one-month Adjusted LIBOR Rate (as defined in the SDHL Revolver) plus 1% per year), plus Applicable Margin. During the years ended December 31, 2016 and 2015, the amortization of debt issuance costs on the SDHL Revolver amounted to $1.7 million and $1.8 million, respectively.

Participation fees accrue on financial letters of credit and bank guarantees at the Applicable Margin for borrowings at the Adjusted LIBOR Rate and on non-financial letters of credit and bank guarantees at 50% of the Applicable Margin for borrowings at the Adjusted LIBOR Rate. The Applicable Margin is calculated based on credit ratings of SDL by Standard and Poor's and Moody's; currently the Applicable Margin is 4.75% per year for borrowings at the Adjusted LIBOR Rate.

The Applicable Margin can range from a maximum of 5.0% per year and a minimum of 3.5% per year for borrowings at the Adjusted LIBOR Rate and from a maximum of 4.0% per annum and a minimum of 2.5% per year for borrowings at the Alternate Base Rate. SDHL is liable to pay a commitment fee to the administrative agent on the daily unused amount of the SDHL Revolver at 30% of the Applicable Margin for borrowings at the Adjusted LIBOR Rate. The facility is cancellable by SDHL at any time with no penalty or premium.

Additionally, if SDHL as of the last day of any fiscal quarter is using more than 25% of the SDHL Revolver (excluding non-financial or cash-collateralized letters of credit and bank guarantees), then the SDHL Revolver requires that SDHL and the Guarantors (as defined below) have a total net leverage ratio (consolidated net indebtedness to consolidated EBITDA, as defined in the SDHL Revolver) of not greater than 3:1 for the four consecutive fiscal quarters ended on such last day. This covenant did not apply as the Company had not met the more than 25% threshold during the years ended December 31, 2016 and 2015.

SDHL's obligations under the SDHL Revolver are guaranteed by the majority of SDHL's subsidiaries (collectively, the "Guarantors"), subject to certain exceptions. The obligations of the Guarantors are secured by liens on the rigs and other assets owned by the Guarantors. The liens securing the SDHL Revolver are senior to the liens securing the 8.625% Senior Secured Notes.

On January 12, 2017, the Company successfully amended its revolving credit agreement. See Note 26 – Subsequent Events.

Terms Common to All Indebtedness

The Indenture, the Midco Term Loan and the SDHL Revolver contain customary events of default. These agreements also contain a provision under which an event of default by SDHL or by any restricted subsidiary (under the SDHL Revolver and the Indenture) and by Midco or by any restricted subsidiary (under the Midco Term Loan) on any other indebtedness exceeding $25 million would be considered an event of default if such default: a) is caused by failure to pay the principal or interest when due after the applicable grace period, or b) results in the acceleration of such indebtedness prior to maturity.

The Indenture, the SDHL Revolver and the Midco Term Loan contain covenants that, among other things, limit SDHL's and, in the case of the Midco Term Loan, SDIL's and Midco's ability and the ability of their restricted subsidiaries to:

- incur additional indebtedness or issue certain preferred stock;
- make restricted payments or investments;
- sell assets;
- create liens;
- engage in transactions with affiliates; and
- consolidate, merge or transfer all or substantially all of its assets.

The Company incurred a total of $8.3 million of transaction costs related to the Midco term loan facility agreement, $7.2 million of transaction costs related to the SDHL Revolver and $22.2 million of transaction costs related to issuance of 8.625% Senior Secured Notes. These costs are amortized over the life of the associated debt and the unamortized portion is netted off against the debt's carrying value, except for the $7.2 million transaction costs for the SDHL Revolver which are carried as both short-term and long-term term assets on the consolidated balance sheets and are being amortized over the life of the associated debt.

Note 11 — Sale and Leaseback

On October 10, 2015, two wholly owned subsidiaries of SDL, Shelf Drilling TBN I, Ltd and Shelf Drilling TBN II, Ltd (collectively, the "Lessee"), whose assets consist solely of the two under construction fit-for-purpose new build jackup rigs entered into a combined minimum of $296.2 million and maximum of $330.0 million ("Purchase Price") sale and leaseback financing transactions (the "Sale and Leaseback Transactions") with Hai Jiao 1502 Limited and Hai Jiao 1503 Limited (collectively, the "Lessor"), both wholly owned subsidiaries of Industrial and Commercial Bank of China Leasing. In connection with these transactions, the Lessee executed Memorandum of Agreements and Bareboat Charter agreements to sell the rigs and bareboat charter the rigs back from the Lessor upon expected delivery date for a period of 5 years and 90 days. See Note 8 – Property and Equipment.

The Company, in substance, is the accounting owner of the Newbuilds during the construction period due to being the primary obligor on the construction contract and its involvement during the construction period. The Company effectively receives the Purchase Price over the construction period from the Lessor in the form of construction milestone payments paid directly by the Lessor to the Builder on various due dates as per the construction contracts and the remaining balance reimbursed to the Company on the Bareboat Charter commencement dates. The Company records these payments as construction in progress and long-term liabilities on its consolidated balance sheets until the assets are completed and delivered. The Company, being the accounting owner of the Newbuilds, has also recorded $7.6 million as construction in progress payments for set-up fees, legal fees, brokerage fees and handling fees related to these sale and leaseback transactions. No profit and loss is recognized on these sale and leaseback transactions as the Company retains substantially all the benefits and risks incidental to the ownership of the property sold.

The Company is liable to pay a commitment fee of 1.20% per annum to the Lessor calculated on undrawn amount of Purchase Price calculated from October 10, 2015 until the Purchase Price is paid in full for each rig, payable on the date of first installment payment of Purchase Price and quarterly in arrears thereafter. The milestone payments bear interest at 3 months LIBOR plus an applicable margin of 4% annually. Such interest is capitalized at intervals of three months from the date of payment of each installment until the lease commencement date.

The Bareboat Charter agreements require scheduled monthly rent payments ("Rent") with variable and fixed payment components from the Bareboat Charter commencement dates through its estimated maturities on December 28, 2021 and June 30, 2022 at which time the Lessee will have the obligation to acquire the Newbuilds from the Lessor for $82.5 million each ("Purchase Obligation Price"). The fixed monthly average payments for each rig at the inception of the bareboat charter period are calculated using the Prepaid Purchase Price (Purchase Price and capitalized interest on milestone payments net of Purchase Obligation) over the lease term. The average variable payments over the lease term for each rig are calculated on each payment date using a projected 3 months LIBOR rate plus applicable margin of 4% annually on the Notional Rent Outstanding (Prepaid Purchase Price reduced by fixed payments). The charter payments will be made in advance every 5th day of the month.

On December 1, 2016, after completion of the final customer acceptance requirements, the rig commenced a five-year contract with Chevron. The Company accounted for this sale and leaseback transaction as a capital lease and transferred $228.6 million from construction in progress to drilling rigs and equipment in property and equipment. See Note 8 – Property and Equipment. The capital lease contract has an estimated average interest rate of 5.823% and requires scheduled monthly average principal payments of $1.4 million and average interest payments of $607 thousand through December 5, 2021.

As of December 31, 2016, the following is a summary of the estimated future rental payments on capital lease (in thousands):

For the twelve months ending December 31,		
2017	$	23,698
2018		25,680
2019		25,102
2020		24,318
2021		105,293
Thereafter		-
Total future rental payments	$	204,091

The Company made rental payments, including interest, of $2.7 million during the year ended December 31, 2016. This includes pre-payments of principal and interest of $1.5 million and $729 thousand, respectively.

The outstanding balance of obligations under sale and leaseback is $244.7 million and $74.7 million as of December 31, 2016 and 2015, respectively. The current year balance consists of $16.0 million which represents the scheduled monthly principal installments for the newbuild rig which started its drilling contract on December 1, 2016 and $228.7 million as long term obligations. The long term obligations comprise of $152.0 million for the newbuild rig under capital lease and $76.7 million for the newbuild rig still under construction. The prior year balance of $74.7 million represents the long term obligations for the newbuilds under construction.

The Lessor paid $165.0 million ($148.1 million was paid directly to the Builder and $16.9 million to the Company for costs incurred) and $74.1 million ($55.5 million was paid directly to the Builder and $18.5 million to the Company related to milestone payment) during the years ended December 31, 2016 and 2015, respectively. In addition, the Company recorded $6.8 million and $643 thousand for interest in kind on the obligations under the sale and leaseback during the years ended December 31, 2016 and 2015.

The Company has the right to purchase either of the rigs on an "as is where is" basis, after the delivery date and without any default during the bareboat charter agreement period, at redemption prices as follows:

Period	Redemption Price
Year 1	Notional Rent Outstanding * (1+3%)
Year 2	Notional Rent Outstanding * (1+2%)
Year 3	Notional Rent Outstanding * (1+2%)
Year 4	Notional Rent Outstanding * (1+1%)
Year 5	Notional Rent Outstanding * (1+1%)

Besides the redemption price, the Company is required to pay any rent and other amounts due, and the broken funding costs as defined in the Bareboat Charter agreements.

The Lessor also has the right to compel the Company to purchase the relevant rig when there is a termination event at a price of an aggregate of the Notional Rent Outstanding plus a 3% fee on the Notional Rent Outstanding. The Company is also required to pay any rent and other amounts due, and the broken funding costs as defined in the Bareboat Charter agreements. This option is not exercisable by the Lessor when the relevant rig is in service under its contract with Chevron.

The Company's obligation under the sale and leaseback transactions is secured by pledge over all bank accounts specific to this transaction and pledge of shares of certain wholly owned subsidiaries of the Company. The Company has also assigned to Lessor the construction contracts with the Builder, the advance payment guarantee covering 30% of the contract price received from the Builder which is valid during the construction period, an additional payment guarantee covering 10% of the contract price which is also valid during the construction period, and the receivable and earnings from the Chevron contracts.

The Company is also required to maintain (1) a minimum of 90 days of Rent in a Debt Reserve Account; (2) 120% of Security Coverage Ratio (Fair Value of the rig and associated drilling service contract to the Notional Rent Outstanding); and (3) a Consolidated Net Debt to Consolidated EBITDA Ratio not to exceed 4:1, as defined in the Bareboat Charter agreement. As of December 31, 2016 and 2015, the Company was in compliance with all above mentioned requirements as applicable.

The lease agreements contain certain representations, warranties, obligations, conditions, indemnification provisions and termination provisions customary for sale and leaseback financing transactions. The lease agreements contain certain affirmative and negative covenants that, subject to exceptions, limit the Lessee's ability to, among other things, incur additional indebtedness and guarantee indebtedness, pay dividends or make other distributions or repurchase or redeem capital stock, make loans and investments, sell, transfer or otherwise dispose of certain assets, create or incur liens and enter into certain types of transactions with affiliates, consolidate, merge or sell all or substantially all of its assets.

Note 12 — Employee Benefit Plans

The Company makes regular monthly cash contributions to defined contribution retirement and savings plans. The Company also makes cash payments whenever the departure of an employee triggers the requirement to pay an end of service payment under local labor laws or the Company policy.

Retirement and Savings Plans — The Company contributes between 4.5% and 6.5% of certain employees' base salaries each month into an employee's retirement plan. The actual percentage rate contribution is determined by the number of years of service with the Company, including, for certain employees, the number of years of service with the Seller. The Company has no further obligations for these retirement plans and the Company's contributions are expensed as incurred.

Certain employees have the option to contribute a percentage of their base salary to an individual savings plan. The Company will match up to 6% of the employee's base salary and pay it into the savings plan. The Company has no further obligations for this savings plan and the Company's contribution is expensed as incurred.

The Company has recorded approximately $5.3 million, $7.3 million and $7.5 million in expense related to defined contribution retirement and savings plans for 2016, 2015 and 2014, respectively.

Retirement plan under a Trust fund – On August 1, 2016, the Company replaced the end of service benefit covering certain employees previously reported under a defined benefit plan with a defined retirement contribution plan managed under a trust fund. The remeasured end of service liability under the new plan was $1.3 million, which resulted in a gain of $248 thousand during the year ended December 31, 2016.

Contributions are made on a monthly basis by the Company irrespective of fund performance and are not pooled, but are separately identifiable and attributable to each employee. The Company has no further obligation for this retirement plan and the Company's contributions are expensed as incurred.

Contribution expense related to this plan is $122 thousand from the effective date of August 1, 2016 to December 31, 2016. The expenses were previously recorded as end of service benefit expense during the years ended 2014, 2015 and through to July 31, 2016.

End of Service Plans — The Company offers end of service plans to employees in certain countries in accordance with the labor laws in these countries or the Company policy.

The Company has recorded approximately $6.3 million, $6.7 million and $1.2 million in expense related to employee end of service plans for 2016, 2015 and 2014, respectively. The 2014 expense amount includes a gain resulting from a change in the accounting estimate related to the Company's initial actuarial valuation performed in 2014 of the benefits due which indicated a reduction in the previously estimated liability by approximately $6.5 million. Additionally, the Seller paid the Company $4.4 million in 2014 to settle a portion of its future liabilities under these plans.

Countries in which management estimates that the liabilities are significant in amount are subject to an analysis which considers specific actuarial assumptions for those countries. The discount rate used in the analyses ranged from 4.2% to 16.5% and the assumed average annual rate of compensation increase ranged from 2% to 5%.

The estimated total liability for the end of service plans was $8.8 million and $15.1 million at December 31, 2016 and 2015, respectively.

Defined Benefit Plan — As a result of the Acquisition described in Note 1 — Nature of Business, the Company agreed to replicate certain employee benefits for the employees of the Seller who joined the Company. Benefits under this plan vest immediately and are paid in a single lump sum cash payment when a participant has both reached the age of 55 and is no longer employed by the Company. The single sum paid is calculated taking into account employee's base salary and various other factors. The Company has removed the restriction of the minimum age of 55 related to this plan as of January 1, 2016.

The number of employees who were eligible for benefits under this plan totaled 63, 99 and 120 at December 31, 2016, 2015 and 2014, respectively. The plan freeze date is December 31, 2015 and the Company stopped accruing service awards benefits as of January 1, 2016. The plan is currently unfunded.

A reconciliation of the changes in benefit obligation is as follows (in thousands):

	Years ended December 31,	
	2016	2015
Change in Benefit Obligation		
Benefit obligation, beginning of year	$ 4,913	$ 3,346
Service cost	-	2,960
Interest cost	146	79
Plan changes	-	-
Benefits paid	(1,737)	(1,078)
Actuarial gain	(156)	(394)
Curtailment	-	-
Benefit obligation, end of year	$ 3,166	$ 4,913

The Company has recorded $481 thousand and $739 thousand as current, and $2.7 million and $4.2 million as non-current obligations for this plan as of December 31, 2016 and 2015, respectively.

The benefit cost includes the following components (in thousands):

	Years ended December 31,		
	2016	2015	2014
Net periodic benefit (gain) / costs			
Service cost	$ -	$ 2,960	$ 2,795
Interest cost	146	79	23
Expected return on plan assets	-	-	-
Amortization of prior service cost	-	-	-
Actuarial gain	(156)	(394)	(315)
Net periodic benefit (gain) / costs, end of year	$ (10)	$ 2,645	$ 2,503

The plan does not have any assets, nor does the Company intend to fund the plan. The Company has elected to immediately recognize any gains and losses from this plan and as such no amounts have been recorded in accumulated other comprehensive income related to the plan.

The key assumptions for the plan are summarized below:

	Years ended December 31,	
	2016	2015
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	3.00%	3.21%
Rate of compensation increase	N/A	N/A

	Years ended December 31,		
	2016	2015	2014
Weighted-average assumptions used to determine net periodic benefit costs:			
Discount rate	3.00%	3.21%	2.35%
Rate of compensation increase	N/A	N/A	4.00%
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,	
2017	$ 481
2018	471
2019	523
2020	265
2021	348
2022 - 2026	1,140

Retention Plans — The Company also sponsors medium term cash incentive programs for certain employees. The plans generally vest over a period ranging from one to two years, and associated payouts are made over a two year period provided the participant is still employed. The pay outs under existing plans are expected to occur in March, 2017 and March, 2018. The Company recorded approximately $3.0 million, $3.0 million and $5.3 million expense under the plans for the years ended December 31, 2016, 2015 and 2014, respectively. The estimated total cash payments under the retention plans for 2017 and 2018 are $2.7 million and $3.3 million, respectively.

Note 13 — Commitments and Contingencies

Operating Lease Obligations – The Company has operating lease commitments expiring at various dates, principally for office space, expatriate employee accommodation and office equipment.

Sale and Leaseback Obligations – This represents minimum annual rental payments and Purchase Obligation Price assuming average estimated interest rates pursuant to the sale and leaseback transactions as of December 31, 2016. See Note 11 - Sale and Leaseback.

As of December 31, 2016, contractual payments related to those matters were as follows (in thousands):

	Operating leases	Sale and leaseback obligations	Total commitments
For the twelve months ending December 31,			
2017	$ 6,367	$ 37,379	$ 43,746
2018	4,207	52,082	56,289
2019	474	50,946	51,420
2020	189	49,387	49,576
2021	82	129,337	129,419
Thereafter	-	93,705	93,705
Total	$ 11,319	$ 412,836	$ 424,155

Legal Proceedings — The Company is involved in various claims and lawsuits in the normal course of business, some of which existed at the time of Acquisition and are indemnified by the Seller. As of December 31, 2016 and 2015, management has determined that there are no significant claims or lawsuits to disclose including claims and lawsuits fully indemnified by the Seller and no provisions were necessary.

Insurance

The Company's hull and machinery, property, cargo and equipment and excess liability insurance consists of commercial market policies that the Company renewed on November 30, 2016 for one year. The Company periodically evaluates its risks, insurance limits and self-insured retentions. As of December 31, 2016, the insured value of the Company's drilling rig fleet was $1.6 billion, which includes the newbuild rig which commenced its drilling contract on December 1, 2016.

Hull and Machinery Coverage — At December 31, 2016, under the Company's hull and machinery insurance policies, the Company maintained a $5 million deductible per occurrence, with no deductible in the event of loss greater than 75% of the insured value of the rig. The Company also has insurance coverage for costs incurred for wreck removal for the greater of 25% of the rig's insured value or $20 million (plus an additional $25 million per occurrence) with a nil deductible. The hull and machinery policy also covers war risk, which is cancellable either immediately or with 7 days' notice by the underwriters in certain circumstances. To protect against this cancellation risk, the Company also insures, through commercial market policies, a Political Risks Policy covering acts of war and terrorism with a $250,000 deductible per occurrence (an additional $2.75 million in certain countries) and a limit of $175 million.

Excess Liability Coverage — At December 31, 2016, the Company carried $400 million of commercial market excess liability coverage, exclusive of the deductibles, which generally covered onshore and offshore risks such as personal injury, third-party property claims, and third-party non-crew claims, including pollution from the rig and non-owner aviation liability. The Company's excess liability coverage generally has a $1 million deductible per occurrence.

At December 31, 2016, the Company also carried $100 million of additional insurance per occurrence that generally covered expenses that would otherwise be assumed by the well owner, such as costs to control the well, re-drill expenses and pollution from the well. This additional insurance provides coverage for such expenses in circumstances in which the Company has a legal or contractual liability arising from gross negligence or willful misconduct. The deductible is $1 million per occurrence.

Self-Insured Medical Plan —The Company offers a self-insured medical plan ("the Medical Plan") for U.S. resident rig based expatriates employees and their eligible dependents to provide medical, vision, dental within the U.S. and security evacuation and repatriation. The maximum potential liability related to the plan excluding dental benefits is $1.7 million as of December 31, 2016, as the Company is reinsured for the excess amount by a third party insurance provider.

Surety Bonds — It is customary in the contract drilling business to have various surety bonds in place that secure customs obligations relating to the temporary importation of rigs and equipment and certain contractual performance and other obligations.

The Company has surety bond facilities in either U.S. dollars or local currencies of approximately $85.0 million provided by several banks to guarantee various contractual, performance, and customs obligations. The Company entered into these facilities in India, Egypt, UAE and Nigeria. The outstanding surety bonds were $33.3 million and $64.2 million at December 31, 2016 and 2015 (including $7.8 million surety bonds for which the credit facility was not in place which were secured by 100% cash deposits in 2015), respectively.

In addition, the Company had outstanding bank guarantees and performance bonds amounting to $28.5 million and $48.3 million as of December 31, 2016 and 2015, respectively, against the $200 million SDHL Revolver.

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

Under the terms of the Acquisition, the Seller agreed to continue to provide financial support by maintaining letters of credit, surety bonds and other performance and obligation guarantees. This agreement with the Seller to provide financial support expired on November 30, 2015. The Seller did not issue any new letter of credits, surety bonds and other performance and obligation guarantees after November 30, 2015. All outstanding surety bonds provided by the Seller on the Company's behalf of $23.7 million as of December 31, 2015 were cleared and replaced by the Company's issued surety bonds in 2016.

Note 14 — Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, which include cash and cash equivalents, accounts receivable, accounts payable and accrued liabilities, approximate their fair market values due to the short-term nature of the instruments.

The following table represents the estimated fair value and carrying value of the Company's long-term debt (in thousands):

	December 31 , 2016		December 31 , 2015	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
8.625% Senior Secured Notes, due November 1, 2018	$ 466,857	$ 399,000	$ 464,204	$ 361,000
Term Loan Facility, due October 8, 2018	342,159	258,620	338,849	192,063
Total debt..	$ 809,016	$ 657,620	$ 803,053	$ 553,063

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

Derivative financial instrument was measured at fair value on a recurring basis using Level 2 inputs. See Note 19 – Derivative Financial Instruments. At December 31, 2016, there were no outstanding derivative contracts.

Note 15 — Financial Instruments and Risk Concentration

Interest Rate Risk — Financial instruments that potentially subject the Company to concentrations of interest rate risk include cash and cash equivalents, debt and the obligation under sale and leaseback. Exposure to interest rate risk may occur in relation to cash and cash equivalents, as the interest income earned on these balances changes with market interest rates. Floating rate debt, where the interest rate may be adjusted annually or more frequently over the life of the instrument, exposes the Company to short-term changes in market interest rates. Fixed rate debt, where the interest rate is fixed over the life of the instrument and the instrument's maturity is greater than one year, exposes the Company to changes in market interest rates if and when refinancing of maturing debt with new debt occurs.

Foreign Currency Risk — The Company's functional currency is the U.S. dollar and its international operations expose it to currency exchange rate risk. This risk is primarily associated with the compensation costs of the Company's employees and purchasing costs from non-U.S. suppliers, which are generally denominated in currencies other than the U.S. dollar.

The Company's primary currency exchange rate risk management strategy involves structuring customer contracts to provide for payment in U.S. dollars and local currency. The payment portion denominated in local currency is based on anticipated local currency requirements over the contract term. Due to various factors, including customer acceptance, local banking laws, other statutory requirements, local currency convertibility and the impact of inflation on local costs, actual local currency needs may vary from those anticipated in the customer contracts, resulting in partial exposure to currency exchange rate risk. The currency exchange effect resulting from the Company's international operations generally has not had a material impact on its operating results. The Company recognized $1.9 million gain, $1.7 million gain and $1.4 million loss related to net foreign currency exchange during 2016, 2015 and 2014, respectively, which are included in other, net in the consolidated statements of operations.

Further, the Company may utilize forex contracts to manage foreign exchange risk, for which the Company has documented policies and procedures to monitor and control the use of the derivative instruments. The Company does not engage in derivative transactions for speculative or trading purposes. The Company's forex contracts generally require it to net settle the spread between the contracted foreign currency exchange rate and the spot rate on the contract settlement date. As of December 31, 2016, the Company had no forex contracts outstanding. There were no such transactions as of December 31, 2015.

Credit Risk — Financial instruments that potentially subject the Company to concentrations of credit risk are cash and cash equivalents and accounts receivables.

The Company generally maintains cash and cash equivalents at commercial banks with high credit ratings.

The market for the Company's services is the offshore oil and natural gas industry. The Company's customers primarily consist of government owned or controlled energy companies, publicly listed integrated oil companies or independent exploration and production companies. Periodic credit evaluations of the Company's customers are performed and generally do not require material collateral. The Company may from time to time require its customers to issue a bank guarantee in its favor to cover non-payment under drilling contracts.

Allowance for doubtful accounts are based upon expected collectability on a contract by contract basis where the required payment of specific amounts owed to the Company is unlikely to occur. At December 31, 2016 and 2015, the allowance for doubtful accounts was $99.6 million and $110.2 million, respectively.

Note 16 — Restricted Cash

The Company maintained a restricted cash deposit of $9.3 million and $8.8 million as of December 31, 2016 and 2015, respectively, which is included in other current assets and other assets in the consolidated balance sheets. Restricted cash is primarily used as collateral for bid tenders and performance bonds. The increase in restricted cash in 2016 was related to the reserve requirements for the sale and leaseback transaction amounting to $6.4 million, partly offset by the $5.9 million cash collateral released in the first quarter of the current year.

Note 17 — Shareholders' Equity

The Company is authorized to issue up to 5,000,000 ordinary shares with a par value of $0.01 per share for a total amount of $50 thousand. Following is the summary of ordinary shares authorized:

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

	Year ended December 31, 2015			
	Number of ordinary shares authorized			
	Class A	Class B	Class C	Total
Number of ordinary shares authorized	4,666,080	269,560	64,360	5,000,000
Amount of ordinary shares authorized	$ 46,660	$ 2,696	$ 644	$ 50,000

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During the year ended December 31, 2016, the Company granted 2,835 ordinary shares (2,659 Class B shares and 176 Class C shares) under the time and performance based share compensation plan to members of the Company's senior management (see Note 18 – Share-based Compensation). These shares were issued to a Trust for further issuance to the employee upon fulfilling the vesting conditions. There were no issuance of ordinary shares during the year ended December 31, 2015.

During the years ended December 31, 2016 and 2015, 1,915 ordinary shares (1,851 Class A shares, 43 Class B shares and 21 Class C shares) and 200 ordinary shares (193 Class A shares, 5 Class B shares and 2 Class C shares) were repurchased and retired for an aggregate consideration of $1.7 million and $270 thousand, respectively. In 2016, of the cancelled 1,915 ordinary shares, 850 ordinary shares were issued in March 2014 at a lower value compared to the fair value at the date of exercise, which resulted in a benefit of $433 thousand recorded to share-based compensation, 750 ordinary shares were cancelled at a lower consideration than the cost for these shares at the issuance date, which resulted in $155 thousand in additional paid-in capital, and the remaining 315 ordinary shares were cancelled at issuance cost. In 2015, the 200 ordinary shares cancelled were issued at higher consideration than the cost for these shares at issuance date, which resulted in $70 thousand charged to retained earnings. See Note 18 – Share-based Compensation.

During the years ended December 31, 2016 and 2015, 2,478 ordinary shares (2,306 Class B shares and 172 Class C shares) and 158 ordinary shares (146 Class B shares and 12 Class C shares) previously issued under share-based compensation plans were forfeited for nil consideration. In addition, 33 ordinary Class B shares issued under the share-based compensation plans were repurchased and retired for a consideration of approximately $40 thousand during 2015. See Note 18 – Share-based Compensation.

Holders of all classes of vested shares are entitled to such dividends as may be declared by the board of directors of the Company out of legally available funds. The A, B, and C ordinary shares participate in cumulative distributions based on preference, and are allocated to the three classes based on the Waterfall methodology which specifies the accretion of earnings to the three classes at different rates, giving effect to total cumulative distributions since issuance of the shares. This Waterfall treatment was established and is defined in the Articles. The Waterfall specifies an increasingly disproportionate distribution accretion rate with Class A shares ranking highest in terms of preference, followed by B and C, respectively.

The Company did not pay any dividend during years ended December 31, 2016 and 2015. During 2014, SDL declared and paid dividend on its Class A ordinary shares totalling $122.7 million. This dividend, which was paid at various times during 2014, represented a distribution of $274.88 per share, computed on the basis of average Class A shares outstanding.

Holders of all classes of ordinary shares are also entitled to, in the event of liquidation, to share in the distribution of assets remaining after payment of liabilities as set out in the Articles.

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

	Year ended December 31, 2016			
	Number of ordinary shares issued and outstanding			
	Class A	Class B	Class C	Total
Balance, beginning of year	446,445	24,789	6,092	477,326
Issuance of shares under share-based compensation plans	-	-	-	-
Shares issued to trust	-	2,659	176	2,835
Repurchase and retirement of shares	(1,851)	(2,349)	(193)	(4,393)
Balance, end of year	444,594	25,099	6,075	475,768

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

	Year ended December 31, 2015			
	Number of ordinary shares issued and outstanding			
	Class A	Class B	Class C	Total
Balance, beginning of year	446,638	24,973	6,106	477,717
Issuance of shares under share-based compensation plans	-	-	-	-
Shares issued to trust	-	-	-	-
Repurchase and retirement of shares	(193)	(184)	(14)	(391)
Balance, end of year	446,445	24,789	6,092	477,326

	Year ended December 31, 2015			
	Amount of ordinary shares issued and outstanding (at par value)			
	Class A	Class B	Class C	Total
Balance, beginning of year	$ 5	$ -	$ -	$ 5
Issuance of shares under share-based compensation plans	-	-	-	-
Shares issued to trust	-	-	-	-
Repurchase and retirement of shares	-	-	-	-
Balance, end of year	$ 5	$ -	$ -	$ 5

In accordance with the Articles, in the event of an IPO, the board may take such actions as it deems necessary to effect the conversion or exchange, directly or indirectly of each class of ordinary shares into another class of shares, or other equity security and/or other equity instruments issued or contemplated for issuance by SDL.

Note 18 — Share-based Compensation

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

The Company has recorded a share-based compensation expense related to the share-based compensation plan of $179 thousand (net of a $487 thousand gain related to forfeitures and an additional expense of $23 thousand for repurchased vested shares), $638 thousand (net of a $34 thousand gain related to forfeitures and an additional expense of $18 thousand for repurchased vested shares) and $2.0 million (net of a $47 thousand gain related to forfeitures) in 2016, 2015 and 2014, respectively. No income tax benefit was recognized for these plans.

Time Based Restricted Class B Ordinary Shares

Time based restricted shares are awarded as Class B ordinary shares which typically vest in equal proportion over a period of five years from the grant date provided the grantee remains employed by the Company. Upon vesting these shares are non-transferable. In the event of an IPO or other exit event, all Class B shares, regardless of grant date, vest immediately. Following an IPO or other exit event, Class B shares held by members of management continue to be non-transferable pursuant to the terms of a management-shareholder agreement. These transfer restrictions lapse ratably over three years, at one year intervals beginning twelve months after an IPO or other exit event. Compensation cost is recognized over a period of five years from the grant date subject to acceleration as discussed above in the event of an IPO or other exit event.

Performance Based Class C Ordinary Shares

Performance based shares are awarded as Class C ordinary shares which have rights to dividends or distributions at certain pre-defined amounts of aggregate distributions which are junior to holders of the Class A and Class B shares. The specifics of these rights are set forth in the Articles. Upon an exit event or IPO, Class C shares vest immediately and are subject to the same transferability restrictions as described above regarding Class B shares with those restrictions being lifted ratably over a three year period beginning on the first anniversary of the IPO or exit event. At the end of the third year after the IPO or exit event, all the restrictions would have been lifted. Compensation expense related to the grant date fair value of the Class C shares will be recognized upon vesting.

The fair value of awards made under the share-based compensation plans is estimated at the grant date using standard quantitative modeling techniques performed by an independent third party. The estimates are established using a zero premium option, with reference to the volatility of a group of broadly similar offshore drilling service companies. The following assumptions were used in the valuation calculations for shares awarded in 2016. There were no shares awarded in 2015, therefore the assumptions were not applicable:

	Years ended December 31,			
	2016		2015	
	Class B	Class C	Class B	Class C
Valuation assumptions:				
Expected term	2 years	2 years	N/A	N/A
Risk free interest rate	2 Year US Treasury Bond	2 Year US Treasury Bond	N/A	N/A
Expected volatility	60.0%	60.0%	N/A	N/A
Dividend yield	Nil	Nil	N/A	N/A

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

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

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

Dividend Yield: The Company has not historically issued any dividends on these classes of shares and does not expect to in the future nor are the unvested shares entitled to dividends.

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

	Time based restricted shares	Performance based shares	Weighted average grant date fair value per share	
	Class B	Class C	Class B	Class C
Non-vested shares at January 1, 2016	9,041	961	$ 261.93	$ 4,259.24
Granted	2,659	176	456.22	4,677.20
Vested	(2,503)	-	245.62	-
Forfeited	(1,493)	(172)	185.23	4,217.58
Non-vested shares at December 31, 2016	7,704	965	$ 357.05	$ 5,808.48

	Time based restricted shares	Performance based shares	Weighted average grant date fair value per share	
	Class B	Class C	Class B	Class C
Non-vested shares at January 1, 2015	12,125	973	$ 273.25	$ 4,829.14
Granted	-	-	-	-
Vested	(2,905)	-	213.50	-
Forfeited	(179)	(12)	1,814.00	51,100.00
Non-vested shares at December 31, 2015	9,041	961	$ 261.93	$ 4,259.24

Total unrecognized compensation expense related to non-vested Class B and C shares was $8.4 million and $7.6 million at December 31, 2016 and December 31, 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 year ended December 31, 2016, the Company settled forex contracts with aggregate notional values of approximately $21.6 million, of which the aggregate amounts were designated as an accounting hedge. There were no such transactions for the year ended December 31, 2015 and 2014, respectively. There were no forex contracts outstanding as of December 31, 2016.

The following table presents the amounts recognized in the Company's consolidated statements of operations related to the derivative financial instruments designated as cash flow hedges (in thousands). The effective portion of gain / (loss) reclassified from AOCIL is recorded under operating and maintenance.

	Gain recognized through AOCIL Years ended December 31,		
	2016	2015	2014
Cash flow hedges			
Foreign currency forward contracts	$ 427	$ -	$ -

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

Note 20 — Supplemental Balance Sheet Information

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

	December 31,	
	2016	2015
Accounts and other receivables, net		
Accounts receivables	$ 217,741	$ 263,384
Allowance for doubtful accounts	(99,606)	(110,251)
Accounts receivables, net	118,135	153,133
VAT receivables	5,802	10,798
Other	1,375	2,178
	$ 125,312	$ 166,109

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

	December 31, 2016	December 31, 2015
Other current assets		
Deferred costs	$ 61,140	$ 86,803
Prepayments	18,810	18,455
Income tax receivable	7,200	-
Deferred financing fee	1,706	1,721
Restricted cash	626	5,985
Other	5,753	5,536
	$ 95,235	$ 118,500

Other assets consisted of the following (in thousands):

	December 31, 2016	December 31, 2015
Other assets		
Deferred costs	$ 101,933	$ 122,420
Restricted cash	8,630	2,850
Retention receivable	4,148	3,503
Deposits	2,432	2,644
Deferred financing fee	568	2,289
Other	730	1,553
	$ 118,441	$ 135,259

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

	December 31, 2016	December 31, 2015
Other current liabilities		
Deferred revenue	$ 12,964	$ 18,566
Incentive compensation and bonus accruals	9,196	11,848
Accrued taxes, other than income	5,663	5,955
Accrued payroll and employee benefits	2,867	6,574
End of service benefits	1,274	2,989
Defined benefit obligation	481	739
Other	220	1
	$ 32,665	$ 46,672

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

	December 31,	
	2016	2015
Other long-term liabilities		
Deferred revenue	$ 12,266	$ 15,729
End of service benefits	7,541	12,108
Defined benefit obligation	2,685	4,174
Income taxes	2,455	1,357
Other	250	233
	$ 25,197	$ 33,601

Note 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,		
	2016	2015	2014
Decrease / (increase) in operating assets			
Accounts and other receivables, net	$ 41,443	$ 29,306	$ 32,968
Other current assets	(7,497)	(25,941)	849
Other assets	1,469	35,337	21,947
(Decrease) / increase in operating liabilities			
Accounts payable and other current liabilities	(16,772)	(40,316)	(14,785)
Accrued interest	-	-	567
Accrued income taxes	(546)	(8,391)	2,487
Other long-term liabilities	4,426	2,248	11,268
	$ 22,523	$ (7,757)	$ 55,301

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

	Years ended December 31,		
	2016	2015	2014
Cash payments for			
Interest, net of amounts capitalized	$ 72,997	$ 68,894	$ 74,673
Income taxes	26,125	40,669	45,958

As part of the sale and leaseback agreements for the Newbuilds, contractual commitments totalling $148.1 million and $55.5 million were paid by third party financial institution directly to the Builder during the years ended December 31, 2016 and 2015, respectively, and $6.8 million and $643 thousand of interest in kind were recorded as obligations under sale and leaseback, respectively. Therefore, these non-cash transactions were not reflected on the consolidated statements of cash flows during the years ended December 31, 2016 and 2015. There were no such transactions for the year ended December 31, 2014.

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

	Years ended December 31,		
	2016	2015	2014
Cash payments for additions to property and equipment	$ 53,541	$ 157,193	$ 168,404
Net change in accrued but unpaid additions to property and equipment	(5,080)	(60,034)	23,004
	$ 48,461	$ 97,159	$ 191,408
Add: Asset addition related to sale and leaseback transactions	154,306	74,703	-
Total capital expenditures	$ 202,767	$ 171,862	$ 191,408
Cash payments for additions to deferred costs	$ 55,845	$ 161,553	$ 147,752
Net change in accrued but unpaid additions to deferred costs	(1,300)	(10,216)	(5,826)
Total deferred costs	$ 54,545	$ 151,337	$ 141,926
Total capital expenditures and deferred costs	$ 257,312	$ 323,199	$ 333,334

Note 22 — (Loss) / Earnings Per Share

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

	Years ended December 31,								
	2016			2015			2014		
	Class A	Class B	Class C	Class A	Class B	Class C	Class A	Class B	Class C
Numerator for (loss) / earnings per share									
Net (loss) / income attributable to ordinary shares	$(29,836)	$ -	$ -	$ (180,002)	$ -	$ -	$226,062	$ -	$ -
Denominator for (loss) / earnings per share									
Weighted average shares:									
Basic outstanding per Class	445,386	17,500	5,119	446,525	15,142	5,133	446,407	12,419	5,131
Effect of stock options and other share-based awards.	-	3,454	-	-	8,155	641	146	10,733	838
Diluted per Class	445,386	20,954	5,119	446,525	23,297	5,774	446,553	23,152	5,969
Basic (loss) / earnings per share per Class	$ (66.99)	$ -	$ -	$ (403.12)	$ -	$ -	$ 506.40	$ -	$ -
Diluted (loss) / earnings per share per Class	$ (66.99)	$ -	$ -	$ (403.12)	$ -	$ -	$ 506.24	$ -	$ -

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

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 ("CODM") in deciding how to allocate resources and assess performance. The Company has one reportable segment, contract drilling services, which reflects how the Company manages its business, and the fact that all the drilling fleet is dependent upon the worldwide oil industry. The mobile offshore drilling units comprising the offshore rig fleet operate in a single global market for contract drilling services and are often redeployed globally due to changing demands of the customers, which consist largely of integrated oil and gas companies, independent exploration and production companies and government owned/controlled oil and gas companies in the Middle East, South East Asia, India, West Africa and the Mediterranean.

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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). The Company evaluates the performance of the operating segment based on revenues from external customers and segment Adjusted EBITDA. Adjusted EBITDA as used herein represents net income plus interest expense and financing charges, income tax expense, depreciation, loss on impairment of assets, amortization of drilling contract intangibles, amortization of deferred costs, transaction costs, severance costs, sponsors' fees, IPO readiness costs, rig reactivation costs, rig inventory acquisition costs, rig preparation and relocation costs, gain on insurance recovery, loss on disposal of assets, exclusion of non-income tax related costs, start-up costs and others. The Company's CODM uses "Adjusted EBITDA" as the primary measure of segment's reporting performance.

Summarized financial information for the Company reportable segment for 2016, 2015 and 2014 is shown in the following schedule (in thousands):

	Years ended December 31,		
	2016	**2015**	**2014**
Drilling Segment Revenue	$ 684,317	$ 1,030,315	$ 1,309,730
Net revenue from rigs under Operating Agreements	-	-	40,259
Gross revenue from rigs under Operating Agreements	-	-	(115,485)
Amortization of drilling contract intangibles	-	983	31,522
As Reported Revenues	$ 684,317	$ 1,031,298	$ 1,266,026
Adjusted EBITDA	$ 295,361	$ 371,499	$ 540,137
Amortization of deferred costs for rigs operated by the Company	(91,763)	(80,984)	(48,809)
Amortization of deferred costs for rigs under Operating Agreements	-	-	(153)
Interest expense and financing charges	(80,120)	(80,537)	(88,928)
Depreciation	(71,780)	(87,421)	(81,711)
Loss on impairment of assets	(47,094)	(271,469)	-
Income tax expense for the Company	(19,757)	(30,373)	(43,032)
Income tax expense for rigs under Operating Agreements	-	-	(8,307)
Severance costs	(4,786)	-	-
Loss on disposal of assets	(4,826)	(11,299)	(2,921)
Sponsors' fee	(4,500)	(4,500)	(4,500)
Transaction costs	(1,611)	-	-
Exclusion of non-income tax related costs	(699)	769	(2,940)
Share-based compensation expense, net of forfeitures	(179)	(638)	(1,981)
Rig reactivation costs	-	(4,185)	(37,233)
Rig preparation and relocation costs	-	(6,448)	-
Rig inventory acquisition costs	-	(59)	(4,018)
Gain on insurance recovery	-	25,432	-
Amortization of drilling contract intangibles	-	983	31,522
IPO readiness costs	-	-	(12,383)
Start-up costs	-	-	(8,756)
Others	1,918	(772)	75
Net (loss) / income	$ (29,836)	$ (180,002)	$ 226,062

Through December 31, 2014 the Company has incurred $25.4 million of costs related to preparation of an IPO and operating as a public company. These costs are included in IPO readiness costs and start-up costs. The costs were principally incurred on legal, accounting, external audit, consultancy and travel expenses. There were no costs incurred related to IPO readiness and start-up in 2015 and 2016.

SHELF DRILLING, LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	Years ended December 31, 2016	2015	2014
India	$ 193,202	$ 159,754	$ 180,156
Saudi Arabia	165,280	184,653	215,625
United Arab Emirates	78,279	33,349	-
Nigeria	76,473	195,948	233,505
Thailand	57,578	150,531	96,629
Egypt	49,044	83,069	101,142
Qatar	40,704	63,937	63,854
Other countries	23,757	159,074	418,819
Gross revenue from rigs	$ 684,317	$ 1,030,315	$ 1,309,730
Adjustment to reconcile 'Gross revenue from rigs' to Operating revenues			
Amortization of drilling contract intangibles	-	983	31,522
Costs and expenses of rigs under Operating Agreements			
Operating and maintenance	-	-	(64,946)
General and administrative	-	-	(1,986)
Income tax expense	-	-	(8,307)
Other income	-	-	13
Total	$ 684,317	$ 1,031,298	$ 1,266,026

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

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

	December 31, 2016	2015
United Arab Emirates	$ 233,967	$ 336,799
Saudi Arabia	228,331	244,606
Thailand	227,400	71,224
India	140,180	158,023
Cameroon	67,535	-
Egypt	59,032	64,347
Nigeria	55,660	121,107
Other countries	181,644	157,750
Total long-lived assets	$ 1,193,749	$ 1,153,856

A substantial portion of the Company's assets are mobile. The assets in the UAE include $134.1 million (31 December 2015: $171.5 million) relating to the Newbuild under construction. See Note 8 – Property and Equipment. Asset locations at the end of the year are not necessarily indicative of the geographic distribution of the revenue generated by such assets during the year.

Major Customers — During the year ended December 31, 2016, three customers (2015: three; 2014: two) accounted for approximately 64% (2015: 44%; 2014: 30%) of the Company's consolidated operating revenues. No other customer accounted for more than 10% of consolidated operating revenues during the years 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 $3.3 million, $4.3 million and $5.9 million during 2016, 2015 and 2014, respectively.

The Company recorded $5.2 million, $5.1 million and 5.7 million during 2016, 2015 and 2014, respectively, for Sponsors' costs related to the $375 thousand monthly fee, directors' fees and reimbursement of costs incurred by Sponsors and directors for attendance at meetings relating to the management and governance of the Company.

Note 25 — Comparative Information

The amortization of deferred costs, which was previously presented as part of the operating and maintenance expenses, has been presented as a separate line item in the consolidated statements of operations in the comparative years for 2015 and 2014 to conform with the current year presentation. These changes neither impact the financial position nor the cash flows of the Company.

The changes are as follows (in thousands):

	Year ended December 31, 2015		Year ended December 31, 2014	
	As previously presented	Reclassified amounts	As previously presented	Reclassified amounts
Operating costs and expenses				
Operating and maintenance	$ 615,140	$ 534,156	$ 715,971	$ 667,162
Amortization of deferred costs	-	80,984	-	48,809

Note 26 — Subsequent Events

On January 12, 2017 ("Closing Date"), the Company successfully refinanced its long term debt. As a result, SDHL issued $502.835 million of new 9.5% Senior Secured Notes due November 2020 ("9.5% Senior Secured Notes"). These notes were issued in exchange and cancellation of $444.585 million of 8.625% Senior Secured Notes due November 2018 in accordance with the terms and conditions of the Offering Memorandum to Exchange Notes and Solicit Consents (of which $28.5 million were settled for cash), and $86.75 million in exchange for partial settlement of the $350 million Midco Term Loan. As of the Closing Date, $30.415 million of 8.625% Senior Secured Notes remain outstanding after issuance of $416.085 million 9.5% Senior Secured Notes, principal payment of $28.5 million in cash and incentive fee payment of $5.7 million in cash.

At the Closing Date, the Company also fully settled the outstanding $350 million Midco Term Loan. The term loan was settled in exchange for the issuance of $166.7 million of SDL Preferred Shares to certain equity Sponsors, issuance of $86.75 million of new 9.5% Senior Secured Notes and $85.75 million in cash. This settlement resulted in a gross gain of $10.8 million (excluding transaction costs and unamortized original issue discount and deferred financing costs write off). The equity Sponsors paid $100 million in cash directly to the Midco lenders in exchange for the purchase of $166.7 million of the term loan.

Simultaneously, the Company successfully amended the SDHL Revolver to extend the maturity date to April 2020, permanently reduce the facility from $200 million to $160 million and amend certain other terms of this agreement.

Shelf Drilling, Ltd.

Consolidated financial statements for the year ended December 31, 2015

SHELF DRILLING

SHELF DRILLING, LTD.
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Independent Auditor's Report

To the Board of Directors

We have audited the accompanying consolidated financial statements of Shelf Drilling, Ltd. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2015 and December 31, 2014, and the related consolidated statements of operations, comprehensive income, equity, and cash flows for the years ended December 31, 2015, 2014 and 2013.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Shelf Drilling, Ltd. and its subsidiaries at December 31, 2015 and December 31, 2014, and the results of their operations and their cash flows for the years ended December 31, 2015, 2014 and 2013 in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers

Dubai, United Arab Emirates
February 18, 2016

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

SHELF DRILLING

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

	Years ended December 31, 2015	2014	2013
Revenues			
Operating revenues	$ 1,012,757	$ 1,213,700	$ 731,026
Amortization of drilling contract intangibles	983	31,522	51,391
Other operating revenue	17,558	20,804	5,061
	1,031,298	1,266,026	787,478
Operating costs and expenses			
Operating and maintenance	615,140	715,971	319,238
Depreciation	87,421	81,711	68,281
General and administrative	139,722	107,093	87,993
	842,283	904,775	475,512
Gain on insurance recovery	(25,432)	-	-
Loss on impairment of assets	271,469	-	-
Loss on disposal of assets	11,299	2,921	445
Operating (loss) / income	(68,321)	358,330	311,521
Other income / (expense), net			
Interest income	102	21	143
Interest expense and financing charges	(80,537)	(88,928)	(59,493)
Other, net	(873)	(329)	3
	(81,308)	(89,236)	(59,347)
(Loss) / income before income taxes	(149,629)	269,094	252,174
Income tax expense	30,373	43,032	19,687
Net (loss) / income	$ (180,002)	$ 226,062	$ 232,487
(Loss) / earnings per share:			
Basic - Class A shares	$ (403.12)	$ 506.40	$ 490.77
Diluted - Class A shares	$ (403.12)	$ 506.24	$ 490.77
Basic and Diluted - Class B shares	nil	nil	nil
Basic and Diluted - Class C shares	nil	nil	nil
Weighted average shares outstanding:			
Basic - Class A shares	446,525	446,407	442,328
Diluted - Class A shares	446,525	446,553	442,328
Basic - Class B shares	15,142	12,419	10,168
Diluted - Class B shares	23,297	23,152	20,062
Basic - Class C shares	5,133	5,131	5,084
Diluted - Class C shares	5,774	5,969	5,738

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,		
	2015	2014	2013
Net (loss) / income	$ (180,002)	$ 226,062	$ 232,487
Other comprehensive (loss) / income before income taxes	-	-	-
Income taxes related to other comprehensive (loss) / income	-	-	-
Total comprehensive (loss) / income	$ (180,002)	$ 226,062	$ 232,487

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, 2015	December 31, 2014
Assets		
Cash and cash equivalents	$ 115,685	$ 91,046
Accounts and other receivables, net	166,109	282,724
Other current assets	123,878	96,899
Total current assets	405,672	470,669
Property and equipment	1,175,054	1,259,076
Less accumulated depreciation	230,421	150,428
Property and equipment, net	944,633	1,108,648
Goodwill	-	9,260
Deferred tax assets	3,697	5,381
Other assets	145,333	142,208
Total assets	$ 1,499,335	$ 1,736,166
Liabilities and equity		
Accounts payable	$ 89,968	$ 167,659
Accrued income taxes	546	8,937
Interest payable	15,773	15,773
Other current liabilities	46,672	76,818
Total current liabilities	152,959	269,187
Long-term debt	818,505	816,594
Obligations under sale and leaseback	74,703	-
Deferred tax liabilities	8,788	9,180
Other long-term liabilities	33,601	50,752
Total long-term liabilities	935,597	876,526
Commitments and contingencies		
Ordinary shares of $0.01 par value; 5,000,000 shares authorized at December 31, 2015 and 2014; 477,326 and 477,717 shares issued and outstanding at December 31, 2015 and 2014, respectively	5	5
Shares held in trust of $0.01 par value; 15,487 and 15,678 shares at December 31, 2015 and 2014, respectively	-	-
Additional paid-in capital	464,403	464,005
(Accumulated losses) / retained earnings	(53,629)	126,443
Total equity	410,779	590,453
Total liabilities and equity	$ 1,499,335	$ 1,736,166

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

SHELF DRILLING

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

	Years ended December 31,			Years ended December 31,		
	2015	2014	2013	2015	2014	2013
		Shares			Amount	
Ordinary shares						
Balance, beginning of year	477,717	474,540	450,000	$ 5	$ 5	$ 5
Capital contributions	-	-	10,789	-	-	-
Issuance of shares under share-based compensation plans	-	1,350	-	-	-	-
Shares issued to trust	-	2,274	13,751	-	-	-
Repurchase and retirement of shares	(391)	(447)	-	-	-	-
Balance, end of year	477,326	477,717	474,540	$ 5	$ 5	$ 5
Shares held in trust						
Balance, beginning of year	15,678	13,751	-	$ -	$ -	$ -
Shares issued to trust	-	2,274	13,751	-	-	-
Retirement of shares	(191)	(347)	-	-	-	-
Balance, end of year	15,487	15,678	13,751	$ -	$ -	$ -
Additional paid-in capital						
Balance, beginning of year				$ 464,005	$ 460,774	$ 449,995
Capital contributions				-	1,350	10,750
Share-based compensation expense, net of forfeitures				638	1,981	29
Repurchase and retirement of shares				(240)	(100)	-
Balance, end of year				$ 464,403	$ 464,005	$ 460,774
(Accumulated losses) / retained earnings						
Balance, beginning of year				$ 126,443	$ 23,091	$ (14,843)
Preferred shares dividend				-	-	(15,405)
Ordinary shares dividend				-	(122,710)	(179,148)
Repurchase and retirement of shares				(70)	-	-
Net (loss) / income				(180,002)	226,062	232,487
Balance, end of year				$ (53,629)	$ 126,443	$ 23,091
Total equity						
Balance, beginning of year				$ 590,453	$ 483,870	$ 435,157
Capital contributions				-	1,350	10,750
Issuance of shares under share-based compensation plans				-	-	-
Share-based compensation expense, net of forfeitures				638	1,981	29
Repurchase and retirement of shares				(310)	(100)	-
Preferred shares dividend				-	-	(15,405)
Ordinary shares dividend				-	(122,710)	(179,148)
Total comprehensive (loss) / income				(180,002)	226,062	232,487
Balance, end of year				$ 410,779	$ 590,453	$ 483,870

SHELF DRILLING

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

	Years ended December 31, 2015	2014	2013
Cash flows from operating activities			
Net (loss) / income	$ (180,002)	$ 226,062	$ 232,487
Adjustments to reconcile net (loss) / income to net cash provided by operating activities			
Depreciation	87,421	81,711	68,281
Loss on impairment of assets	271,469	-	-
Gain on insurance recovery	(25,432)	-	-
Provision for doubtful accounts, net of reversals	87,431	22,600	-
Amortization of drilling contract intangibles	(983)	(31,522)	(51,391)
Amortization of deferred revenue	(41,026)	(33,330)	(24,501)
Share-based compensation expense, net of forfeitures	638	1,981	29
Amortization of deferred costs	80,984	48,809	15,283
Amortization of debt issue costs and discounts	9,232	13,514	5,280
Loss on disposal of assets	11,299	2,921	445
Sponsors' fee accrued	-	-	4,500
Deferred tax expense / (benefit)	1,292	(3,724)	817
Changes in operating assets and liabilities	(7,757)	55,301	(83,048)
Net cash provided by operating activities	294,566	384,323	168,182
Cash flows from investing activities			
Additions to property and equipment	(157,193)	(168,404)	(111,811)
Deferred costs	(161,553)	(147,752)	(72,255)
Proceeds from disposal of property and equipment	547	844	63
Proceeds from insurance recovery	45,000	-	-
Proceeds from sale and leaseback	18,515	-	-
Payments of transaction costs for sale and leaseback	(7,555)	-	-
Change in restricted cash	(6,827)	-	(992)
Acquisition related payments	-	-	(100,180)
Net cash used in investing activities	(269,066)	(315,312)	(285,175)
Cash flows from financing activities			
Proceeds from issuance of ordinary shares	-	-	8,750
Payments for redemption of ordinary shares	(310)	(100)	-
Ordinary shares dividend paid	-	(122,710)	(179,148)
Proceeds from issuance of long-term debt	-	-	339,500
Payments to retire long-term debt	-	(74,250)	(750)
Payments of debt issuance costs	(551)	(6,720)	(8,272)
Payments for redemption of preferred shares	-	-	(195,000)
Preferred shares dividend paid	-	-	(17,030)
Advanced to related party	-	(30,039)	-
Received from related party	-	30,039	-
Net cash used in financing activities	(861)	(203,780)	(51,950)
Net increase / (decrease) in cash and cash equivalents	24,639	(134,769)	(168,943)
Cash and cash equivalents at begining of year	91,046	225,815	394,758
Cash and cash equivalents at end of year	$ 115,685	$ 91,046	$ 225,815

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. 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 ("Sponsors").

SDL, through its majority and wholly owned subsidiaries, provides safe and reliable fit-for-purpose independent cantilever jackup drilling services. The Company owns 36 independent cantilever jackup rigs and one swamp barge. An additional two newbuild high specification jackup rigs are currently being constructed in the UAE for the Company pursuant to contracts signed in 2014 (the "Newbuilds"). The total contractual cost of both rigs is expected to be approximately $370 million exclusive of capitalized interest, owner furnished equipment, change orders, project supervision, crew costs and inventory. These rigs are expected to be delivered in the UAE during the third quarter of 2016 and second quarter of 2017 ("Delivery"), respectively, and are expected to begin long term contracts with Chevron Thailand Exploration and Production, Ltd. ("Chevron") in the fourth quarter of 2016 and third quarter of 2017 ("Bareboat Charter inception dates"), respectively. See Note 8 – Property and Equipment and Note 11 – Sale and Leaseback.

Acquisition Related Matters

On September 9, 2012, the Company entered into definitive agreements with Transocean Inc. (the "Seller"), providing for the acquisition (the "Acquisition"), both directly and through the purchase of certain of the Seller's affiliates, of 37 shallow water drilling rigs and one swamp barge (the "business"). The Acquisition closed on November 30, 2012.

Through a number of individual rig Operating Agreements entered into with the Seller concurrently with the closing of the Acquisition, the Seller agreed on behalf of the Company to operate, for a transitional period of time, certain rigs acquired by the Company, and to submit invoices and collect revenue from the customers under the associated drilling contracts and pay direct costs and expenses incurred while operating the rigs. Pursuant to the Operating Agreements, the Seller also agreed to transfer the net amount of each drilling contract (customer collections less direct costs and expenses and taxes paid by the Seller) to the Company on a monthly basis. In addition, the Company agreed to pay the Seller a daily pre-determined fixed fee for in country onshore support and a daily fixed fee per rig for corporate services. The Operating Agreements for each individual rig remained in effect until the expiration, novation, or assignment to the Company of the underlying drilling contracts that were in place at the time of the Acquisition, originally resulting in effective terms ranging from 9 months to 27 months. Until the expiration, novation, or assignment of the underlying drilling contracts, the Seller retained possession of the materials and supplies associated with the rigs that the Seller operated under the Operating Agreements. Upon novation or assignment or expiration of the related drilling contracts, the individual rig Operating Agreements were terminated and the Company assumed operation of the rigs. As of December 31, 2013, the Seller operated seven rigs under the Operating Agreements and only one rig was subject to the Operating Agreements as of December 31, 2014. No rig remained subject to the Operating Agreements as of January 1, 2015.

Under a separate Transition Services Agreement entered into with the Seller concurrently with the closing of the Acquisition, the Seller agreed to provide various corporate and local services to the Company for Company operated rigs. These services were generally provided on a daily fixed fee. The services included use of the Seller's enterprise resource planning ("ERP") system for accounting, fixed assets, treasury, supply chain management, maintenance scheduling, human resource systems, information technology infrastructure and helpdesk support. The Seller agreed to provide certain of these transition services for a period of up to 18 months following the completion of the Acquisition. As of December 31, 2014, all services previously provided under the Transition Services Agreement have been assumed by the Company.

To fund the Acquisition, in addition to equity contributions of $450 million from the Sponsors, SDL used a combination of debt and Seller financing. On October 24, 2012, Shelf Drilling Holdings, Ltd. ("SDHL"), an indirect wholly owned subsidiary of SDL, completed the issuance and sale of $475 million aggregate principal amount of senior secured notes at a coupon rate of 8.625% due November 1, 2018 ("8.625% Senior Secured Notes").

On November 30, 2012, SDHL also entered into a credit agreement (the "Credit Agreement"), which consisted of a $75 million term loan facility and a $50 million credit facility to issue fully cash collateralized letters of credit. This facility was fully repaid on February 28, 2014 out of existing funds and the Credit Agreement, along with the associated $50 million cash collateralized letter of credit facility, was cancelled. There were no issued or outstanding letters of credit against the facility. The Company recorded a charge of $3.2 million of unamortized debt issuance costs in connection with this repayment.

Concurrent with the Acquisition, on November 30, 2012, Shelf Drilling Intermediate, Ltd ("SDIL"), an indirect wholly-owned subsidiary of SDL, issued 195,000 preferred shares for a deemed value of $195 million to the Seller. These preferred shares were fully redeemed on October 8, 2013. SDIL also settled in cash on October 8, 2013 all accumulated and outstanding dividends on the outstanding preferred shares.

2015 Events

On March 22, 2015, a fire broke out on one of the Company's jackup drilling rigs. There was neither human casualty nor environmental damage. On August 26, 2015, the Company insurance underwriters declared the rig a Constructive Total Loss. Gross insurance proceeds of $45 million were collected from insurance underwriters as of October 2, 2015. See Note 8 – Property and Equipment.

On July 31, 2015, Afren Plc, the United Kingdom incorporated parent of one of the Company's customers, announced that it had appointed administrators and went into administration. Afren Plc's direct subsidiaries, one of which is the Company's contract counter party (the "Customer"), were not put into administration. The Company stopped recording revenue from the customer effective August 1, 2015 even though the drilling contracts with the customer remained valid. The Company's receivable, excluding revenue from August 1, 2015 onwards, from the Customer as at December 31, 2015 was $59.2 million. The Company has fully provided for uncollectability against this amount as of December 31, 2015, including a charge of $22.6 million recorded during 2014. The Company's management will continue to work with the Customer and its parent to recover the outstanding receivable. As of December 31, 2015, the Company's management cannot predict as to when or how much of the outstanding receivable balance will be collected.

On October 10, 2015, certain wholly owned subsidiaries of Shelf Drilling, Ltd. entered into two sale and leaseback financing transactions with a combined minimum of $296.2 million and maximum of $330.0 million with two wholly owned subsidiaries of Industrial and Commercial Bank of China Leasing. See Note 11 – Sale and Leaseback.

At December 31, 2015, the Company recorded a non-cash impairment loss representing the write-off of the goodwill balance of $9.3 million to nil and $262.2 million impairment loss was recorded in relation to 13 rigs out of which 5 rigs were fully impaired. These non-cash impairments are included in loss on impairment of assets in the consolidated statements of operations. The impairment loss was recorded as a result of the reduction in the number of prospective contract opportunities, recent lower dayrates and utilization rates due to a decrease in crude oil prices, a decrease in global demand and an increase in the global supply of jackup drilling services impacting the Company. See Note 6- Goodwill and Note 8 - Property and Equipment.

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, 2015, the Company's consolidated financial statements include four joint ventures that meet the definition of variable interest entities. Intercompany transactions and accounts are eliminated in consolidation. The Company applies the equity method of accounting for investments in which it has the ability to exercise significant influence but for which; (i) the entity does not meet the variable interest entity criteria, or; (ii) the entity meets the variable interest entity criteria but the Company is not deemed the primary beneficiary. As of December 31, 2015, none of the Company's investments meet the criteria established for application of the equity method of accounting. See Note 5 – Variable Interest Entities. Certain amounts in prior periods have been reclassified to conform to the current year presentation.

Accounting Estimates — The preparation of 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 "Hein & Associates LLP", 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 receivable, property and equipment, goodwill and other intangible assets, income taxes, other post-retirement benefits and contingencies. The Company bases its estimates and assumptions on various factors that management believes are reasonable, the results of which form the basis for making judgments about the carrying amounts of assets and liabilities that are not readily apparent from other sources. While management believes current estimates are appropriate and reasonable, actual results could materially differ from those estimates.

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

Revenue Recognition — Revenues generated by rigs owned by the Company and operated by the Seller under the Operating Agreements were recorded as net revenue. Net revenue represents the customer revenue less the expenses related to the operation of the rigs (including personnel, asset management and maintenance, operating, miscellaneous and administration expenses), shore based fixed fees, corporate services fixed fee and taxes paid by the Seller. Under ASC 605-45 (Revenue Recognition), the Company deemed the Seller as the principal regarding the drilling service contracts during the term of the Operating Agreements based on the following:

- The Seller is the contractual primary obligor under the drilling services contracts with customers; and
- The Seller is responsible for fulfillment of drilling services under the contracts subject to the Operating Agreements, including the provision of rigs, rig crew, and all of the related goods and services including general inventory risk.

While the Seller effectively earned no profit under the Operating Agreements and the Company retained the general credit risks, indicating that the Company may be the principal, the Company views the other factors discussed above as more indicative and determined that net revenue presentation was appropriate.

Operating revenues generated by the Company owned and operated rigs under the Transition Services Agreement are recorded on a gross basis. Revenue is recognized when earned and realizable, based on contractual dayrates.

Upon completion of the transition periods related to the Operating Agreements with the Seller, revenue is recognized on a gross basis as earned and realizable, based on contractual dayrates. Amounts received prior to the beginning of a drilling contract period, such as payments for mobilization, contract preparation and lump sums for capital upgrades, are deferred and recognized on a straight-line basis over the primary term of the contract to which they relate. Upon completion of drilling contracts, any demobilization fees are immediately recognized as revenue.

Other operating revenue consists of amounts billed for goods and services which are acquired by the Company from other sources and re-billed to customers.

Operating and Deferred Costs — Operating costs are recognized when incurred. Mobilization and demobilization costs of relocating drilling units without contracts to more promising market areas 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, respectively. 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 the period between regularly scheduled overhauls of the same nature.

Foreign Currency — The Company's functional currency is the U.S. dollar. As is customary in the oil and gas industry, the majority of the Company's revenues and expenditures are denominated in U.S. dollar. As such, the Company's exposure to non U.S. dollar denominated currency exchange rate fluctuations is limited. Certain revenues and expenditures incurred by certain subsidiaries are denominated in currencies other than the U.S. dollar. Non U.S. dollar revenues and costs are recorded in U.S. dollars at the prevailing exchange rate as of the date of recognition. Cash receipts and payments made in other currencies are recorded in U.S. dollars at the prevailing exchange rate as of the transaction date. Transaction gains or losses are recorded in net income. Monetary assets and liabilities denominated in foreign currency are re-measured to U.S. dollars at the rate of exchange in effect at the end of each month and unrealized exchange gains or losses are recognized in the consolidated statements of operations.

Cash and Cash Equivalents — Cash and cash equivalents include cash on hand and in banks.

Accounts Receivable and Allowance for Doubtful Accounts — Receivables, including accounts receivable, are recorded in the consolidated balance sheets at their nominal amounts less an allowance for doubtful accounts. An allowance for doubtful accounts is established on a case-by-case basis, considering changes in the financial position of a customer, when it is believed that the required payment of specific amounts owed is unlikely to occur.

Drilling Contract Intangibles — In connection with the Acquisition, the Company acquired certain existing drilling contracts for future contract drilling services. The terms of these contracts include fixed dayrates that were above or below the market dayrates that were estimated to be available for similar contracts as of the date of the Acquisition. Drilling contract intangibles were recorded as current and non-current assets and liabilities and amortized on a straight-line basis over the respective contract periods.

Property and Equipment — Property and equipment was stated at fair market value as of the date of the Acquisition. Inventory acquired with the business was capitalized as part of the rigs and is maintained at a level to support the operations of the rig. Expenditures for property and equipment that substantially increase the useful lives of existing assets are capitalized at cost and depreciated. Routine expenditures for repairs and maintenance are expensed as incurred.

Construction in progress is stated at cost incurred to bring the asset to the condition and location necessary for its intended use. These costs include direct costs of construction, interest capitalized during the period of construction for the Newbuilds and transaction costs directly related to the sale and leaseback of the Newbuilds. Construction in progress is transferred to property and equipment when all the activities necessary to prepare an asset for its intended use are completed and the asset has been placed in service. 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.

The estimated useful lives of property and equipment are as follows:

	Years
Drilling rigs (salvage value of 10%)	30
Drilling equipment and spares	9-13
Other	3-5

The remaining estimated average useful life of existing drilling rigs in the Company's fleet at December 31, 2015 and 2014 is 11 and 12 years, respectively.

The Company evaluates property and equipment whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. An impairment loss on property and equipment exists when the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. Any actual impairment loss recognized represents the excess of the asset's carrying value over the estimated fair value. The Company estimates the fair values of property and equipment by applying a combination of income and market approaches, using projected discounted cash flows and estimates of the exchange price that would be received for the assets in the principal or most advantageous market for the assets in an orderly transaction between market participants as of the measurement date.

When assets are sold, retired or otherwise disposed of, the cost and related accumulated depreciation are written off, net of any proceeds received, and any gain or loss is reflected in the consolidated statements of operations.

Capitalization of Interest — The Company capitalizes interest costs in connection with major construction programs, including the Newbuilds. Capitalized interest is recorded as part of the asset to which it relates and is subsequently depreciated over the asset's useful life.

Inventory — 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.

Goodwill — Impairment testing for goodwill 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 segment constitutes a business for which financial information is available and is regularly reviewed by management. The Company has one reportable segment that is contract drilling services. The individual drilling rigs are components of the segment.

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 segment 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 segment to the estimated fair value of the segment to determine that it is more likely than not that the goodwill is impaired. The fair value is estimated using projected discounted future cash flows, publicly traded company multiples and / or acquisition multiples. If the estimated fair value of the Company's goodwill is less than the carrying value, the Company considers goodwill impaired and performs a second step to measure the amount of the impairment loss, if any. See Note 6 – Goodwill.

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 expense is recognized in interest expense and financing charges in the consolidated statements of operations.

Leased capital assets are depreciated over the useful lives of the assets. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful lives of the assets and the lease term.

Any loss arising on sale and leaseback transaction as a result of sale price lower than fair value is recognized immediately in the consolidated statements of operations. In situations where loss on sale of asset under sale and leaseback is compensated for by future lease payments at below market price, it is deferred and amortized in proportion to the lease payments over the period for which the asset is expected to be used.

Where the sale price is above fair value, the excess over fair value is deferred and amortized over the period for which the asset is expected to be used. In the case of profits arising on sale and leaseback transactions resulting in capital leases, the excess of sale proceeds over the carrying amount is deferred and amortized over the lease term.

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 lease payments are recognized as an operating expense in the consolidated statements of operations on a straight-line basis over the lease term.

Income Taxes — Income taxes are provided for based on relevant tax laws and rates in effect in the countries in which the Company operates and earns income or in which the Company is considered resident for income tax purposes. The current income tax expense reflects an estimate of the Company's income tax liability for the current year, including changes in prior year tax estimates as returns are filed, and any tax audit adjustments. Deferred income tax assets and liabilities, including net operating loss carry-forwards which the Company anticipates utilizing at the subsidiary level, reflect anticipated future tax effects of differences between the financial statement basis and tax basis of assets and liabilities based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. When necessary, valuation allowances are established to reduce deferred income tax assets to the amount expected to be realized. Reserves are recorded to offset tax benefits related to tax positions that have been taken that are more likely than not to ultimately be denied upon examination or audit by tax authorities. Any interest and penalties related to such reserves are included as a component of the income tax expense.

The Company is subject to the tax laws, including relevant regulations, treaties, and court rulings, of the countries and jurisdictions in which the Company operates. The provision for income taxes is based upon interpretation of the relevant tax laws in effect at the time the expense was incurred. If the relevant taxing authorities do not agree with the Company's interpretation and application of such laws, or if any such laws are changed retroactively, additional tax may be imposed which could significantly increase the Company's effective tax rate related to its worldwide earnings.

Contingencies — Assessments of contingencies are performed on an ongoing basis to evaluate the appropriateness of liabilities and disclosures for such contingencies. Liabilities are established for estimated loss contingencies when a loss is believed to be probable and the amount can be reasonably estimated. Corresponding assets are recognized for those loss contingencies that are assessed as probable of being recovered through insurance. Once established, the carrying amount of a contingent liability is adjusted upon the occurrence of a recognizable event when facts and circumstances change which alter previous assumptions with respect to the likelihood or amount of loss. Legal costs are expensed as incurred in the consolidated statements of operations.

Share-based Compensation — Share-based payments are accounted for in accordance with ASC 718, Compensation-Stock Compensation, which requires that share-based payments (to the extent they are compensatory) be recognized in the consolidated statements of operations based on their fair values and the estimated number of shares or units that are ultimately expected to vest. For awards which vest based on service conditions, the value of the portion of the award that is ultimately expected to vest is recognized as an expense over the five year vesting period. For awards which vest only after an exit event or Initial Public Offering ("IPO"), compensation expense is recognized upon the occurrence of the event. See Note 18 – Share-based Compensation.

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. These benefits are accounted for under the provisions of ASC 712 and 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 long-term liabilities in the consolidated balance sheets.

Certain employees are covered under a plan which is accounted for under the provisions of ASC 715 as a defined benefit plan. Elements of benefit obligations, net periodic benefit costs and funded status of the plan are calculated by an outside service provider based on census and related data provided by the Company.

The Company makes contributions to defined contribution savings plans which cover certain employees. Benefits under these plans vary and are generally tied to service years. These amounts are expensed as incurred. See Note 12 – Employee Benefit Plans.

Deferred Financing Costs — Financing costs are deferred and amortized over the life of the associated debt. In the event of early retirement of debt, any unamortized financing costs associated with the retired debt are immediately expensed.

Earnings Per Share — The Company presents basic and diluted earnings per share ("EPS") data for its ordinary shares. Basic EPS is calculated by dividing the net income attributable to ordinary shares by the weighted average number of those shares outstanding during the period, adjusted for any treasury shares held. Diluted EPS adjusts the figures used in the determination of basic EPS to take into account the effect associated with dilutive potential ordinary shares and the weighted average number of shares assumed to have been issued for no consideration in relation to dilutive potential ordinary shares.

Basic and diluted EPS are computed in conformity with the two class method and applied to the three classes of common shares issued by the Company. Earnings are allocated to the three classes based on a "Waterfall" methodology which specifies the accretion of earnings to the three classes at different rates, giving effect to total cumulative earnings since issuance of the shares. This Waterfall treatment was established and defined in the Amended and Restated Memorandum and Articles of Association of the Company (the "Articles").

Subsequent Events — Subsequent events are evaluated through the date of issuance of the financial statements.

Note 3 — New Accounting Pronouncements

Recently adopted accounting standards

Effective January 1, 2015, the Company adopted the Accounting Standard Update ("ASU") No. 2014-08, which amends Accounting Standards Codification (ASC) Subtopic Topic 205, "Presentation of Financial Statements" and ASC Topic 360, "Property, Plant, and Equipment, that changes the criteria for reporting discontinued operations". This ASU alters the definition of a discontinued operation to cover only asset disposals that are a strategic shift with a major effect on an entity's operations and finances, and calls for more extensive disclosures about a discontinued operation's assets, liabilities, income and expenses. The guidance is effective for all disposals, or classifications as held-for sale, of components of an entity that occur within annual periods beginning on or after December 15, 2014. The adoption has no material effect on the consolidated financial statements.

Recently issued accounting standards

In May 2014, Financial Accounting Standards Board ("FASB") issued 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. This ASU defers the effective date of ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) for all entities by one year from annual reporting periods beginning after December 15, 2017 to annual reporting periods beginning after December 15, 2018. The Company does not intend to early adopt this Standard. The Company is evaluating the impact of this standard on the consolidated financial statements.

In April 2015, FASB issued ASU No. 2015-03, Interest - Imputation of Interest (Subtopic 835-30): "Simplifying the Presentation of Debt Issuance Costs" which requires that debt issuance costs be presented in the Balance Sheet as a direct deduction from the carrying amount of the debt liability, consistent with debt discounts or premiums. The recognition and measurement guidance for debt issuance costs are not affected by the amendments in this ASU. These amendments should be applied on a retrospective basis and treated as a change in an accounting principle. The new presentation guidance is effective for fiscal years and interim periods beginning after December 15, 2015 and early adoption is permitted for financial statements that have not been previously issued. In August 2015, an additional guidance, ASU No. 2015-15 was issued by FASB to clarify that this presentation change does not address debt issuance costs related to line-of-credit arrangements. The guidance allows a debt issuance cost related to a line-of-credit to be presented in the Balance Sheet as an asset and subsequently amortized ratably over the term of the line-of-credit arrangement, regardless of whether there are any outstanding borrowings on the line-of-credit arrangement. The Company is evaluating the impact of this standard on the consolidated financial statements.

In November 2015, the FASB has issued ASU No. 2015-17, Income Taxes (Topic 740): "Balance Sheet Classification of Deferred Taxes", intended to change how deferred taxes are classified. This new guidance requires all deferred tax assets and liabilities be classified as noncurrent in a classified Balance Sheet. The amendments are effective for financial statements issued for annual periods beginning after December 15, 2017, and interim periods within annual periods beginning after December 15, 2018. The Company does not intend to early adopt this standard and management believe adoption will not have any effect on the consolidated financial statements.

Note 4 — Operating Revenues

The Company earned operating revenues from i) rigs operated by the Company and ii) rigs operated by the Seller under the Operating Agreements. See Note 1 – Nature of Business and Note 2 – Significant Accounting Policies. As of January 1, 2015, all rigs formerly operated by the Seller under the Operating Agreements are being operated by the Company.

Operating revenues were as follows (in thousands):

	Years ended December 31,		
	2015	2014	2013
Operating revenues			
Revenue from rigs operated by the Company...................	$ 1,012,757	$ 1,173,441	$ 440,228
Net revenue from rigs under Operating Agreements.......	-	40,259	290,798
	$ 1,012,757	$ 1,213,700	$ 731,026

Net revenue from rigs under Operating Agreements is comprised of (in thousands):

	Years ended December 31,		
	2015	2014	2013
Gross revenue from rigs under Operating Agreements...........	$ -	$ 115,485	$ 723,265
Costs and expenses			
Operating and maintenance...	-	(64,946)	(383,426)
General and administrative...	-	(1,986)	(14,176)
Income tax expense..	-	(8,307)	(34,753)
Other income / (expense)...	-	13	(112)
Net revenue from rigs under Operating Agreements.......	$ -	$ 40,259	$ 290,798

Effective January 1, 2015, the Company entered into an extension of a fixed dayrate contract with one of its customers which included a dayrate linked to the Brent crude oil price. The Company qualifies for an exemption on derivative accounting under ASC 815-10-15-32 due to the correlation of the Brent crude oil price with the global offshore drilling unit dayrates. Therefore, the Company is not required to separate the embedded derivative from the drilling contract. The Company records revenue under this contract similarly to other drilling contracts following the ASC 605- Revenue Recognition.

Note 5 — Variable Interest Entities

Consolidated variable interest entities ("VIEs") — The Company, through its indirect subsidiary SDHL, is the primary beneficiary of four VIEs which are consolidated in the accompanying financial statements. Certain facts and circumstances regarding the Company's investment in one of these VIEs were finalized during 2014 period. The Company reported a non-controlling interest position in the December 31, 2013 financial statements for this VIE based on available information at December 31, 2013. As of December 31, 2014, upon finalization of the terms of the investment, management determined the Company was the primary beneficiary of this VIE. As such, the accompanying financial statements reflect no non-controlling interest position.

Note 6 — 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 purposes of evaluating goodwill, the Company has a single reporting unit, which represents the contract drilling services. The Company concluded that there were sufficient indicators to require a goodwill impairment analysis during the fourth quarter of 2015 given the market environment impacting the Company, including the reduction in the number of prospective contract opportunities, recent lower dayrates and utilization rates due to a decrease in crude oil prices, a decrease in global demand and an increase in the global supply of jackup drilling services. In accordance with the applicable accounting guidance, the Company performed a two-step impairment test.

In the first step of the impairment test, the Company determined that the segment fair value was lower than its carrying value. The second step was therefore performed to measure the amount of impairment by comparing the implied fair value of the reporting unit's goodwill to the carrying amount of that goodwill. Based on this analysis, the Company determined goodwill was fully impaired and recognized a non-cash impairment charge of $9.3 million for the year ended December 31, 2015, which is included in the loss on impairment of assets in the consolidated statements of operations. In 2014, there were no impairment indicators identified hence no impairment of goodwill was recognized. As a result, the carrying value of the goodwill as of December 31, 2015 and 2014 was nil and $9.3 million, respectively.

Note 7 — Acquired Drilling Contract Intangibles

The gross carrying amounts of the fair market value of acquired drilling contracts and accumulated amortization are as follows (in thousands):

	Year ended December 31, 2015			Year ended December 31, 2014		
Acquired drilling contract - assets	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Beginning Balance	$ 36,258	$ (31,936)	$ 4,322	$ 36,258	$ (24,468)	$ 11,790
Amortization	-	(4,322)	(4,322)	-	(7,468)	(7,468)
Ending Balance	$ 36,258	$ (36,258)	$ -	$ 36,258	$ (31,936)	$ 4,322
Current portion			$ -			$ 4,322
Non-current portion			-			-
Total			$ -			$ 4,322

	Year ended December 31, 2015			Year ended December 31, 2014		
Acquired drilling contract - liabilities	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Beginning Balance	$ 123,624	$ (118,319)	$ 5,305	$ 123,624	$ (79,329)	$ 44,295
Amortization	-	(5,305)	(5,305)	-	(38,990)	(38,990)
Ending Balance	$ 123,624	$ (123,624)	$ -	$ 123,624	$ (118,319)	$ 5,305
Current portion			$ -			$ 5,305
Non-current portion			-			-
Total			$ -			$ 5,305

The carrying amounts of the acquired drilling contract intangibles were estimated to be equal to their fair value as of December 31, 2014 due to the nature of those contracts. As of December 31, 2015, all of the drilling contracts intangibles acquired at the time of Acquisition have been fully amortized.

Note 8 — Property and Equipment

There were no rig additions to the Company's drilling rig fleet during 2015 or 2014. Total capital expenditures for the year ended 2015 and 2014 were $171.9 million and $191.4 million, respectively. This includes $95.3 million and $76.2 million related to progress payments, internal project costs, change orders, owner furnished equipment and capitalized interest for the Newbuilds during 2015 and 2014, respectively. Total expenditure to December 31, 2015 on the Newbuilds included in construction in progress is $171.5 million, $74.1 million of which was paid by the Lessor (see Note 11 – Sale and Leaseback). There were no such transactions for the year ended December 31, 2014.

Disposals of other property and equipment were $15.5 million and $9.1 million at cost and $12.0 million and $4.2 million at net book value during 2015 and 2014, respectively. Interest capitalized on the Newbuild rigs totaled $9.4 million and $1.8 million for the year ended December 31, 2015 and 2014, respectively. Interest capitalized during 2015 includes $1.8 million related to the sale and leaseback financing agreements, out of which $643 thousand represents interest in kind added to the obligation under the sale and leaseback.

On March 22, 2015, a fire broke out on one of the Company's jackup drilling rigs. There was neither human casualty nor environmental damage. The rig was covered under the Company's Hull and Machinery and Excess Liability coverage for an insured value of $45 million. On August 26, 2015, the Company insurance underwriters declared the rig a Constructive Total Loss at a value of $45 million. As a result, the Company recognized an overall estimated net gain of $25.4 million during the year ended December 31, 2015. The Company wrote-off the $10.6 million net book value and $1.2 million of unamortized deferred expenditure of the rig, and recorded $6.8 million direct costs related to this incident, $500 thousand estimated liability for scrapping the rig, $351 thousand local tax and $126 thousand prepaid insurance premium offset with the insurance proceeds received as of December 31, 2015.

The following is a summary of property and equipment (in thousands):

	December 31, 2015	December 31, 2014
Drilling rigs and equipment	$ 955,640	$ 1,085,520
Construction in progress	179,261	145,214
Spares	23,947	14,140
Other	16,206	14,202
Total property and equipment	$ 1,175,054	$ 1,259,076
Less: Accumulated depreciation	(230,421)	(150,428)
Total property and equipment, net	$ 944,633	$ 1,108,648

Loss on Impairment of Assets - The Company assesses the recoverability of the Company's long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. During the fourth quarter ended December 31, 2015, the Company identified indicators of impairment impacting the Company, including the reduction in the number of new contract opportunities, recent lower dayrates and utilization rates due to decrease in crude oil prices, a decrease in global demand and increase in global supply of jackup drilling services. 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.

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 dispositions is less than its carrying amount. Any actual impairment loss recognized represents the excess of the asset's carrying value over the estimated fair value.

The fair value of the drilling rigs using the income approach is based on estimated discounted cash flows expected to result from the use of the rigs. The estimate of fair value required the Company to use significant unobservable inputs, representative of a Level 3 fair value measurement, including assumptions related to the future performance of the rigs, such as projected demand, rig utilization rates and dayrates. Such estimates of future undiscounted cash flows are highly subjective and are based on numerous assumptions about future operations and market conditions. The Company determined the fair value of the fleet by using the income approach and utilizing a weighted average cost of capital of approximately 11.38% for all the rigs including the Newbuilds.

As a result of the analysis and impairment testing, the Company recognized an impairment loss of $262.2 million on 13 of the Company's rigs, out of which 5 rigs were fully impaired, which is included in loss on impairment of assets in the consolidated statements of operations for the year ended December 31, 2015. There was no impairment recorded for the year ended December 31, 2014 and 2013, respectively. The impairment loss includes the write-off of $11.1 million current and $25.6 million non-current deferred costs.

Note 9 — Income Taxes

Tax Rate — Shelf Drilling, Ltd., a holding company and Cayman Islands resident, is exempt from all income taxation in the Cayman Islands.

The provision for income taxes is based on the tax laws and rates applicable in the jurisdictions in which the Company operates and earns income or is considered resident for income tax purposes. The relationship between the provision for or benefit from income taxes and the income or loss before income taxes can vary significantly from period to period considering, among other factors, (a) the overall level of income before income taxes, (b) changes in the blend of income that is taxed based on gross revenues rather than income before taxes, (c) rig movements between taxing jurisdictions and (d) rig operating structures.

The annual effective tax rate for the Company's continuing operations was (20.3) percent, 16.0 percent and 7.8 percent for 2015, 2014 and 2013, respectively. The effective tax rate for the 2014 period does not include taxes attributed to the rigs operated by the Seller as such taxes were the legal liability of the Seller. As of January 1, 2015, the Seller no longer operates any rigs owned by the Company.

Income Tax Expense — Income tax expense was $30.4 million, $43.0 million and $19.7 million for 2015, 2014 and 2013, respectively. The components of the provisions for income taxes were as follows (in thousands):

	Years ended December 31,		
	2015	2014	2013
Current tax expense	$ 29,081	$ 46,756	$ 18,870
Deferred tax expense / (benefit)	1,292	(3,724)	817
Income tax expense	$ 30,373	$ 43,032	$ 19,687

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,		
	2015	2014	2013
Income tax expense at the Cayman statutory rate	$ -	$ -	$ -
Taxes on earnings subject to rates different than Cayman statutory rate	33,051	42,046	19,644
Change in reserve for uncertain tax positions	(2,962)	-	-
Other	284	986	43
Income tax expense	$ 30,373	$ 43,032	$ 19,687

Deferred Taxes — The significant components of the Company's deferred tax assets and liabilities are as follows (in thousands):

	December 31,	
	2015	2014
Deferred tax assets		
Net operating loss carry-forwards of subsidiaries	$ 3,697	$ 5,897
Valuation allowance	-	(516)
	$ 3,697	$ 5,381

	December 31,	
	2015	2014
Deferred tax liabilities		
Depreciation	$ -	$ 1,834
Unremitted earnings	8,788	7,346
	$ 8,788	$ 9,180

At December 31, 2015 and 2014, the Company's deferred tax liabilities include liabilities related to the future income tax cost of repatriating the unremitted earnings of certain subsidiaries that are not indefinitely reinvested or that will not be indefinitely reinvested in the future. If unforeseen law changes or other facts and circumstances cause a change in expectations regarding the future tax cost of repatriating these earnings, the resulting adjustments to the deferred tax balances could have a material effect on the Company's consolidated financial statements. The Company's deferred tax assets include subsidiary level net operating loss carry-forwards which are expected to be utilized in future periods. To the extent that insufficient taxable income is generated by the relevant subsidiaries in future years to fully utilize these net operating loss carry-forwards, any remaining carry-forwards will expire in 2022.

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 resulted in a reduction in tax liabilities for those subsidiaries. In management's judgment, these tax positions are "uncertain" in that they are likely to be successfully challenged by the relevant tax authorities in the future. As such, the tax benefits related to these uncertain tax positions have been offset by a corresponding tax liability. The Company acquired substantially all of these liabilities from the Seller as part of the Acquisition and is fully indemnified by the Seller for all such acquired liabilities, including any related interest and penalties. Any interest and penalties related to such liabilities are included as a component of income tax expense. Not considering any indemnification, the liabilities related to uncertain tax positions, including related interest and penalties, were as follows (in thousands):

	December 31,	
	2015	2014
Liabilities for uncertain tax positions, excluding interest and penalties	$ 1,357	$ 3,734
Interest and penalties	-	585
Liabilities for uncertain tax positions, including interest and penalties	$ 1,357	$ 4,319

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

	December 31,	
	2015	2014
Balance, beginning of year	$ 3,734	$ 4,554
Additions / (reductions) for prior period tax positions	333	(787)
Reductions related to statute of limitation expirations	(2,710)	(33)
Balance, end of year	$ 1,357	$ 3,734

The Company engages in ongoing discussions with tax authorities regarding the resolution of tax matters in the various jurisdictions in which it operates. Both the ultimate outcome of these tax matters and the timing of any resolution or closure of tax audits are uncertain. While the Company cannot predict or provide assurance as to the final outcome of these proceedings, it does not expect the ultimate liability to have a material adverse effect on its consolidated financial statements. Further, the Company is indemnified from any tax liabilities of subsidiaries previously owned by the Seller related to the periods prior to the Acquisition.

Tax Returns — The Company is currently subject to or expects to be subject to income tax examinations in various jurisdictions where the Company operates or has previously operated. While the Company cannot predict or provide assurance as to the final outcome of any tax proceedings, the Company does not expect the ultimate tax liability to have a material adverse effect on its consolidated balance sheets or consolidated statements of operations. Any tax liability relating to entities acquired by the Company from the Seller and relating to periods prior to the Acquisition are indemnified by the Seller. Many of the Company's entities that are subject to income taxation were formed in 2013 and were not required to file their initial tax returns until 2014, therefore, there is limited historical income tax exposure for these entities.

Other Tax Matters — Operations are conducted through various subsidiaries in a number of countries throughout the world. Each country has its own tax regimes with varying nominal rates, deductions and tax attributes. From time to time, changes to previously evaluated tax positions may be identified that could result in adjustments to the current recorded assets and liabilities. Although it is not possible to predict the outcome of these changes, it is not expected that the effect, if any, resulting from these assessments to have a material adverse effect on the consolidated balance sheets, statements of operations or statements of cash flows.

Note 10 — Debt

Debt is comprised of the following (in thousands):

	December 31, 2015	December 31, 2014
8.625% Senior Secured Notes, due November 1, 2018 (see note (i) below)	$ 475,000	$ 475,000
Term Loan Facility, due October 8, 2018 (see note (ii) below)	343,505	341,594
Term Revolving Credit Facility, due April 30, 2018 (see note (iii) below)	-	-
Total debt	$ 818,505	$ 816,594

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

For the twelve months ending December 31,	
2016	$ -
2017	-
2018	818,505
Total debt	$ 818,505

Original issue discount of $10.5 million on the $350 million term loan is being amortized and charged to the interest expense and financing charges over the life of the loan using the effective interest rate method.

	December 31, 2015		
	Notional Amount	Unamortized Discount	Carrying Value
Term Loan Facility, due October 8, 2018	$ 350,000	$ 6,495	$ 343,505

	December 31, 2014		
	Notional Amount	Unamortized Discount	Carrying Value
Term Loan Facility, due October 8, 2018	$ 350,000	$ 8,406	$ 341,594

	Year ended December 31, 2015			
	Coupon Interest	Discount Amortization	Total Interest	Effective Rate
Term Loan Facility, due October 8, 2018	$ 35,486	$ 1,911	$ 37,397	10.93%

	Year ended December 31, 2014			
	Coupon Interest	Discount Amortization	Total Interest	Effective Rate
Term Loan Facility, due October 8, 2018	$ 35,486	$ 1,714	$ 37,200	10.93%

(i) 8.625% Senior Secured Notes, due November 2018

On October 24, 2012, SDHL completed the issuance and sale of $475 million aggregate principal amount of the 8.625% senior secured notes due November 1, 2018. The 8.625% Senior Secured Notes were sold at par and SDHL received net proceeds from the offering of the 8.625% Senior Secured Notes of $452.8 million after deducting the offering expenses of $22.2 million. Interest on the 8.625% Senior Secured Notes accrues from October 25, 2012 at a rate of 8.625% per year and is payable semi-annually in arrears on May 1 and November 1 of each year, beginning May 1, 2013.

SDHL's obligations under the 8.625% Senior Secured Notes are guaranteed by substantially all of SDHL's subsidiaries (collectively, the "Note Guarantors"), subject to certain exceptions. The obligations of SDHL and the Note Guarantors are secured by liens on substantially all of the rigs and other assets owned by SDHL and the Note Guarantors. These liens are subordinate to the liens securing the obligations of SDHL and the Note Guarantors under the $200 million Revolving Credit Facility ("SDHL Revolver").

SDHL may redeem the 8.625% Senior Secured Notes, in whole or part, at the redemption prices set forth below, together with accrued and unpaid interest to the redemption date.

Period	Redemption Price
On or after May 1, 2015	104.313%
On or after November 1, 2016	102.156%
On or after November 1, 2017 and thereafter	100.000%

If SDHL experiences a change of control, as defined in the indenture governing the 8.625% Senior Secured Notes (the "Indenture"), it must offer to repurchase the 8.625% Senior Secured Notes at an offer price in cash equal to 101% of their principal amount, plus accrued and unpaid interest. Furthermore, following certain asset sales, SDHL may be required to use the proceeds to offer to repurchase the 8.625% Senior Secured Notes at an offer price in cash equal to 100% of their principal amount, plus accrued and unpaid interest.

(ii) Term Loan Facility, due October 2018

On October 8, 2013, Shelf Drilling Midco, Ltd ("Midco"), a wholly owned subsidiary of the Company, entered into a Credit Agreement ("Midco Credit Agreement") 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 3% original issue discount and $8.3 million of transaction costs. Borrowings under the Credit Agreement bear interest, at Midco's option, at either (i) the Alternate Base Rate ("ABR") which is defined as the highest of the administrative agent's corporate base rate of interest, 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 Credit Agreement) plus 1%, plus an applicable margin of 8% per year, or (ii) the Adjusted Libor Rate plus an applicable margin of 9% per year. Interest is paid semi-annually on March 31 and September 30. The first and last interest installments must be paid in cash; other interest installments may be paid in kind at the option of the Company if certain conditions are met. Interest paid in kind accrues at the otherwise applicable interest rate plus 0.75% per year.

Midco may, at its option, redeem all or part of the term loan a) at any time during the third year of the loan at a price of 102% of the principal being redeemed; b) at any time during the fourth year of the loan at a price of 101% of the principal being redeemed; and (c) thereafter at a price of 100% of the principal being redeemed. These redemption prices do not apply to redemptions from the net cash proceeds of one or more qualified or public equity offerings. The net cash proceeds from qualified equity offerings can be used to redeem up to 35% of the aggregate principal of the loan outstanding without any premium and the net cash proceeds of public equity offerings can be used to redeem up to 100% of the aggregate principal of the loan outstanding at a price of 102% of the principal being redeemed. Redemption from equity offerings must occur within 180 days after the closing of the equity offering.

The Midco Credit Agreement requires mandatory prepayments of amounts outstanding thereunder with the net proceeds of certain asset sales and debt issuances.

Midco's obligations under the Midco Credit Agreement are secured by liens on substantially all of Midco's assets, including Midco's shares in SDIL, subject to certain exceptions.

(iii) Term Revolving Credit Facility, due April 2018

On February 24, 2014, SDHL entered into a $150 million Revolving Credit Facility which was available for utilisation on February 28, 2014. The SDHL Revolver can be drawn as cash, letters of credit or bank guarantees, or a mixture of cash, letters of credit and guarantees, subject to the satisfaction of customary conditions set forth in the underlying credit agreement. All borrowings under the SDHL Revolver mature on April 30, 2018, and letters of credit and bank guarantees issued under the SDHL Revolver expire no later than five business days prior to April 30, 2018. On June 11, 2014 in accordance with the terms of the SDHL Revolver, the Company sought and was granted, an increase in the total amount available under the SDHL Revolver to $200 million.

The Company issued bank guarantees of $37.0 million and performance bonds of $11.3 million against the $200 million SDHL Revolver as of December 31, 2015. As a result, the remaining available balance under the Term Revolving Credit Facility is $151.7 million as of December 31, 2015. No amounts were drawn under this facility as at December 31, 2014.

Cash borrowings under the SDHL Revolver bear interest, at SDHL's option, at either (i) the Adjusted Libor Rate plus Applicable Margin, as defined in the SDHL Revolver or (ii) the Alternate Base Rate ("ABR", the highest of the prime rate, the federal funds rate plus 0.5% per year, or the one-month Adjusted LIBOR Rate (as defined in the SDHL Revolver) plus 1% per year), plus Applicable Margin. Participation fees accrue on financial letters of credit and bank guarantees at the Applicable Margin for borrowings at the Adjusted LIBOR Rate and on non-financial letters of credit and bank guarantees at 50% of the Applicable Margin for borrowings at the Adjusted LIBOR Rate. The Applicable Margin is calculated based on credit ratings of SDL by Standard and Poor's and Moody's; currently the Applicable Margin is 4.0% per year for borrowings at the Adjusted LIBOR Rate and 3.0% per year for borrowings at the Alternate Base Rate. The Applicable Margin can range from a maximum of 5.0% per year and a minimum of 3.5% per year for borrowings at the Adjusted LIBOR Rate and from a maximum of 4.0% per annum and a minimum of 2.5% per year for borrowings at the Alternate Base Rate. SDHL is liable to pay a commitment fee to the administrative agent on the daily unused amount of the SDHL Revolver at 30% of the Applicable Margin for borrowings at the Adjusted LIBOR Rate. The facility is cancellable by SDHL at any time with no penalty or premium.

Additionally, if SDHL as of the last day of any fiscal quarter is using more than 25% of the SDHL Revolver (excluding non-financial or cash-collateralized letters of credit and bank guarantees), then the SDHL Revolver requires that SDHL and the Guarantors (as defined below) have a total net leverage ratio (consolidated net indebtedness to consolidated EBITDA, as defined in the SDHL Revolver) of not greater than 3:1 for the four consecutive fiscal quarters ended on such last day. This covenant did not apply as the Company had not met the more than 25% threshold as of December 31, 2015. The SDHL Revolver had not been used as at December 31, 2014.

SDHL's obligations under the SDHL Revolver are guaranteed by substantially all of SDHL's subsidiaries (collectively, the "Guarantors"), subject to certain exceptions. The obligations of SDHL and the Guarantors are secured by liens on substantially all of the rigs and other assets owned by SDHL and the Guarantors. The liens securing the SDHL Revolver are senior to the liens securing the Senior Secured Notes.

Terms Common to All Indebtedness

The Indenture, the Midco Credit Agreement and the SDHL Revolver contain customary events of default. These agreements also contain a provision under which an event of default by SDHL or by any restricted subsidiary (under the Credit Agreement, the SDHL Revolver and the Indenture) and by Midco or by any restricted subsidiary (under the Midco Credit Agreement) on any other indebtedness exceeding $25 million would be considered an event of default if such default: a) is caused by failure to pay the principal or interest when due after the applicable grace period, or b) results in the acceleration of such indebtedness prior to maturity.

The Indenture, the SDHL Revolver and the Midco Credit Agreement contain covenants that, among other things, limit SDHL's and, in the case of the Midco Credit Agreement, SDIL's and Midco's ability and the ability of their restricted subsidiaries to:

- incur additional indebtedness or issue certain preferred stock;
- make restricted payments or investments;
- sell assets;
- create liens;
- engage in transactions with affiliates; and
- consolidate, merge or transfer all or substantially all of its assets.

The Company incurred a total of $8.3 million of transaction costs related to the Midco term loan facility agreement, $7.2 million of transaction costs related to the SDHL Revolver, and $22.2 million of transaction costs related to issuance of 8.625% Senior Secured Notes. These costs are carried as both short-term and long-term term assets on the consolidated balance sheets and are being amortized over the life of the associated debt.

Note 11 — Sale and Leaseback

On October 10, 2015, two wholly owned subsidiaries of SDL, Shelf Drilling TBN I, Ltd and Shelf Drilling TBN II, Ltd (collectively, the "Lessee"), whose assets consist solely of the two under construction fit-for-purpose new build jackup rigs entered into a combined minimum of $296.2 million and maximum of $330.0 million ("Purchase Price") sale and leaseback financing transactions (the "Sale and Leaseback Transactions") with Hai Jiao 1502 Limited and Hai Jiao 1503 Limited (collectively, the "Lessor"), both wholly owned subsidiaries of Industrial and Commercial Bank of China Leasing. In connection with this sale, the Lessee executed Memorandum of Agreements and Bareboat Charter agreements to sell the rigs and bareboat charter the rigs back from the Lessor 90 days from expected delivery date for a period of 5 years. See Note 8 – Property and Equipment.

The Company, in substance, is the accounting owner of the Newbuilds during the construction period due to being the primary obligor on the construction contract and its involvement during the construction period. The Company will effectively receive the Purchase Price over the construction period from the Lessor in the form of construction milestone payments paid directly by the Lessor to Lamprell Energy Limited (the "Builder") on various due dates as per the construction contracts. The Company will record these payments as construction in progress and long-term liabilities on its consolidated balance sheets until the assets are complete and delivered. The Company, being the accounting owner of the Newbuilds, has also recorded $7.6 million as construction in progress payments for set-up fees, legal fees, brokerage fees and handling fees related to these sale and leaseback transactions. No profit and loss is recognized on these sale and leaseback transactions as the Company retains substantially all the benefits and risks incidental to the ownership of the property sold.

The Company is liable to pay a commitment fee of 1.20% per annum to the Lessor calculated on undrawn amount of Purchase Price calculated from October 10, 2015 until the Purchase Price is paid in full, payable on the date of first installment payment of Purchase Price and quarterly in arrears thereafter. The milestone payments bears interest at 3 months LIBOR plus an applicable margin of 4% annually. Such interest is capitalized at intervals of three months from date of payment of each installment until the lease commencement date.

As at December 31, 2015, the outstanding balance of obligations under sale and leaseback is $74.7 million. This includes $74.1 million for payments made by the Lessor ($55.5 million was paid directly to the Builder and $18.5 million to the Company for the refund of milestone payment) and $643 thousand for interest in kind. There were no such transactions for the year ended December 31, 2014.

The Bareboat Charter agreements require scheduled monthly rent payments ("Rent") with variable and fixed payment components from the Bareboat Charter inception dates through its estimated maturities on December 1, 2021 and July 2, 2022 at which time the Lessee will have the obligation to acquire the Newbuilds from the lessor for $82.5 million each ("Purchase Obligation Price"). Fixed monthly average payments of approximately $1.45 million (for a 30 day month) for each rig at the inception of the bareboat charter period are calculated using the Prepaid Purchase Price (Purchase Price and capitalized interest on milestone payments net of Purchase Obligation) over the lease term. The average variable payments over the lease term of approximately $609 thousand for each rig are calculated on each payment date using a projected 3 months LIBOR rate plus applicable margin of 4% annually on the Notional Rent Outstanding (Prepaid Purchase Price reduced by fixed payments). The charter payments will be made in advance every 5th day of the month.

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 due, any 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 due, any 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 Chevron Contract.

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 the certain wholly owned subsidiaries of the Company. The Company has also assigned the construction contracts with the Builder, the advance payment guarantee covering 30% of the contract price received from the Builder, an additional payment guarantee covering 10% of the contract price, and the receivable and earnings from the Chevron contracts.

The Company is also required to maintain (1) a minimum of 90 days of Rent in a Debt Reserve Account; (2) 120% of Security Coverage Ratio (Fair Value of the rig and associated drilling service contract to the Notional Rent Outstanding); and (3) a Consolidated Net Debt to Consolidated EBITDA Ratio not to exceed 4:1, as defined in the Bareboat Charter agreement.

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 12 — 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 $7.3 million, $7.5 million and $3.0 million in expense related to defined contribution retirement and savings plans for 2015, 2014 and 2013, respectively.

End of Service Plans — The Company offers end of service plans to employees in certain countries in accordance with the labor laws in these countries or the Company policy.

The Company has recorded approximately $6.7 million, $1.2 million and $5.6 million in expense related to employee end of service payment plans for 2015, 2014 and 2013, respectively. The 2014 expense amount includes a gain resulting from a change in the accounting estimate related to the Company's initial actuarial valuation performed in 2014 of the benefits due which indicated a reduction in the previously estimated liability by approximately $6.5 million. Additionally, the Seller paid the Company $4.4 million in 2014 to settle a portion of its future liabilities under these plans. As of January 1, 2015, the Seller no longer operates any rigs owned by the Company.

Countries in which management estimates that the liabilities are significant in amount are subject to an analysis by qualified outside experts which considers specific actuarial assumptions for those countries. The discount rate used in the analyses ranged from 8.5% to 17% and the assumed average annual rate of compensation increase ranged from 5% to 8%.

The estimated total liability for the end of service plans was $15.1 million and $16.8 million at December 31, 2015 and 2014, 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 number of employees who were eligible for benefits under this plan after transferring to the Company totaled 99, 120 and 110 at December 31, 2015, 2014 and 2013, respectively. The plan freeze date is December 31, 2015 and the Company will stop accruing service awards benefits as of January 1, 2016. The plan is currently unfunded.

A reconciliation of the changes in projected benefit obligation in conformity with the requirements of ASC 715 is as follows (in thousands):

	Years ended December 31, 2015	2014
Change in Benefit Obligation		
Benefit obligation, beginning of year	$ 3,346	$ 956
Service cost	2,960	2,795
Interest cost	79	23
Plan changes	-	-
Benefits paid	(1,078)	(113)
Actuarial gain	(394)	(315)
Curtailment	-	-
Benefit obligation, end of year	$ 4,913	$ 3,346

The Company has recorded $739 thousand as current and $4.2 million as non-current projected obligation for this plan as at December 31, 2015 and $3.3 million as non-current projected obligation as at December 31, 2014.

The benefit cost includes the following components (in thousands):

	Years ended December 31, 2015	2014	2013
Net periodic benefit costs			
Service cost	$ 2,960	$ 2,795	$ 956
Interest cost	79	23	-
Expected return on plan assets	-	-	-
Amortization of prior service cost	-	-	-
Actuarial gain	(394)	(315)	-
Net periodic benefit costs, end of year	$ 2,645	$ 2,503	$ 956

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, 2015	2014
Weighted-average assumptions used to determine benefit obligations:		
Discount rate	3.21%	2.35%
Rate of compensation increase	4.00%	4.00%

	Years ended December 31, 2015	2014	2013
Weighted-average assumptions used to determine net periodic benefit costs:			
Discount rate	3.21%	2.35%	2.93%
Rate of compensation increase	4.00%	4.00%	4.00%
Expected long-term rate of return on assets	N/A	N/A	N/A

The Company has removed the restriction of the minimum age of 55 related to this plan as of January 1, 2016. The future estimated payouts are as follows (in thousands):

Years ending December 31,	Projected benefit payments
2016	$ 739
2017	442
2018	508
2019	723
2020	311
2021 - 2025	2,114

Retention Plan — The Company also sponsors a medium term cash incentive program for certain non-executive employees at manager, senior manager and director levels. This plan generally vests at the end of a two year period provided that the participant is still employed. The pay outs under existing plans are expected to occur in March, 2016 and March, 2017. The Company recorded approximately $3.0 million, $5.3 million and $2.5 million expense under the plans for the year ended December 31, 2015, 2014 and 2013, respectively. The estimated total cash payments under the retention plan for 2016 and 2017 are $5.0 million and $1.5 million, respectively.

Note 13 — Commitments and Contingencies

Operating Lease Obligations – The Company has operating lease commitments expiring at various dates, principally for office space, expatriate employee accommodation and office equipment.

Capital Commitments – This represents contractual commitments for the Newbuilds during the construction period (construction related payments to the Builder, interest in kind and commitment fees) and rental payments during the bareboat charter period associated with the sale and leaseback transactions. See Note 11- Sale and Leaseback.

As of December 31, 2015, contractual payments related to those matters were as follows (in thousands):

For the twelve months ending December 31,	Operating leases	Sale and leaseback obligations	Total commitments
2016	$ 7,788	$ 162,328	$ 170,116
2017	7,496	120,690	128,186
2018	3,279	52,173	55,452
2019	260	50,151	50,411
2020	133	48,258	48,391
Thereafter	133	218,052	218,185
Total	$ 19,089	$ 651,652	$ 670,741

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, 2015, management has determined that there are no significant claims or lawsuits to disclose including claims and lawsuits fully indemnified by the Seller and no provisions were necessary in accordance with FASB ASC 450-20, Contingencies — Loss Contingencies.

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, 2015 for one year. The Company periodically evaluates its risks, insurance limits and self-insured retentions. As of December 31, 2015, the insured value of the Company's drilling rig fleet was $1.6 billion.

Hull and Machinery Coverage — At December 31, 2015, under the Company's hull and machinery insurance policies, the Company maintained a $5 million per occurrence deductible, with no deductible in the event of total loss or where the loss is greater than 75% of the insured value of the rig. The Company also has insurance coverage for costs incurred for wreck removal for up to the greater of 25% of the rig's insured value or $20 million (plus an additional $25 million per occurrence) with a nil deductible. The hull and machinery policy also covers for war risk which can be 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 against war, acts of terrorism and political risk. There is a $250,000 per occurrence deductible for these risks and a limit of $175 million or less depending on the amount scheduled for each country. In certain countries, the per occurrence deductible is $3 million.

Excess Liability Coverage — At December 31, 2015, 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-owned aviation liability. The Company's excess liability coverage generally has a $1 million deductible per occurrence.

At December 31, 2015, the Company also carried $100 million per occurrence of additional insurance 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 — Effective April 1, 2013, the Company implemented a self-insured medical plan ("the Medical Plan") for U.S. resident rig based expatriates employees and their eligible dependents to provide medical, vision, dental within the U.S. and security evacuation and repatriation. The maximum potential liability related to the plan excluding dental benefits is $2.0 million as at December 31, 2015, as the Company is reinsured for the excess amount by a third party insurance provider. The Company estimates the maximum liability related to dental coverage to be approximately $200 thousand as of December 31, 2015.

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 had outstanding surety bonds in either US Dollars or local currencies of approximately $64.2 million at current exchange rates at December 31, 2015 including $7.8 million surety bonds for which the credit facility is not in place and which are secured by 100% cash deposits. The remaining surety bonds of $56.4 million, with $1.0 million cash deposit, are issued under various local currencies / US Dollars credit facilities of approximately $97.6 million. These facilities are provided by several banks to guarantee various contract bidding, performance activities and customs obligations. These facilities did not exist as at December 31, 2014. In addition, the Company had outstanding bank guarantees and performance bonds amounting to $48.3 million as of December 31, 2015 against the $200 million SDHL Revolver. No amounts were drawn under this facility as at December 31, 2014. Therefore, the total outstanding bank guarantees and surety bonds issued by the Company were $112.5 million as of December 31, 2015.

Under the terms of the Acquisition, the Seller agreed to continue to provide financial support by maintaining letters of credit, surety bonds and other performance and obligation guarantees in existence at transaction close for up to a period of three years from the date of the closing of the transaction. The Seller also agreed to provide up to $65 million of additional financial support in connection with any new drilling contracts related to the acquired assets up to an overall maximum level of existing and new financial support of $125 million. In the event that a surety bond, or other performance and other obligation guarantees are called, the Company has agreed to reimburse the Seller. This agreement with the Seller to provide financial support expired on November 30, 2015. The Seller is not issuing any new letter of credits, surety bonds and other performance and obligation guarantees after November 30, 2015. All the surety bonds issued by the Seller under the three year facility were replaced by the Company issued surety bonds. $23.7 million of surety bonds issued by the Seller had not yet been cancelled and returned by various banks as of December 31, 2015. Therefore, the surety bonds provided by the Seller on the Company's behalf were $23.7 million and $91.4 million as at December 31, 2015 and December 31, 2014, respectively.

Note 14 — Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, which include cash and cash equivalents, accounts receivable, accounts payable, and accrued liabilities, approximate their fair market values due to the short-term nature of the instruments.

The following table represents the estimated fair value and carrying value of the Company's long-term debt (in thousands):

	December 31, 2015		December 31, 2014	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
8.625% Senior Secured Notes, due November 1, 2018	$ 475,000	$ 361,000	$ 475,000	$ 385,938
Term Loan Facility, due October 8, 2018	343,505	192,063	341,594	262,063
Total debt...	$ 818,505	$ 553,063	$ 816,594	$ 648,001

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

Note 15 — Financial Instruments and Risk Concentration

Interest Rate Risk — Financial instruments that potentially subject the Company to concentrations of interest rate risk include cash and cash equivalents, debt and the obligation under sale and leaseback. Exposure to interest rate risk may occur in relation to cash and cash equivalents, as the interest income earned on these balances changes with market interest rates. Floating rate debt, where the interest rate may be adjusted annually or more frequently over the life of the instrument, exposes the Company to short-term changes in market interest rates. Fixed rate debt, where the interest rate is fixed over the life of the instrument and the instrument's maturity is greater than one year, exposes the Company to changes in market interest rates if and when refinancing of maturing debt with new debt occurs.

Foreign Currency Risk — The Company's functional currency is the U.S. dollar and its international operations expose it to currency exchange rate risk. This risk is primarily associated with the compensation costs of the Company's employees and purchasing costs from non-U.S. suppliers, which are generally denominated in currencies other than the U.S. dollar.

The Company's primary currency exchange rate risk management strategy involves structuring customer contracts to provide for payment in U.S. dollars and local currency. The payment portion denominated in local currency is based on anticipated local currency requirements over the contract term. Due to various factors, including customer acceptance, local banking laws, other statutory requirements, local currency convertibility and the impact of inflation on local costs, actual local currency needs may vary from those anticipated in the customer contracts, resulting in partial exposure to currency exchange rate risk. The currency exchange effect resulting from the Company's international operations generally has not had a material impact on its operating results. The Company recognized $1.7 million gain, $1.4 million loss and $330 thousand loss related to net foreign currency exchange during 2015, 2014 and 2013, respectively, which are included in other, net in the consolidated statements of operations.

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 owned integrated oil companies or exploration and production companies. Periodic credit evaluations of the Company's customers are performed and generally do not require material collateral. Allowance for doubtful accounts are based upon expected collectability on a contract by contract basis where the required payment of specific amounts owed to the Company is unlikely to occur. At December 31, 2015 and December 31, 2014, the allowance for doubtful accounts was $110.2 million and $39.4 million, respectively.

Note 16 — Restricted Cash

The Company maintained a restricted cash deposit of $8.8 million as collateral for bid tenders and performance bonds as at December 31, 2015 and $2.0 million as cash deposits that were pledged in connection with its corporate credit card program as at December 31, 2014. These amounts are included in other current assets and other assets.

Note 17 — Shareholders' Equity

The Company is authorized to issue up to 5,000,000 ordinary shares with a par value of $0.01 per share for a total amount of $50 thousand. Following is the summary of ordinary shares authorized:

	Year ended December 31, 2015			
	Number of ordinary shares authorized			
	Class A	Class B	Class C	Total
Number of ordinary shares authorized	4,666,080	269,560	64,360	5,000,000
Amount of ordinary shares authorized	$ 46,660	$ 2,696	$ 644	$ 50,000

	Year ended December 31 , 2014			
	Number of ordinary shares authorized			
	Class A	Class B	Class C	Total
Number of ordinary shares authorized	4,666,080	269,560	64,360	5,000,000
Amount of ordinary shares authorized	$ 46,660	$ 2,696	$ 644	$ 50,000

During the year ended December 31, 2015, there was no issuance of ordinary shares. During 2014, SDL issued a total of 3,624 ordinary shares to members of its executive and senior management team in connection with its share-based compensation plans including 1,350 shares issued directly to grantees and 2,274 shares issued to a trust under the terms of those plans. The shares issued to the trust will be conveyed to the grantee upon fulfilment of vesting conditions. During the years ended December 31, 2015 and 2014, 200 ordinary shares (193 Class A shares, 5 Class B shares and 2 Class C shares) and 100 ordinary shares (97 Class A shares, 2 Class B shares and 1 Class C shares) were repurchased and retired for an aggregate consideration of $270 thousand and $100 thousand, respectively.

During the years ended December 31, 2015 and 2014, 158 ordinary shares (146 Class B shares and 12 Class C shares) and 347 ordinary shares (326 Class B shares and 21 Class C shares) previously issued under share-based compensation plans, respectively, 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. No such shares were repurchased during 2014. See Note 18 – Share-based Compensation.

Holders of all classes of vested shares are entitled to such dividends as may be declared by the board of directors of the Company out of legally available funds. The A, B, and C ordinary shares participate in cumulative distributions based on preference, and are allocated to the three classes based on the Waterfall methodology which specifies the accretion of earnings to the three classes at different rates, giving effect to total cumulative distributions since issuance of the shares. This Waterfall treatment was established and is defined in the Articles. The Waterfall specifies an increasingly disproportionate distribution accretion rate with Class A shares ranking highest in terms of preference, followed by B and C, respectively.

The Company did not pay a dividend during 2015. During 2014 and 2013, SDL declared and paid dividends on its Class A ordinary shares totalling $122.7 million and $179.1 million, respectively. These dividends, which were paid at various times during 2014 and 2013, represented a distribution of $274.88 per share and $402.19 per share, respectively, computed on the basis of average Class A shares outstanding.

Holders of all classes of ordinary shares are also entitled to, in the event of liquidation, to share in the distribution of assets remaining after payment of liabilities as set out in the Articles.

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

	Year ended December 31, 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
Issuance of shares under share-based compensation plans	-	-	-	-
Shares issued to trust	-	-	-	-
Repurchase and retirement of shares	(193)	(184)	(14)	(391)
Balance, end of year	446,445	24,789	6,092	477,326

	Year ended December 31, 2015			
	Amount of ordinary shares issued and outstanding (at par value)			
	Class A	Class B	Class C	Total
Balance, beginning of year	$ 5	$ -	$ -	$ 5
Issuance of shares under share-based compensation plans	-	-	-	-
Shares issued to trust	-	-	-	-
Repurchase and retirement of shares	-	-	-	-
Balance, end of year	$ 5	$ -	$ -	$ 5

	Year ended December 31, 2014			
	Number of ordinary shares issued and outstanding			
	Class A	Class B	Class C	Total
Balance, beginning of year	445,430	23,138	5,972	474,540
Issuance of shares under share-based compensation plans	1,305	30	15	1,350
Shares issued to trust	-	2,133	141	2,274
Repurchase and retirement of shares	(97)	(328)	(22)	(447)
Balance, end of year	446,638	24,973	6,106	477,717

	Year ended December 31, 2014			
	Amount of ordinary shares issued and outstanding (at par value)			
	Class A	Class B	Class C	Total
Balance, beginning of year	$ 5	$ -	$ -	$ 5
Issuance of shares under share-based compensation plans	-	-	-	-
Shares issued to trust	-	-	-	-
Repurchase and retirement of shares	-	-	-	-
Balance, end of year	$ 5	$ -	$ -	$ 5

In accordance with the Articles, in the event of an IPO, the board may take such actions as it deems necessary to effect the conversion or exchange, directly or indirectly of each class of ordinary shares into another class of shares, or other equity security and/or other equity instruments issued or contemplated for issuance by SDL.

Note 18 — Share-based Compensation

The Company has a share-based compensation plan under which it issues Class B time based restricted shares, and Class C performance based shares. Such shares were awarded to certain members of the Company's management in 2014 and 2013 as remuneration for future service of employment. The Company did not award any shares under its share-based compensation plan in 2015.

The Company has recorded share-based compensation expense related to the share-based compensation plan of $638 thousand (net of a $34 thousand gain related to forfeitures and an additional expense of $18 thousand for vested shares repurchase), $2.0 million (inclusive of a $47 thousand gain related to forfeitures) and $29 thousand in 2015, 2014 and 2013, respectively. No income tax benefit was recognized for these plans.

Time Based Restricted Class B Ordinary Shares

Time based restricted shares are awarded as Class B ordinary shares which vest in equal proportion over a period of five years from the grant date provided the grantee remains employed by the Company. Upon vesting these shares are non-transferable. In the event of an IPO or other exit event, all Class B shares, regardless of grant date, vest immediately. Following an IPO or other exit event, Class B shares held by members of management continue to be non-transferable pursuant to the terms of a management-shareholder agreement. These transfer restrictions lapse ratably over three years, at one year intervals beginning twelve months after an IPO or other exit event. Compensation cost is recognized over a period of five years from the grant date subject to acceleration as discussed above in the event of an IPO or other exit event.

Performance Based Class C Ordinary Shares

Performance based shares are awarded as Class C ordinary shares which have rights to dividends or distributions at certain pre-defined amounts of aggregate distributions which are junior to holders of the Class A and Class B shares. The specifics of these rights are set forth in the Articles. Upon an exit event or IPO, Class C shares vest immediately and are subject to the same transferability restrictions as described above regarding Class B shares with those restrictions being lifted ratably over a three year period beginning on the first anniversary of the IPO or exit event. At the end of the third year after the IPO or exit event, all the restrictions would have been lifted. Compensation expense related to the grant date fair value of the Class C shares will be recognized upon vesting.

The fair value of awards made under the share-based compensation plans is estimated at the grant date using standard quantitative modeling techniques performed by an independent third party. The estimates are established using a zero premium option, with reference to the volatility of a group of broadly similar offshore drilling service companies. The following assumptions were used in the valuation calculations for shares awarded in 2014. There were no shares awarded in 2015, therefore the assumptions are not applicable:

	Years ended December 31,			
	2015		2014	
	Class B	Class C	Class B	Class C
Valuation assumptions:				
Expected term	N/A	N/A	1 year	1 year
Risk free interest rate	N/A	N/A	1 year US Tresury	1 year US Treasury
Expected volatility	N/A	N/A	55.0%	55.0%
Dividend yield	N/A	N/A	Nil	Nil

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

Risk Free interest rate: The US Treasury rate as of the grant date for instruments of maturities similar to that of the Expected Term.

Expected Volatility: The average prior twelve months daily volatility of the quoted share prices of a group of broadly similar publicly quoted offshore drilling service companies. The variables are adjusted to reflect the gross debt to capitalization ratio of each company.

Dividend Yield: The Company has not historically issued any dividends on these classes of shares and does not expect to in the future nor are the unvested shares entitled to dividends.

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

	Time based restricted shares	Performance based shares	Weighted average grant date fair value per share	
	Class B	Class C	Class B	Class C
Non-vested shares at January 1, 2015	12,125	973	$ 273.25	$ 4,829.14
Granted	-	-	-	-
Vested	(2,905)	-	213.50	-
Forfeited	(179)	(12)	1,814.00	51,100.00
Non-vested shares at December 31, 2015	9,041	961	$ 261.93	$ 4,259.24

	Time based restricted shares	Performance based shares	Weighted average grant date fair value per share	
	Class B	Class C	Class B	Class C
Non-vested shares at January 1, 2014	12,898	853	$ 13.49	$ 580.22
Granted	2,133	141	1,753.25	33,977.50
Vested	(2,580)	-	13.49	-
Forfeited	(326)	(21)	1,733.00	28,270.00
Non-vested shares at December 31, 2014	12,125	973	$ 273.25	$ 4,829.14

Total unrecognized compensation expense related to non-vested Class B and C shares was $7.6 million and $9.2 million at December 31, 2015 and December 31, 2014, respectively.

Note 19 — Supplemental Balance Sheet Information

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

	December 31,	
	2015	2014
Accounts and other receivables, net		
Trade receivables	$ 263,384	$ 291,820
Allowance for doubtful accounts	(110,251)	(39,441)
Trade receivables, net	153,133	252,379
VAT receivables	10,798	11,562
Receivable from Seller	-	15,536
Other	2,178	3,247
	$ 166,109	$ 282,724

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

	December 31,	
	2015	2014
Other current assets		
Deferred costs	$ 86,803	$ 60,691
Prepayments	18,399	21,166
Deferred financing fee	7,155	7,050
Restricted cash	5,985	-
Acquired drilling contract intangibles	-	4,322
Other	5,536	3,670
	$ 123,878	$ 96,899

Other assets consisted of the following (in thousands):

	December 31, 2015	December 31, 2014
Other assets		
Deferred costs	$ 122,420	$ 116,069
Deferred financing fee	12,363	19,188
Retention receivable	3,503	1,557
Restricted cash	2,850	2,008
Deposits	2,644	3,101
Other	1,553	285
	$ 145,333	$ 142,208

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

	December 31, 2015	December 31, 2014
Other current liabilities		
Deferred revenue	$ 18,566	$ 31,652
Incentive compensation and bonus accruals	11,848	17,533
Accrued payroll and employee benefits	6,574	8,445
Accrued taxes, other than income	5,955	10,038
End of service benefits	2,989	3,422
Defined benefit obligation	739	-
Acquired drilling contract intangibles	-	5,305
Other	1	423
	$ 46,672	$ 76,818

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

	December 31, 2015	December 31, 2014
Other long-term liabilities		
Deferred revenue	$ 15,729	$ 27,312
End of service benefits	12,108	13,390
Defined benefit obligation	4,174	3,346
Income taxes	1,357	4,319
Other	233	2,385
	$ 33,601	$ 50,752

Note 20 — Supplemental Cash Flow Information

The net effect of changes in operating assets and liabilities on cash flows from operating activities was as follows (in thousands):

	Years ended December 31,		
	2015	2014	2013
Decrease / (increase) in operating assets			
Accounts and other receivables, net	$ 29,306	$ 32,968	$ (76,221)
Other current assets	(25,941)	849	(66,447)
Other assets	35,337	21,947	3,212
(Decrease) / increase in operating liabilities			
Accounts payable and other current liabilities	(40,316)	(14,785)	6,600
Accrued interest	-	567	7,229
Accrued income taxes	(8,391)	2,487	5,634
Other long-term liabilities	2,248	11,268	36,945
	$ (7,757)	$ 55,301	$ (83,048)

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

	Years ended December 31,		
	2015	2014	2013
Cash payments for			
Interest, net of amounts capitalized	$ 68,894	$ 74,673	$ 46,986
Income taxes	40,669	45,958	12,607

As part of the sale and leaseback agreements for the Newbuilds, contractual commitment payments totaling $55.5 million were paid by the third party financial institutions directly to the shipyard constructing the rigs and $643 thousand of interest in kind was recorded as capitalized interest and obligation under sale and leaseback. Therefore, these non-cash transactions were not reflected on the consolidated statements of cash flows for the year ended December 31, 2015. There were no such transactions for the years ended December 31, 2014 and 2013, respectively.

Note 21 — (Loss) / Earnings Per Share

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

	Years ended December 31,		
	2015	2014	2013
Numerator for (loss) / earnings per share			
Net (loss) / income	$ (180,002)	$ 226,062	$ 232,487
Less: Preferred shares dividend	-	-	15,405
Net (loss) / income attributable to ordinary shares	$ (180,002)	$ 226,062	$ 217,082

	Years ended December 31,								
	2015			2014			2013		
	Class A	Class B	Class C	Class A	Class B	Class C	Class A	Class B	Class C
Numerator for (loss) / earnings per share									
Net (loss) / income attributable to ordinary shares	$(180,002)	$ -	$ -	$226,062	$ -	$ -	$217,082	$ -	$ -
Denominator for (loss) / earnings per share									
Weighted average shares:									
Basic outstanding per Class	446,525	15,142	5,133	446,407	12,419	5,131	442,328	10,168	5,084
Effect of stock options and other share-based awards	-	8,155	641	146	10,733	838	-	9,894	654
Diluted per Class	446,525	23,297	5,774	446,553	23,152	5,969	442,328	20,062	5,738
Basic (loss) / earnings per share per Class	$ (403.12)	$ -	$ -	$ 506.40	$ -	$ -	$ 490.77	$ -	$ -
Diluted (loss) / earnings per share per Class	$ (403.12)	$ -	$ -	$ 506.24	$ -	$ -	$ 490.77	$ -	$ -

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

Note 22 — Segment and Related Information

Operating segments are defined as components of an entity for which separate financial statements are available and are regularly evaluated by the chief operating decision maker ("CODM") in deciding how to allocate resources and assess performance. The Company has one reportable segment, contract drilling services, which reflects how the Company manages its business, and the fact that all the drilling fleet is dependent upon the worldwide oil industry. The mobile offshore drilling units comprising 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/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). The Company evaluates the performance of the operating segment based on revenues from external customers and segment Adjusted EBITDA. Adjusted EBITDA as used herein represents net income plus net interest expense and financing charges, income tax expense, depreciation, loss on impairment of assets, amortization of drilling contract intangibles, amortization of deferred expenditures, Sponsors' fee, rig reactivation costs, rig inventory acquisition costs, rig preparation and relocation costs, gain on insurance recovery, loss on disposal of assets, exclusion of tax related costs, one-time start-up costs and others. The Company's CODM uses "Adjusted EBITDA" as the primary measure of segment's reporting performance.

SHELF DRILLING, LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Summarized financial information for the Company reportable segment for 2015, 2014 and 2013 is shown in the following schedule (in thousands):

	Years ended December 31,		
	2015	2014	2013
Drilling Segment Revenue	$ 1,030,315	$ 1,309,730	$ 1,168,097
Net revenue from rigs under Operating Agreements	-	40,259	290,798
Gross revenue from rigs under Operating Agreements	-	(115,485)	(723,265)
Amortization of drilling contract intangibles	983	31,522	51,391
Revenue for non-owned rig operated by the Company	-	-	457
As Reported Revenues	$ 1,031,298	$ 1,266,026	$ 787,478
Adjusted EBITDA	$ 371,499	$ 540,137	$ 467,725
Exclusion of non-income tax related costs	769	(2,940)	(931)
Rig reactivation costs	(4,185)	(37,233)	(40,110)
IPO readiness costs	-	(12,383)	-
Rig inventory acquisition costs	(59)	(4,018)	(11,211)
Start-up costs	-	(8,756)	(30,027)
Rig preparation and relocation costs	(6,448)	-	-
Gain on insurance recovery	25,432	-	-
Amortization of drilling contract intangibles	983	31,522	51,391
Share-based compensation expense, net of forfeitures	(638)	(1,981)	(29)
Depreciation	(87,421)	(81,711)	(68,281)
Amortization of deferred costs for rigs operated by the Company	(80,984)	(48,809)	(15,283)
Amortization of deferred costs for rigs under Operating Agreements	-	(153)	(1,986)
Sponsors' fee	(4,500)	(4,500)	(4,500)
Income tax expense for the Company	(30,373)	(43,032)	(19,687)
Income tax expense for rigs under Operating Agreements	-	(8,307)	(34,753)
Interest expense and financing charges	(80,537)	(88,928)	(59,493)
Loss on impairment of assets	(271,469)	-	-
Loss on disposal of assets	(11,299)	(2,921)	(445)
Others	(772)	75	107
Net (loss) / income	$ (180,002)	$ 226,062	$ 232,487

Through December 31, 2014 the Company has incurred $25.4 million of costs related to preparation of an IPO and operating as a public company. These costs are included in IPO readiness costs and start-up costs. The costs were principally incurred on legal, accounting, external audit, consultancy and travel expenses. There were no costs incurred related to IPO readiness and start-up in 2015.

SHELF DRILLING, LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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

	Years ended December 31,		
	2015	2014	2013
Nigeria	$ 195,948	$ 233,505	$ 224,674
Saudi Arabia	184,653	215,625	144,114
India	159,754	180,156	147,734
Thailand	150,531	96,629	121,726
Egypt	83,069	101,142	87,249
Qatar	63,937	63,854	4,386
Indonesia	58,826	103,517	139,663
Vietnam	35,687	146,646	76,187
Malaysia	27,769	57,163	90,382
Other countries	70,141	111,493	131,982
Gross revenue from rigs	$ 1,030,315	$ 1,309,730	$ 1,168,097
Adjustments to reconcile 'Gross revenue from rigs' to Operating revenues			
Amortization of drilling contract intangibles	983	31,522	51,391
Revenue for non-owned rig operated by Company	-	-	457
Costs and expenses of rigs under Operating Agreements			
Operating and maintenance	-	(64,946)	(383,426)
General and administrative	-	(1,986)	(14,176)
Income tax expense	-	(8,307)	(34,753)
Other income / (expense)	-	13	(112)
Total	$ 1,031,298	$ 1,266,026	$ 787,478

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,	
	2015	2014
United Arab Emirates	$ 336,799	$ 87,556
Saudi Arabia	244,606	394,168
India	158,023	182,321
Nigeria	121,107	134,082
Thailand	71,224	51,027
Egypt	64,347	54,593
Other countries	157,750	381,661
Total long-lived assets	$ 1,153,856	$ 1,285,408

A substantial portion of the Company's assets are mobile. Asset locations at the end of the year are not necessarily indicative of the geographic distribution of the revenue generated by such assets during the year.

Major Customers — Three customers together accounted for approximately 44 percent of the Company's consolidated operating revenues, two customers together accounted for approximately 30 percent of the consolidated operating revenues and two customers together accounted for approximately 26 percent of the consolidated operating revenues during 2015, 2014 and 2013, respectively. No other customer accounted for more than 10 percent of consolidated operating revenues during the years presented.

Note 23 — Related Parties

In connection with establishing its operations in a foreign subsidiary, the Company advanced $30.0 million to a related party during the year ended December 31, 2014. The related party utilized these funds to obtain a cash collateralized loan and repaid the Company in full with these proceeds. This related party also provided goods and services to drilling rigs owned by one of the Company's foreign subsidiaries. These goods and services totaled $4.3 million and $5.9 million during 2015 and 2014, respectively.

The Company recorded $5.1 million and $5.7 million during 2015 and 2014, respectively, for Sponsors' costs related to the $375 thousand monthly fee, directors' fees and reimbursement of costs incurred by Sponsors and directors for attendance at meetings relating to the management and governance of the Company. The cash payouts related to these costs were $5.0 million and $10.6 million as of December 31, 2015 and 2014, respectively. The 2014 cash payout represents the $375 thousand monthly fee from inception through December 31, 2014.

Note 24 — Comparative Information

The additions to property and equipment and deferred costs under the consolidated statements of cash flows have been reclassified in the comparative year for 2014 to conform to the current year presentation with the offset under changes in operating assets and liabilities. These changes neither impact the results of operations nor the financial position of the Company.

The changes are as follows (in thousands):

	Year ended December 31, 2014	
	As previously presented	Reclassified amounts
Cashflows from investing activities		
Additions to property and equipment	$ (90,136)	$ (168,404)
Deferred costs	(155,838)	(147,752)

APPENDIX C:

INTERIM FINANCIAL INFORMATION FOR THE THREE MONTHS' PERIOD ENDED 31 MARCH 2018

SHELF DRILLING, LTD.
INDEX TO INTERIM REPORT
THREE MONTHS ENDED MARCH 31, 2018 AND 2017
(UNAUDITED)

SHELF DRILLING, LTD.
THREE MONTHS ENDED MARCH 31, 2018 AND 2017
(UNAUDITED)

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

SHELF DRILLING, LTD.
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF OPERATIONS

(In thousands, except share data)
(Unaudited)

	Three months ended March 31,	
	2018	2017
Revenues		
Operating revenues	$ 144,604	$ 142,408
Other revenue	2,906	3,845
	147,510	146,253
Operating costs and expenses		
Operating and maintenance	90,269	68,549
Depreciation	21,868	18,369
Amortization of deferred costs	19,008	16,844
General and administrative	12,607	9,086
Gain on disposal of assets	(120)	(138)
	143,632	112,710
Operating income	3,878	33,543
Other (expense) / income, net		
Interest income	183	147
Interest expense and financing charges	(38,960)	(30,360)
Other, net	1,040	(314)
	(37,737)	(30,527)
(Loss) / income before income taxes	(33,859)	3,016
Income tax expense	4,658	4,550
Net loss	$ (38,517)	$ (1,534)
Less: Preferred shares dividend	4,495	3,805
Net loss attributable to common and ordinary shares	$ (43,012)	$ (5,339)
Loss per share:		
Basic and Diluted - Common shares	$ (0.53)	$ -
Basic and Diluted - Class A shares	$ -	$ (12.01)
Basic and Diluted - Class B shares	$ -	$ -
Basic and Diluted - Class C shares	$ -	$ -
Weighted average shares outstanding:		
Basic and Diluted - Common shares	81,651,566	-
Basic and Diluted - Class A shares	-	444,594
Basic and Diluted - Class B shares	-	18,147
Basic and Diluted - Class C shares	-	5,110

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

SHELF DRILLING

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

	Three months ended March 31,			
	2018		2017	
Net loss	$	(38,517)	$	(1,534)
Other comprehensive income, net of tax				
Change in unrealized (losses) / gains on derivative financial instruments				
Changes in unrealized losses		(568)		-
Reclassification of net loss from other comprehensive income to net income		98		-
	$	(470)	$	-
Total comprehensive loss	$	(38,987)	$	(1,534)

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

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

	March 31, 2018 (Unaudited)	December 31, 2017 (Audited)
Assets		
Cash and cash equivalents	$ 120,598	$ 84,563
Accounts and other receivables, net	128,035	137,785
Other current assets	98,903	96,960
Total current assets	347,536	319,308
Property and equipment	1,625,456	1,620,830
Less accumulated depreciation	392,574	370,840
Property and equipment, net	1,232,882	1,249,990
Deferred tax assets	690	1,321
Other assets	107,194	112,331
Total assets	$ 1,688,302	$ 1,682,950
Liabilities and equity		
Accounts payable	$ 76,465	$ 95,098
Interest payable	7,446	8,399
Obligations under sale and leaseback	35,115	35,115
Current maturities of debt	14,164	30,167
Accrued income taxes	5,878	4,822
Other current liabilities	22,536	36,681
Total current liabilities	161,604	210,282
Long-term debt	601,761	496,503
Obligations under sale and leaseback	270,156	278,815
Deferred tax liabilities	4,257	4,407
Other long-term liabilities	18,580	17,719
Total long-term liabilities	894,754	797,444
Mezzanine equity, net of issuance costs	165,978	165,978
Commitments and contingencies (Note 10)		
Common shares of $0.01 par value; 200,000,000 shares authorized at March 31, 2018 and December 31, 2017; 83,115,394 and 83,125,000 issued and outstanding at March 31, 2018 and December 31, 2017, respectively	831	831
Additional paid-in capital	658,797	663,090
Accumulated other comprehensive income	(470)	-
Accumulated losses	(193,192)	(154,675)
Total equity	465,966	509,246
Total liabilities and equity	$ 1,688,302	$ 1,682,950

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

SHELF DRILLING

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

	Three months ended March 31,		Three months ended March 31,	
	2018	2017	2018	2017
	Shares		Amount	
Common and ordinary shares				
Balance, beginning of period	83,125,000	475,768	$ 831	$ 5
Shares issued to trust	-	243	-	-
Repurchase and retirement of shares	(9,606)	-	-	-
Balance, end of period	83,115,394	476,011	$ 831	$ 5
Additional paid-in capital				
Balance, beginning of period			$ 663,090	$ 462,914
Preferred shares dividend			(4,495)	(3,805)
Share-based compensation expense, net of forfeitures			202	220
Repurchase and retirement of shares			-	-
Balance, end of period			$ 658,797	$ 459,329
Accumulated other comprehensive income				
Balance, beginning of period			$ -	$ -
Net unrealized loss on derivative financial instruments			(470)	-
Balance, end of period			$ (470)	$ -
Accumulated losses				
Balance, beginning of period			$ (154,675)	$ (83,465)
Net loss			(38,517)	(1,534)
Balance, end of period			$ (193,192)	$ (84,999)
Total equity				
Balance, beginning of period			$ 509,246	$ 379,454
Preferred shares dividend			(4,495)	(3,805)
Share-based compensation expense, net of forfeitures			202	220
Repurchase and retirement of shares			-	-
Total comprehensive loss			(38,987)	(1,534)
Balance, end of period			$ 465,966	$ 374,335

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

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

	Three months ended March 31, 2018	2017
Cash flows from operating activities		
Net loss	$ (38,517)	$ (1,534)
Adjustments to reconcile net loss to net cash (used in) / provided by operating activities		
Depreciation	21,868	18,369
Loss on derivative financial instruments, net	98	-
Provision for / (reversal of) doubtful accounts, net	85	(2,316)
Amortization of deferred revenue	(3,426)	(3,779)
Share-based compensation expense, net of forfeitures	202	220
Non-cash portion of loss on debt extinguishment	6,320	4,371
Debt extinguishment costs	12,505	9,785
Payment of original issue discount	-	(10,500)
Amortization of debt issue costs and discounts	822	1,070
Gain on disposal of assets	(120)	(138)
Deferred tax expense, net	481	913
Payments for settlement of derivative financial instruments, net	(98)	-
Changes in deferred costs, net *	6,723	11,554
Changes in operating assets and liabilities	(16,570)	(25,052)
Net cash (used in) / provided by operating activities	(9,627)	2,963
Cash flows from investing activities		
Additions to property and equipment *	(9,309)	(7,423)
Proceeds from disposal of property and equipment	291	198
Net cash used in investing activities	(9,018)	(7,225)
Cash flows from financing activities		
Proceeds from short-term debt, net	2,159	-
Proceeds from issuance of debt	625,000	-
Payments for obligations under sale and leaseback	(8,659)	(2,822)
Payments to retire long-term debt	(533,250)	(103,750)
Payments of debt issuance costs	(9,739)	(10,351)
Payments of debt extinguishment costs	(12,505)	(9,785)
Payments of preferred shares issuance costs	-	(688)
Preferred shares dividend paid	(8,906)	(957)
Net cash provided by / (used in) financing activities	54,100	(128,353)
Net increase / (decrease) in cash, cash equivalents and restricted cash	35,455	(132,615)
Cash, cash equivalents and restricted cash at beginning of period*	99,826	222,395
Cash, cash equivalents and restricted cash at end of period*	$ 135,281	$ 89,780

* See Note 16 – Supplemental Cash Flow Information for a reconciliation of cash payment for additions to property and equipment and changes in deferred costs, net to total capital expenditures and deferred costs and a reconciliation of cash, cash equivalents and restricted cash balances.

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

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

Note 1 — Nature of Business

Business

Shelf Drilling, Ltd. (“SDL”) was incorporated on August 14, 2012 (“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 March 31, 2018, the Company owns 38 independent cantilever jackup rigs, two of which are stacked, and one stacked swamp barge.

Basis of Preparation

The Company has prepared the accompanying condensed consolidated interim financial statements in accordance with generally accepted accounting principles in the United States of America (“U.S. GAAP”) for interim financial information. Pursuant to such rules and regulations, these financial statements do not include all disclosures required by U.S. GAAP for complete financial statements. The condensed consolidated interim financial statements reflect all adjustments, which are, in the opinion of management, necessary for a fair statement of financial position, results of operations and cash flows for the interim periods. Such adjustments are considered to be of a normal recurring nature unless otherwise noted. Operating results for the three months ended March 31, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018 or for any future period. The accompanying condensed consolidated interim financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto as of December 31, 2017.

Summary of Significant Accounting Policies

These condensed consolidated interim financial statements include the following accounting policies in addition to the significant accounting policies described in the annual consolidated financial statements for the year ended December 31, 2017.

Revenue Recognition — The revenue relating to the provision of the rigs and drilling related services, collectively “integrated drilling services”, is recognized as operating revenue as services are performed. Any up-front lump-sum fees or similar compensation for the mobilization of equipment, contract preparation and capital upgrades received prior to the commencement of drilling services are deferred and recognized over the contract period and are included in operating revenue.

Any demobilization fee received upon completion of the contract is accrued as operating revenue over the contract duration, if it is unconditional and there is no significant risk of potential material revenue reversal in the future, otherwise it is recorded when earned. Contractual termination fees due from the customer are recognized as operating revenue when services have been completed under the terms of the contract.

Other revenue consists of revenue from lease rentals and amounts billed for goods and services such as personnel, catering or accommodation which are generally invoiced to customers at a margin. These revenues are recognized when the goods have been delivered and services have been rendered. See Note 3 – Revenue.

Derivative Financial Instruments — The Company’s derivative financial instruments consist of foreign exchange (“forex”) contracts and interest rate swaps which the Company may designate as cash flow hedges. 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.

For forex contracts, the Company reports 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. For interest rate swaps, the Company reports realized gains and losses as a component of interest expense and financing charges in the consolidated statements of operations. 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 condensed consolidated interim balance sheets depending on their maturity date.

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.

Note 2 — Recently Adopted and Issued Accounting Pronouncements

Recently adopted accounting standards

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 with no impact on the condensed consolidated interim financial statements.

In March 2017, the FASB issued ASU No. 2017-07, Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The amendments require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. The amendments also allow only the service cost component to be eligible for capitalization when applicable. The amendments are effective for fiscal years beginning after December 15, 2017 with early adoption permitted. The Company has adopted this standard as of January 1, 2018. As a result, the Company has disaggregated the other components of net periodic benefit (gain) / costs from other compensation costs included in operating costs and expenses and has presented these costs under other, net on the condensed consolidated interim statement of operations in 2018. The amounts in prior periods were immaterial, therefore no changes to prior periods were made.

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, 2017. The Company has adopted this standard as of January 1, 2018 with no material impact on the condensed consolidated interim financial statements.

In January 2017, the FASB has issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The amendments affect all companies and other reporting organizations that must determine whether they have acquired or sold a business. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The amendments are intended to help companies and other organizations evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments provide a more robust framework to use in determining when a set of assets and activities is a business. They also provide more consistency in applying the guidance, reduce the costs of application, and make the definition of a business more operable. The amendments are effective for annual periods beginning after December 15, 2017 for public entities, including interim periods within that period. The Company has adopted this standard as of January 1, 2018 with no impact on the condensed consolidated interim financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments do not provide a definition of restricted cash or restricted cash equivalents. The amendments should be applied using a retrospective transition method to each period presented and is effective beginning after December 15, 2017. The Company has adopted this standard as of January 1, 2018 and has applied the new guidance for restricted cash presentation. As a result of this adoption, the Company has included restricted cash of $14.7 million and $8.7 million as part of cash, cash equivalents and restricted cash on the condensed consolidated interim statements of cash flows for the three months ended March 31, 2018 and 2017, respectively. Also, the change in restricted cash of $0.6 million during the three months ended March 31, 2017 previously reported as cash flows from investing activities has been presented as part of cash and cash equivalents and restricted cash.

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, 2017. The Company has adopted this standard as of January 1, 2018. As a result, the debt extinguishment costs of $9.8 million during the three months ended March 31, 2017 are now presented as cash flows from financing activities under the retrospective treatment of this ASU.

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 for public business entities.

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

The Company has adopted this standard as of January 1, 2018 using the cumulative effect approach. The Company has applied this standard retrospectively to 28 drilling contracts with customers that were not completed as of January 1, 2018. As a result of the initial application of this standard, there was no necessary adjustment to retained earnings as of January 1, 2018.

The adoption of this standard does not result in any significant changes to the revenue recognition policy The Company will continue to record the dayrate revenue earned with the provision of the integrated drilling services as operating revenue.

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 for public entities, including interim periods within that period, with early adoption permitted. The Company does not intend to early adopt this standard. The Company is currently evaluating the impact of this standard on the condensed consolidated interim financial statements.

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

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

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

Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The amendment is effective for annual and interim periods for fiscal years beginning after December 15, 2018 with an option of early adoption.

In January 2018, the FASB issued ASU No. 2018-01, Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842. The amendment clarifies the application of the new leases guidance to land easements and improves adoption efforts for some land easements. This ASU is expected to reduce the cost of adopting the new leases standard for certain land easements and it is also an attempt to help ensure that companies can make a successful transition to the standard without compromising the quality of information provided to investors about these transactions. Land easements (also commonly referred to as rights of way) represent the right to use, access, or cross another entity's land for a specified purpose.

Based on the initial assessment, with respect to the Company's leases as a lessee, any impact on the net assets included in 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 Company does not intend to early adopt this standard.

Note 3 – Revenue

A significant portion of the Company's revenue is generated from rigs operated by the Company through dayrates charged to the customers for the provision of integrated drilling services. The Company's contracts with customers contain multiple dayrates and the actual dayrate earned during a particular period could vary based on the actual operations. The lowest dayrate in the drilling contract that the customer could choose at any given point of time is typically the standby rate.

The Company may earn lump-sum fees relating to mobilization, contract preparation, capital upgrades and demobilization in certain drilling contracts. The mobilization, contract preparation and capital upgrade revenues are typically received at the commencement of the contract. In addition, the Company may receive demobilization revenue at the end of the contract.

The Company's integrated drilling service provided under each drilling contract is a single performance obligation satisfied over time utilizing the input method and comprised of a series of distinct time increments, or service periods. Total revenue is determined for each individual drilling contract by estimating both fixed and variable considerations expected to be earned over the contract term. Substantially all the Company's revenues are recorded over time. Fixed consideration generally relates to activities such as rig mobilization, contract preparation, capital upgrades and is recognized on a straight-line basis over the contract term. In some cases, demobilization fees may be contingent upon the occurrence or non-occurrence of a future event and this may result in cumulative-effect adjustments to demobilization revenues upon changes in our estimates of future events during the contract term. Variable consideration generally relates to distinct service periods during the contract term and is recognized in the period when services are performed. We have applied the disclosure practical expedient in ASC 606-10-50-14(b) and have not disclosed consideration related to remaining performance obligations.

The Company also provides catering and accommodation services and additional equipment, consumables and personnel on an as needed basis at the request of the customer and may use third parties for the provision of such goods and services. The Company generally acts as a principal in the provision of catering and accommodation services and additional personnel, and as an agent in the provision of additional equipment and consumables. The consideration with respect to the provision of goods or services is recognized when the control of goods or services is transferred to a customer.

Many drilling contracts have termination and/or extension options at the option of the customer. In most cases, if the contract is terminated by the customer, the Company is able to charge an early termination fee to the customer. The extension options are typically at agreed prices and terms. The contract modifications typically have an increase in scope and a commensurate increase in price and are accounted for as a termination of the existing contract and creation of a new contract. In such cases, any remaining deferred revenue and costs are recorded to the condensed consolidated interim statement of operations upon such termination.

The Company typically invoices its customers monthly for the dayrates and any other goods and services provided, and a receivable is then recognized. Any unbilled revenue is recognized as accrued income at the end of the month. The payment terms are generally 30 to 60 days from billing. There is no significant financing component in the Company's revenue. The Company typically has no obligations for returns, refunds or other similar obligations and does not provide warranties.

Significant judgements are involved in identifying the performance obligations in the customer contracts and determining whether the Company is a principal or an agent in the provision of certain equipment and consumables to the customers.

See condensed consolidated interim statements of operations for the amounts of Operating and other revenues.

See Note 18 – Segment and Related Information for disclosure of total revenues by country based on the location of the service provided.

Contract liabilities

Contract liabilities represent fees received for mobilization or capital upgrades. Current contract liabilities are included in other current liabilities and noncurrent contract liabilities are included in other long-term liabilities on the condensed consolidated balance sheets. Contract liabilities are amortized on a straight-line basis over the contract term.

Following are the details of the contract liabilities (in thousands):

	March 31, 2018		December 31, 2017	
Current contract liabilities	$	9,006	$	11,276
Non-current contract liabilities	$	5,203	$	4,985

Significant changes in contract liabilities during the period are as follows (in thousands):

	Contract liabilities	
Balance as of December 31, 2017	$	16,261
Increase due to contractual additions		1,374
Decrease due to amortization of deferred revenue		(3,426)
Balance as of March 31, 2018	$	14,209

Deferred contract costs

Costs incurred for upfront rig mobilizations and certain contract preparation are attributable to the Company's future performance obligation under each drilling contract. Such costs are deferred and amortized on a straight-line basis over the contract term. Deferred contract costs were included in other current assets and other assets on the condensed consolidated balance sheets and totaled $49.9 million and $53.2 million as of March 31, 2018 and December 31, 2017, respectively. During the three months ended March 31, 2018 and 2017, amortization of deferred contract costs were $9.7 million and $8.1 million, respectively.

Note 4 — Consolidated Variable Interest Entities

The Company, through its wholly owned indirect subsidiary Shelf Drilling Holdings Ltd ("SDHL"), is the primary beneficiary of four variable interest entities ("VIEs") which are Shelf Drilling Ventures Malaysia Sdn. Bhd. ("SDVM"), PT Hitek Nusantara Offshore Drilling ("PT Hitek"), Shelf Drilling Nigeria Ltd. ("SDNL") and Shelf Drilling Offshore Services Limited ("SDOSL"), which are included in these condensed consolidated interim financial statements. These VIEs are incorporated in jurisdictions where majority or significant foreign ownership of domestic companies is restricted or, 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.

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
March 31, 2018					
Total assets	$ 154	$ 13,452	$ 12,802	$ 2,334	$ 28,742
Total liabilities	414	554	11,564	1,118	13,650
Net carrying amount	$ (260)	$ 12,898	$ 1,238	$ 1,216	$ 15,092
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

Note 5 — Property and Equipment

Property and equipment as of March 31, 2018 and December 31, 2017 consisted of the following (in thousands):

	March 31, 2018	December 31, 2017
Drilling rigs and equipment	$ 1,560,386	$ 1,554,045
Spares	41,065	36,120
Construction in progress	4,234	12,642
Land and building	1,354	1,354
Other	18,417	16,669
Total property and equipment	$ 1,625,456	$ 1,620,830
Less: Accumulated depreciation	(392,574)	(370,840)
Total property and equipment, net	$ 1,232,882	$ 1,249,990

There were no rigs added to the Company's drilling rig fleet during the three months ended March 31, 2018 and 2017.

Total capital expenditures for the three months ended March 31, 2018 and 2017 were $4.9 million and $10.7 million, respectively. This included $9.8 million related to progress payments, internal project costs, change orders, owner furnished equipment and capitalized interest for the new build high specification jackup rigs ("Newbuilds") during the three months ended March 31, 2017. There were no such transactions during the three months ended March 31, 2018. The two Newbuilds were delivered in April 2017 and September 2016 and started drilling operations after completion of final customer acceptance requirements in June 2017 and December 2016, respectively.

Total capital expenditures through March 31, 2017 on the Newbuilds were $371.3 million, of which $239.1 million were paid by the Lessor (see Note 8 – Sale and Leaseback).

Interest capitalized on the Newbuild rigs totaled $2.6 million for the three months ended March 31, 2017, which included $1.2 million related to the sale and leaseback financing agreements. There were no such transactions during the three months ended March 31, 2018.

Disposals of other property and equipment with a net carrying amount of $0.1 million and $67 thousand were sold for $0.2 million and $0.2 million and resulted in a gain on disposal of assets of $0.1 million during each of the three months ended March 31, 2018 and 2017, respectively.

The Company did not record an impairment charge during the three months ended March 31, 2018 and 2017.

Drilling rigs under capital and operating leases — The net carrying amount of drilling rigs and equipment as of March 31, 2018 and December 31, 2017 includes two Newbuild rigs 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 $455.7 million and $455.8 million, and accumulated depreciation of $16.2 million and $12.7 million, as of March 31, 2018 and December 31, 2017, respectively. The total costs included capital equipment transfers from other rigs.

As of March 31, 2018 and December 31, 2017, the rig under an operating lease had a net carrying value of $14.1 million and $14.5 million, and accumulated depreciation of $9.4 million and $8.9 million, respectively. This rig commenced a three-year bareboat charter contract (with two 12 month extension options) with a private limited liability company on February 8, 2016.

As of March 31, 2018, following is the summary of future minimum rentals receivable on the operating lease (in thousands):

For the twelve months ending March 31,		
2019	$	7,038
2020		-
2021		-
Thereafter		-
Total future minimum rentals	$	7,038

Due to payment delays by the lessee, the Company has temporarily ceased revenue recognition from May 2017 onwards.

Note 6 — Income Taxes

Tax Rate — SDL is exempt from all income taxation in the Cayman Islands.

The provision for income taxes is based on the tax laws and rates applicable in the jurisdictions in which the Company operates and earns income or is considered resident for income tax purposes. The relationship between the provision for income taxes and the income or loss before income taxes can vary significantly from period to period considering, among other factors, (a) the overall level of income before income taxes, (b) changes in the blend of income that is taxed based on gross revenues rather than income before taxes, (c) rig movements between taxing jurisdictions; and (d) changes in rig operating structures which may alter the basis on which the Company is taxed in a particular jurisdiction.

The effective income tax rate for the Company's continuing operations was (13.8)% and 150.9% for the three months ended March 31, 2018 and 2017, respectively. The difference in effective tax rate for the three months ended March 31, 2018 as compared to the three months ended March 31, 2017 is primarily due to an increased proportion of expenses in 2018 for which there will be no tax benefit as such expenses are either incurred in jurisdictions which impose tax based on gross revenue rather than on net income or are incurred in jurisdictions in which the Company does not pay tax or which do not allow for a tax deduction for such expenses. As a result, the Company has an income tax expense for the three months ended March 31, 2018, despite having a loss before income taxes, resulting in a negative effective tax rate.

Income Tax Expense — Income tax expense was $4.7 million for the three months ended March 31, 2018, compared to $4.6 million for the three months ended March 31, 2017. Income tax expense in Q1 2018 is higher than in Q1 2017 despite having a loss before income taxes in Q1 2018 as compared to income before income taxes in Q1 2017, primarily due to an increased proportion of expenses in 2018 for which there will be no tax benefit as such expenses are either incurred in jurisdictions which impose tax based on gross revenue rather than on net income or are incurred in jurisdictions in which the Company does not pay tax or which do not allow for a tax deduction for such expenses.

Income tax expense for the three months ended March 31, 2018 is calculated using a discrete approach whereby income tax expense is determined by estimating the actual income tax liability that will result from earnings from continued operations for the three months ended March 31, 2018 rather than by using an estimated annual effective income tax rate as applied to year-to-date income before income taxes, primarily due to management's view that it is not possible to reliably estimate an annual 2018 effective tax rate given the sensitivity of the estimated annual effective tax rate to any changes in annual income or losses before income tax.

The Company's deferred tax liabilities as of March 31, 2018 and December 31, 2017 include liabilities related to the future income tax cost of repatriating the unremitted earnings of certain subsidiaries that are not indefinitely reinvested or that will not be indefinitely reinvested in the future. If unforeseen law changes or other facts and circumstances cause a change in expectations regarding the future tax cost of repatriating these earnings, the resulting adjustments to the deferred tax balances could have a material effect on the Company's condensed consolidated interim financial statements. The Company considers 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 March 31, 2018 and December 31, 2017, the amount of indefinitely reinvested earnings was approximately $12.5 million and $13.9 million, respectively. Should the Company make a distribution from these unremitted earnings in the future, such distributions may be subject to withholding taxes; however, it is not practicable to determine precisely the amount of withholding tax that may be payable on the eventual distribution of these earnings.

The Company's deferred tax assets include subsidiary level net operating loss carry-forwards which are expected to be utilized in future periods. To the extent that insufficient taxable income is generated by the relevant subsidiaries in future years to fully utilize these net operating loss carry-forwards, any remaining carry-forwards will expire by 2024.

Liabilities for Uncertain Tax Positions — The Company has tax liabilities related to various tax positions that have been taken on the tax returns of certain subsidiaries that have resulted in a reduction in tax liabilities for those subsidiaries. In management's judgment, these tax positions are "uncertain" in that they are likely to be successfully challenged by the relevant tax authorities in the future. Any interest and penalties related to such liabilities are included as a component of income tax expense. The liabilities for uncertain tax positions 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. Not considering any indemnification, the liabilities related to uncertain tax positions, including related interest and penalties, recorded as other long-term liabilities, were as follows (in thousands):

	March 31, 2018	December 31, 2017
Liabilities for uncertain tax positions, excluding interest and penalties	$ 2,355	$ 2,248
Interest and penalties	-	-
Liabilities for uncertain tax positions, including interest and penalties	$ 2,355	$ 2,248

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

	March 31, 2018	December 31, 2017
Balance, beginning of period	$ 2,248	$ 2,455
Reductions for prior period tax positions	-	(273)
Reductions related to statute of limitation expirations	-	(81)
Additions for current period tax positions	107	147
Balance, end of period	$ 2,355	$ 2,248

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.

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 7 — Debt

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

	March 31, 2018	December 31, 2017
Unsecured overdraft facility - Short-term debt (see note (i) below)	$ 2,159	$ -
Senior Secured Credit Facility, due March 31, 2020 (see note (ii) below)	12,005	-
8.625% Senior Secured Notes, due November 1, 2018 (see note (iii) below)	-	30,167
	$ 14,164	$ 30,167

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

	March 31, 2018	December 31, 2017
8.25% Senior Unsecured Notes, due February 15, 2025 (see note (iv) below)	$ 589,487	$ -
9.5% Senior Secured Notes, due November 2, 2020 (see note (v) below)	-	496,503
Revolving Credit Facility, due April 30, 2020 (see note (vi) below)	-	-
Senior Secured Credit Facility, due March 31, 2020 (see note (ii) below)	12,274	-
	$ 601,761	$ 496,503

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

For the twelve months ending March 31,	
2019	$ 12,500
2020	12,500
2021	-
2022	-
2023 and thereafter	600,000
Total debt	$ 625,000

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

	March 31, 2018		
	Principal Amount	Unamortized Debt Issuance Costs	Carrying Value
8.25% Senior Unsecured Notes, due February 15, 2025	$ 600,000	$ (10,513)	$ 589,487
Senior Secured Credit Facility, due March 31, 2020	25,000	(721)	24,279
Total	$ 625,000	$ (11,234)	$ 613,766

	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

The effective interest rates on the 8.25% Senior Unsecured Notes due February 15, 2025, 9.5% Senior Secured Notes due November 2, 2020 and 8.625% Senior Secured Notes due November 1, 2018 are 8.59%, 10.02% and 9.79%, respectively.

(i) Unsecured overdraft facility

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

(ii) 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. On March 27, 2018, the Company drew $25 million under the SDA Facility, which amount was outstanding as of March 31, 2018. As of December 31, 2017, there was no utilization under this facility. The outstanding bank guarantees under the uncommitted guarantee facility was $8.1 million and nil as of March 31, 2018 and December 31, 2017, respectively. The SDA Facility matures on March 31, 2020.

The term loan facility of $25 million is due for repayment in four equal semi-annual instalments beginning on 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 was 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.

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 and is 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 was in compliance with both of these financial covenants as of December 31, 2017.

The Company incurred total debt issuance costs of $1.3 million for the term loan facility and guarantee facility. As of March 31, 2018, the unamortized debt issue costs for the term loan facility of $0.7 million (current: $0.4 million; long-term: $0.3 million) were presented in the balance sheet as a direct deduction from the carrying value of the debt. As of March 31, 2018, the unamortized debt issuance costs for the guarantee facility of $0.5 million were reported as other assets on the condensed consolidated interim balance sheet. As of December 31, 2017, the unamortized debt issuance costs for the term loan and guarantee facility of $1.3 million was reported as other assets.

The total amortization of debt issue costs during the three months ended March 31, 2018 was $60 thousand.

As of March 31, 2018, SDAIII provides guarantee for the SDA Facility. As a result of the issuance of the $600 million of new 8.25% Senior Unsecured Notes due 2025 (the "8.25% Senior Unsecured Notes"), the Company has agreed for SDAIII to guarantee the 8.25% Senior Unsecured Notes by February 2019. In order for this to occur, the Company believes it may need to pay the SDA Facility in full by February 2019.

(iii) 8.625% Senior Secured Notes, due November 2018

On January 12, 2017, the Company cancelled $444.585 million aggregate principal amount of 8.625% Senior Secured Notes (the "8.625% Senior Secured Notes") in exchange for $416.09 million aggregate principal amount of 9.5% Senior Secured Notes and a principal payment of $28.5 million in cash. As of December 31, 2017, the Company recognized a loss of $13.7 million associated with this debt extinguishment which included 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 an expense in interest expense and financing charges.

SDHL's obligations under the outstanding 8.625% Senior Secured Notes were guaranteed by a majority of SDHL's subsidiaries, subject to certain exceptions. The indenture governing the 8.625% Senior Secured Notes were amended to eliminate or waive substantially all of the restrictive covenants and to eliminate certain events of default.

In February 2018, the Company fully settled the outstanding $30.4 million of 8.625% Senior Secured Notes. The Company recognized a loss of $0.2 million associated with this debt extinguishment which included the write-off of unamortized debt issuance costs, premium to tender and professional fees. These transactions were recorded as an expense in interest expense and financing charges during the three months ended March 31, 2018. The total amortization of debt issue costs during the three months ended March 31, 2018 was $44 thousand.

(iv) 8.25% Senior Unsecured Notes, due February 2025

On February 7, 2018, SDHL completed the issuance of $600.0 million of new 8.25% Senior Unsecured Notes due 2025 issued at par. SDHL received net proceeds of $589.3 million, after deduction of the $10.7 million of fees and expenses which are capitalized and amortized over the life of the debt.

The Company used the net proceeds 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. Interest on the 8.25 % Senior Unsecured Notes accrues from February 7, 2018 at a rate of 8.25% per year and is payable semi-annually in arrears on February 15 and August 15 of each year, beginning August 15, 2018.

SDHL's obligations under the 8.25% Senior Unsecured Notes are guaranteed by a majority of SDHL's subsidiaries (collectively, the "Note Guarantors"), subject to certain exceptions. The notes and the note guarantees will be SDHL's and the Note Guarantors' senior unsecured obligations and will:

- rank senior in right of payment to any of SDHL's and the Note Guarantors' existing and future subordinated indebtedness, if any;
- rank pari passu in right of payment with all existing and future senior unsecured indebtedness of SDHL and the Note Guarantors;
- be effectively subordinated to all existing and future secured indebtedness of SDHL and the Note Guarantors, to the extent of the value of the assets securing such indebtedness; and
- be structurally subordinated to all existing and future indebtedness, including the SDA Facility and the sale and leaseback transaction, preferred stock and other liabilities, including trade payables, of any non-guarantor subsidiaries of SDHL.

At any time prior to February 15, 2021, SDHL is entitled to redeem the notes, in whole or in part at a price equal to 100% of the principal amount plus accrued and unpaid interest and the Applicable Premium (as defined in the indenture). SDHL may also redeem the notes of up to 35% of the aggregate principal amount at a redemption price of 108.25% plus accrued and unpaid interest from the net cash proceeds from one or more qualified equity offerings.

On or after February 15, 2021, SDHL may redeem the 8.25% Senior Unsecured 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
Between February 15, 2021 and February 14, 2022	106.188%
Between February 15, 2022 and February 14, 2023	104.125%
Between February 15, 2023 and February 14, 2024	102.063%
On or after February 15, 2024	100.000%

If SDHL experiences a change of control, as defined in the indenture governing the 8.25 % Senior Unsecured Notes and a decrease in the rating of the 8.25 % Senior Unsecured Notes by both Moody's Investors Services and Standard & Poor's Financial Services LLC by one or more gradations, it must offer to repurchase the 8.25% Senior Unsecured Notes at an offer price in cash equal to 101% of their principal amount, plus accrued and unpaid interest.

As of March 31, 2018, the unamortized debt issuance costs of $10.5 million were reported as a component of long-term debt on the condensed consolidated interim balance sheet. The total amortization of debt issue costs during the three months ended March 31, 2018 was $0.2 million.

(v) 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 entered into on October 8, 2013 (the "Midco Term Loan"). 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 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 was 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 were guaranteed by a majority of SDHL's subsidiaries (collectively, the "9.5% Senior Secured Notes Guarantors"), subject to certain exceptions. The obligations of the 9.5% Senior Secured Notes Guarantors were secured by liens on the rigs and other assets owned by the Note Guarantors. These liens were subordinated to the liens securing the obligations of the revolving credit facility Guarantors.

SDHL could have redeemed 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 had experienced a change of control, as defined in the indenture governing the 9.5% Senior Secured Notes (the "9.5% Senior Secured Notes Indenture"), it would have had to 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 have been 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.

In February 2018, the Company fully settled the outstanding $502.8 million of 9.5% Senior Secured Notes. The Company recognized a loss of $18.8 million associated with this debt extinguishment which included a $6.1 million write-off of unamortized debt issuance costs, premium of $12.2 million and professional fees of $0.5 million. These transactions were recorded as an expense in interest expense and financing charges during the three months ended March 31, 2018. The total amortization of debt issue costs during the three months ended March 31, 2018 was $0.2 million.

(vi) 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 $3.5 million and $12.3 million as of March 31, 2018 and December 31, 2017, respectively, against the SDHL Revolver. As of March 31, 2018 and 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 March 31, 2018 and December 31, 2017.

SDHL's obligations under the SDHL Revolver are guaranteed by the majority of SDHL's subsidiaries (collectively, the "Guarantors"), subject to certain exceptions. The obligations of the Guarantors are secured by liens on the rigs and other assets owned by the Guarantors. The liens securing the SDHL Revolver are senior to the pari-passu liens securing the outstanding 8.625% Senior Secured Notes and 9.5% Senior Secured Notes.

The debt issuance costs associated with this new arrangement as well as the unamortized balance of the original debt issuance cost are deferred and amortized over the new terms of the SDHL Revolver.

The unamortized debt issuance costs which were carried as both current and long-term assets on the condensed consolidated interim balance sheets were as follows:

	March 31, 2018	December 31, 2017
Current	$ 1,343	$ 1,333
Non-current	1,457	1,797
Total	$ 2,800	$ 3,130

The amortization of debt issuance costs on the SDHL Revolver amounted to $0.3 million each during the three months ended March 31, 2018 and 2017.

Terms Common to All Indebtedness

The 8.25% Senior Unsecured Notes Indenture, SDA Facility 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 8.25% Senior Unsecured Notes Indenture, SDA Facility 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 8.25% Senior Unsecured Notes Indenture, SDA Facility and the SDHL Revolver also contain standard events of default.

Term Loan Facility, due October 2018

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

The Company recognized a total loss on debt extinguishment of $2.0 million, of which $0.5 million was recorded during the first quarter of 2017 under interest expense and financing charges. This 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.

Note 8 — Sale and Leaseback

On October 10, 2015, two wholly owned subsidiaries of SDL, Shelf Drilling TBN I, Ltd and Shelf Drilling TBN II, Ltd (collectively, the "Lessee"), whose assets consisted solely of the two "fit-for-purpose" new build 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 5 – Property and Equipment.

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 5 – Property and Equipment. The capital lease contracts have an estimated average interest rate of 6.71% and 6.72% after taking into account the effect of the interest rate swap (see Note 15- Derivative Financial Instrument), and require scheduled monthly average principal payments and average interest payments of approximately $1.5 million and $0.7 million for each rig through December 5, 2021 and June 5, 2022, respectively.

As of March 31, 2018, 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 March 31,		
2019	$	53,960
2020		52,703
2021		50,276
2022		124,119
2023		88,374
Total future rental payments	$	369,432

The Company made rental payments of $13.2 million and $4.2 million, including interest of $4.6 million and $1.4 million, during the three months ended March 31, 2018 and 2017, respectively.

The total outstanding balance of obligations under the Sale and Leaseback Transactions is $305.3 million and $313.9 million as of March 31, 2018 and December 31, 2017, respectively, of which $35.1 million and $35.1 million were classified as current on the condensed consolidated interim balance sheets.

There were no payments made by the Lessor directly to the Builder during the three months ended March 31, 2018 and 2017. In addition, the Company recorded nil and $1.0 million for interest in kind on the obligations under the Sale and Leaseback Transactions during the three months ended March 31, 2018 and 2017, respectively.

The Company is also required to maintain (1) a minimum of 90 days of Rent in a debt reserve account; (2) 120% of Security Coverage Ratio (Fair 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, the Company was in compliance with all above mentioned requirements.

Note 9 — Employee Benefit Plans

Retirement Plan Under a Trust fund – On August 1, 2016, the Company replaced the end of service benefit covering certain employees previously reported under a defined benefit plan with a defined retirement contribution plan managed under a trust fund.

Contributions are made on a monthly basis by the Company irrespective of fund performance and are not pooled, but are separately identifiable and attributable to each employee. The Company has no further obligation for this retirement plan and the Company's contributions are expensed as incurred.

The contribution expense related to this plan is $80 thousand and $62 thousand during the three months ended March 31, 2018 and 2017, respectively.

End of Service Plans — The Company offers end of service plans to employees in certain countries in accordance with the labor laws in these countries or the Company policy. The Company has recorded approximately $1.2 million and $1.8 million in expense related to employee end of service plans during the three months ended March 31, 2018 and 2017, respectively.

Retention Plans —The Company has recorded approximately $0.8 million and $0.9 million in expense related to its employee retention plans for the three months ended March 31, 2018 and 2017, respectively. The estimated total cash payments under the retention plans for 2019 are $2.8 million.

Note 10 — Commitments and Contingencies

Operating Leases and Other Commitments – The Company has operating leases and other commitments expiring at various dates, principally for office and yard space, expatriate employee accommodation and office equipment.

Sale and Leaseback Obligations – This represents minimum annual rental payments and a Purchase Obligation Price assuming average estimated interest rates pursuant to the sale and leaseback transactions as of March 31, 2018. See Note 8 - Sale and Leaseback.

As of March 31, 2018, contractual payments related to those matters were as follows (in thousands):

	Operating leases and other commitments	Sale and leaseback obligations	Total commitments
For the twelve months ending March 31,			
2019	$ 7,785	$ 53,960	$ 61,745
2020	3,322	52,703	56,025
2021	1,905	50,276	52,181
2022	820	124,119	124,939
2023	-	88,374	88,374
Total	$ 13,832	$ 369,432	$ 383,264

Legal Proceedings — The Company is involved in various claims and lawsuits in the normal course of business, some of which existed at the time of Acquisition and are indemnified by the Seller. As of March 31, 2018, management has determined that there are no significant claims or lawsuits to disclose including claims and lawsuits fully indemnified by the Seller and no provisions were necessary.

Surety Bonds — It is customary in the contract drilling business to have various surety bonds in place that secure customs obligations relating to the temporary importation of rigs and equipment and certain contractual performance and other obligations.

The Company has surety bond facilities in either U.S. dollars or local currencies of approximately $102.8 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 $48.2 million and $53.6 million as of March 31, 2018 and December 31, 2017, respectively.

The Company also has a $50.0 million uncommitted guarantee facility included in the SDA Facility. The outstanding bank guarantees under the uncommitted guarantee facility was $8.1 million and nil as of March 31, 2018 and December 31, 2017, respectively.

In addition, the Company had outstanding bank guarantees and performance bonds amounting to $3.5 million and $12.3 million as of March 31, 2018 and December 31, 2017, respectively, issued against the SDHL Revolver.

Therefore, the total outstanding bank guarantees and surety bonds issued by the Company were $59.8 million and $65.9 million as of March 31, 2018 and December 31, 2017, respectively.

Note 11 — Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, which include cash and cash equivalents, accounts receivable, current 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 carrying value of $14.0 million and $14.6 million and an estimated fair value of $12.6 million and $13.2 million as of March 31, 2018 and December 31, 2017, respectively). 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 long-term debt (in thousands):

	March 31, 2018		December 31, 2017	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
8.25% Senior Unsecured Notes, due February 15, 2025	$ 589,487	$ 602,016	$ -	$ -
Senior Secured Credit Facility, due March 31, 2020	24,279	$ 25,000	-	-
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
Total debt	$ 613,766	$ 627,016	$ 526,670	$ 543,743

The estimated fair value of the Company's long-term debt, except the SDA Facility, 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 Company believes the SDA Facility carrying value of $25.0 million approximates the fair value due to its recent issuance, variable interest and relative short-term maturity.

The estimated fair value of the 8.25% Senior Unsecured Notes and the SDA Facility exclude unamortized debt issuance costs as of March 31, 2018 of $10.5 million and $0.7 million, respectively. 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. See Note 7 – Debt.

Derivative financial instruments were measured at fair value on a recurring basis using Level 2 inputs. See Note 15 – Derivative Financial Instrument.

Note 12 — Mezzanine Equity

On January 12, 2017, SDL issued 1,000,000 preferred shares at $166.67 per share for a value of $166.67 million to certain equity Sponsors as part of the retirement of the Midco Term Loan. 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.

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 three months ended March 31, 2018 and 2017 were $4.5 million and 3.8 million, of which $3.0 million and $2.8 million, respectively, were accrued and to be paid in the next semi-annual payment. Total dividends paid in cash on the due date during the three months ended March 31, 2018 and 2017 were $8.9 million and $1.0 million, respectively.

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 13 — Shareholders' Equity

During the three months ended March 31, 2018, there were no issuance of common shares. During the first quarter of 2017, a new ordinary share class (Class D) was approved with an authorized share capital of 1,020 shares. Class D shares had no dividend rights. The Company also amended its Articles of Association (the "Articles") to increase the authorized capital to 5,001,020 ordinary shares with a par value of $0.01 per share for a total amount of $50 thousand.

During the first quarter of 2017, the Company granted 243 ordinary shares (228 Class B shares and 15 Class C shares) under the time-based and performance-based share compensation plan to members of the Company's management. These shares were issued to a Voting Trust, managed under the voting trust agreement by one of the Sponsors, for further issuance to the employees upon fulfilling the vesting conditions. See Note 14 – Share-based Compensation.

During the three months ended March 31, 2018, 9,606 common shares issued under share-based compensation plans (4,428 time-based restricted shares and 5,178 performance restricted shares) were forfeited for nil consideration. There were no repurchase or retirement of ordinary shares during the three months ended March 31, 2017.

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.

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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 three months ended March 31, 2018 and 2017 (in thousands, except share data):

	Three months ended March 31, 2018	
	Number of shares issued and outstanding	Amount of shares issued and outstanding (at par value)
	Common shares	
Balance, beginning of period	83,125,000	$ 831
Shares issued to trust	-	-
Repurchase and retirement of shares	(9,606)	-
Balance, end of period	83,115,394	$ 831

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

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

The total shares issued to trust for share-based compensation were 2,265,254 common shares and 16,087 ordinary shares as of March 31, 2018 and 2017, respectively.

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 three months ended March 31, 2018 and 2017. The Company is restricted in declaring and paying dividends to its new common shareholders until the preferred shares are fully redeemed. See Note 12 – Mezzanine Equity.

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

Note 14 — Share-based Compensation

The Company has a share-based compensation plan under which it had issued time-based Class B and performance-based Class C and Class D restricted shares prior to the Recapitalization (See Note 13 – Shareholder's Equity). These Class B, C and D shares were awarded to certain members of the Company's management as remuneration for future services of employment and were held in a voting trust on the employees' behalf.

Time-based restricted Class B shares typically vest in equal proportion over a five-year required service period from the date of grant. In the event of an initial public offering ("IPO") or other exit event, all time-based unvested shares would vest immediately, regardless of grant date. In the event of an IPO, the shares 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 cost is being recognized over a period of five years from the grant date subject to acceleration as discussed above in the event of an IPO or other exit event.

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

There were no new grants during the three months ended March 31, 2018. During the three months ended March 31, 2017, the Company had granted 243 additional ordinary shares (228 Class B shares and 15 Class C shares) to members of the Company's management.

The 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	
	Class B	**Class C**
Valuation assumptions:		
Expected term	2 years	2 years
Risk free interest rate	1.20% p.a.	1.20% p.a.
Expected volatility	65.0%	65.0%

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

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

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

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

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.

The Company has recorded a share-based compensation expense related to the share-based compensation plan of $0.2 million each during the three months ended March 31, 2018 and 2017. 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:

	Three months ended March 31,			
	2018		2017	
	Time based restricted shares	Performance based shares	Time based restricted shares	Performance based shares
	Common shares		Class B	Class C
Total unrecognized compensation expense (in thousands)	$ 2,076	$ 9,045	$ 2,819	$ 5,768
Weighted-average period unvested compensation expense	2.40 years	N/A	2.95 years	N/A

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

	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 shares at January 1, 2018	393,760	1,135,747	$ 5.89	$ 8.00
Granted	-	-	-	-
Vested	(181,944)	-	1.21	-
Forfeited	(4,428)	(5,178)	8.00	8.00
Non-vested shares at March 31, 2018	207,388	1,130,569	$ 10.01	$ 8.00

	Time based restricted shares	Performance based shares	Weighted average grant date fair value per share	
	Class B	Class C	Class B	Class C
Non-vested shares at January 1, 2017	7,704	965	$ 357.05	$ 5,808.48
Granted	228	15	672.00	11,088.00
Vested	(2,145)	-	39.60	-
Forfeited	-	-	-	-
Non-vested shares at March 31, 2017	5,787	980	$ 487.11	$ 5,889.71

The total grant date fair value of the time based restricted vested ordinary shares was $0.2 million and $85 thousand during the three months ended March 31, 2018 and 2017, respectively.

Note 15 — Derivative Financial Instrument

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 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 three months ended March 31, 2018, the Company settled forex contracts with aggregate notional values of approximately $3.7 million, of which the aggregate amounts were designated as an accounting hedge. There were no such transactions during the three months ended March 31, 2017.

As of March 31, 2018, the estimated amount of net unrealized losses associated with the forex contracts that will be reclassified to earnings during the next nine months was $0.2 million. The net unrealized gains / (losses) associated with this derivative financial instrument will be reclassified to operating and maintenance expense, to the extent fully effective.

Interest Rate Swaps

The Company may enter into interest rate swaps to manage exposures arising from business activities that result in the payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash payments principally related to the Company's borrowings.

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of fixed-rate amounts from a counterparty in exchange for the Company making variable-rate payments over the life of the agreements without exchange of the underlying notional amount.

During the three months ended March 31, 2018, the Company entered into an interest rate swaps with aggregate notional values of approximately $215.8 million, of which the aggregate amounts were designated as an accounting hedge. As of March 31, 2018, the estimated amount of net unrealized losses associated with the interest rate swaps that will be reclassified to earnings was $0.2 million. There were no such transactions during the three months ended March 31, 2017.

The following table presents the amounts recognized in the Company's condensed consolidated interim balance sheets and condensed consolidated interim statements of operations related to the derivative financial instruments designated as cash flow hedges for the three months ended March 31, 2018 and 2017 (in thousands). The effective portion of gain / (loss) reclassified from AOCIL is recorded under operating and maintenance expense for forex contracts and under interest expense and financing charges for interest rate swaps.

	Unrealized loss recognized through AOCIL	
	Three months ended March 31,	
	2018	2017
Cash flow hedges		
Foreign currency forward contracts	$ (268)	$ -
Interest rate swaps	(300)	-
	$ (568)	$ -

	Loss reclassified from AOCIL to		
		Three months ended March 31,	
	Statement of operation classification	2018	2017
Cash flow hedges			
Foreign currency forward contracts	Operating and maintenance	$ 27	$ -
Interest rate swaps	Interest expense and financing charges	71	-
		$ 98	$ -

	Gain / (loss) recognized through "Other, net"	
	Three months ended March 31,	
	2018	2017
Cash flow hedges		
Foreign currency forward contracts	$ -	$ -
Interest rate swaps	-	-
	$ -	$ -

The following table presents the fair values of the derivative forex contracts and interest rate swaps designated as hedging instruments (in thousands):

	Balance sheet classification	March 31, 2018	December 31, 2017
Liability derivatives			
Short-term foreign currency forward contracts	Other current liabilities	$ 241	$ -
Short-term interest rate swaps	Other current liabilities	62	-
Long-term interest rate swaps	Other long-term liabilities	167	-

Note 16 — Supplemental Cash Flow Information

As part of the sale and leaseback agreements for the Newbuilds, interest in kind of $1.0 million was recorded as obligations under sale and leaseback during the three months ended March 31, 2017. This non-cash transaction was not reflected on the condensed consolidated interim statements of cash flows for the three months ended March 31, 2017. There were no such transactions during the three months ended March 31, 2018.

In relation to the refinancing of the Company's debt in January 2017, $166.67 million of preferred shares were issued to certain equity Sponsors and $86.75 million 9.5% Senior Secured Notes were issued for the full settlement of the Midco Term Loan, and $416.09 million 8.625% Senior Secured Notes were cancelled in exchange for 9.5% Senior Secured Notes. These non-cash transactions were not reflected on the condensed consolidated interim statements of cash flows for the three months ended March 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):

	Three months ended March 31,	
	2018	2017
Regulatory and capital maintenance	$ 5,682	$ 4,990
Contract preparation	3,100	1,928
Fleet spares and others	1,600	(743)
	$ 10,382	$ 6,175
Rig acquisitions	6,788	-
Newbuilds	-	9,811
Total capital expenditures and deferred costs	$ 17,170	$ 15,986

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):

	Three months ended March 31,	
	2018	2017
Cash payments for additions to property and equipment	$ 9,309	$ 7,423
Net change in accrued but unpaid additions to property and equipment	(4,424)	2,308
	$ 4,885	$ 9,731
Add: Asset addition related to sale and leaseback transactions	-	965
Total capital expenditures	$ 4,885	$ 10,696
Changes in deferred costs, net	$ (6,723)	$ (11,554)
Add: Amortization of deferred costs	19,008	16,844
Total deferred costs	$ 12,285	$ 5,290
Total capital expenditures and deferred costs	$ 17,170	$ 15,986

The total cash and cash equivalents excludes restricted cash amounting to $14.7 million and $15.3 million as of March 31, 2018 and December 31, 2017, respectively. These amounts were included under other assets, except for the current portion of $0.7 million and $0.6 million as of March 31, 2018 and December 31, 2017, respectively, which was included under other current assets. Restricted cash is primarily used for the reserve requirements for the sale and leaseback transactions as well as for collateral for bid tenders and performance bonds.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported in the condensed consolidated interim balance sheets to the total of such amounts reported in the condensed consolidated interim statements of cash flows (in thousands):

	Three months ended March 31, 2018	Three months ended March 31, 2017
Cash and cash equivalents	$ 120,598	$ 81,105
Restricted cash included in other current assets	690	-
Restricted cash included in other assets	13,993	8,675
Total cash, cash equivalents and restricted cash	$ 135,281	$ 89,780

Note 17 — 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 Recapitalization date. See Note 13 – Shareholders' Equity.

The loss per share during the three months ended March 31, 2017 is calculated based on information prior to the recapitalization for the ordinary Class A, B, C and D shares.

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):

	Three months ended March 31, 2018	Three months ended March 31, 2017		
	Common Shares	Class A	Class B	Class C
Numerator for loss per share				
Net loss	$ (38,517)	$ (1,534)	$ -	$ -
Less: Preferred shares dividend	4,495	3,805	-	-
Net loss attributable to common and ordinary shares	$ (43,012)	$ (5,339)	$ -	$ -
Denominator for loss per share				
Weighted average shares:				
Basic outstanding per Class	81,651,566	444,594	18,147	5,110
Effect of stock options and other share-based awards	-	-	-	-
Diluted per Class	81,651,566	444,594	18,147	5,110
Basic loss per share per Class	$ (0.53)	$ (12.01)	$ -	$ -
Diluted loss per share per Class	$ (0.53)	$ (12.01)	$ -	$ -

For the three months ended March 31, 2018 and 2017, there were 130,656 dilutive common shares and 2,661 dilutive class B and class 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 18 — Segment and Related Information

The Company has one reportable segment, contract drilling services, which reflects how the Company manages its business, and the fact that all the drilling fleet is dependent upon the worldwide oil industry. The Company evaluates the performance of the operating segment based on revenues from external customers.

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

	Three months ended March 31,	
	2018	2017
Saudi Arabia	$ 44,775	$ 44,208
Thailand	29,134	13,542
India	25,336	44,167
United Arab Emirates	20,213	11,897
Nigeria	15,303	17,233
Other countries	12,749	15,206
As Reported Revenue	$ 147,510	$ 146,253

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

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

	March 31, 2018	December 31, 2017
Thailand	$ 439,494	$ 443,090
United Arab Emirates	248,000	244,882
Saudi Arabia	200,073	207,125
Nigeria	184,623	183,959
India	106,856	110,752
Other countries	203,016	216,086
Total long-lived assets	$ 1,382,062	$ 1,405,894

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. Asset locations at the end of the period are not necessarily indicative of the geographic distribution of the revenue generated by such assets during the period.

Note 19 — Related Parties

In connection with the Company's operations of a foreign subsidiary, a related party provided goods and services to drilling rigs owned by one of the Company's foreign subsidiaries. These goods and services totaled $1.0 million and $0.8 million during the three months ended March 31, 2018 and 2017, respectively. The total liability recorded under accounts payable for such transactions were $0.6 million and $0.6 million as of March 31, 2018 and December 31, 2017, respectively.

The Company recorded $1.4 million and $1.4 million for the three months ended March 31, 2018 and 2017, respectively, of Sponsors' costs related to the $0.4 million monthly fee, directors' fees and reimbursement of costs incurred by Sponsors and directors for attendance at meetings relating to the management and governance of the Company. The total liability recorded under accounts payable for such transactions were $42 thousand and $52 thousand as of March 31, 2018 and December 31, 2017, respectively.

Note 20 — Subsequent Events

The Company has evaluated subsequent events through May 15, 2018, the date of issuance of the condensed consolidated interim financial statements. The Company determined that no subsequent events had occurred that would require recognition in these financial statements.

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

The following discussion and analysis should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements contained in this Quarterly Report on Form 10-Q ("Interim Report") equivalent and the audited consolidated financial statements included in our Annual Report for the year ended December 31, 2017. Unless otherwise indicated, references to "we", "us", "our" and the "Company" refer collectively to the Company.

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

- our ability to renew or extend contracts, enter into new contracts when such contracts expire, and negotiate the dayrates and other terms of such contracts;
- the demand for our 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; and
- our incorporation under the laws of the Cayman Islands and the limited rights to relief that may be available compared to U.S. laws.

This Interim Report should be read in its entirety as it pertains to Shelf Drilling, Ltd. ("SDL") except where indicated, the Condensed Consolidated Interim Financial Statements and the Notes to the Condensed Consolidated Interim Financial Statements are combined. References in this 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, unless the context requires otherwise. When used in this Interim Report, the words "could," "believe," "anticipate," "intend," "estimate," "expect," "project" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. These forward-looking statements are based on the Company's current expectations and assumptions about future events and are based on currently available information as to the outcome and timing of future events.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance or achievements to be materially different from the anticipated future results, performance or achievements expressed or implied by the forward-looking statements. The statements under Item 1A. Risk Factors included in our Annual Report for the year ended December 31, 2017 should be read carefully in addition to the above uncertainties and assumptions. These risks and uncertainties are beyond the Company's ability to control, and in many cases, the Company cannot predict such risks and uncertainties which could cause its actual results to differ materially from those indicated by the forward-looking statements. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those indicated.

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

Business

The Company provides shallow-water drilling services to the oil and natural gas industry. 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 active rigs. All operations are conducted through Shelf Drilling Holdings, Ltd. ("SDHL"), an indirect wholly owned subsidiary of SDL.

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.

Recent events

In February 2018, SDHL completed the issuance of $600.0 million of new 8.25% Senior Unsecured Notes due 2025 (the "8.25% Senior Unsecured Notes") issued at par. The net proceeds were used to purchase and cancel or redeem $502.8 million of 9.5% Senior Secured Notes due November 2020 (the "9.5% Senior Secured Notes") and $30.4 million of 8.625% Senior Secured Notes due November 2018 (the "8.625% Senior Secured Notes"), or such notes redemption provision, with the remaining cash retained for general corporate purposes. See *Note 7 – Debt* in "Item 1. Financial Statements" of "Part I. Financial Information".

Drilling fleet

The following table summarizes the Company's offshore drilling rigs as of March 31, 2018 and 2017:

	As of March 31,	
	2018	**2017**
Jackups	38	35
Swamp barge	1	1
Under construction	-	1
Total	39	37

Subsequent to March 31, 2017, the Company added three premium jack-up drilling rigs and one Newbuild rig to its active fleet, and sold one rig for non-drilling purposes which was stacked and not being marketed for contract drilling.

Two of the acquired premium jack-up rigs, Shelf Drilling Resourceful and Shelf Drilling Tenacious were delivered to us in May 2017, and the third rig, the Shelf Drilling Mentor, was delivered in September 2017. These rigs started their respective contracts during the quarter ended March 31, 2018.

In addition, the second Newbuild rig, the Shelf Drilling Krathong was delivered and started its drilling contract during the second quarter of 2017.

Outlook

The business environment for offshore drilling contractors remains challenging with continued pressure on market dayrates, but there are indications of a recovery in the jack-up rig market. 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 $75.92 per barrel on April 30, 2018, is a key driver of exploration, development and production activity by our customers. Brent crude oil prices have traded above $60 per barrel for the past 6 months.

The shallow water market has been more resilient than the deepwater market due to the relatively low breakeven prices and short cycles. However, dayrates and utilization for all offshore rigs have been significantly impacted. In general, recent contract awards have often 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 4% from January 2017 to March 2018. We believe there will be several multi-rig tenders to be awarded soon in the Middle East for long-term contracts, which would further increase the contracted rig count by approximately 5%. We continue to see a strong level of market and tender inquiries from our customers, particularly in the Middle East, West Africa and other key markets. Oil and gas companies have expressed a high interest in 2018 in increasing their drilling activity in our core operating regions. We believe that we will be positioned to benefit from a continued increase in demand for jack-up rig services due to our operating track record and competitive low cost structure.

We remain focused on delivering safe and cost efficient operations, as well as realizing efficiency gains across all levels of the organization.

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.

Contract backlog was $1.2 billion across 27 contracted rigs with a weighted average backlog dayrate of $78.3 thousand per day and average contracted days of 549 per rig as of March 31, 2018, compared with $1.5 billion across 26 contracted rigs with a weighted average dayrate of $95.0 thousand per day and average contracted days of 621 per rig as of March 31, 2017.

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 March 31, 2018, 35 rigs were marketable (of which 26 were under contract and nine were actively being marketed), one rig was under non-drilling contract and three rigs were stacked compared to 31 marketable rigs, two rigs under non-drilling contract and three stacked rigs as of March 31, 2017. The increase in the marketable rigs is a result of the delivery of the second Newbuild and acquisition of three premium jack-up rigs in 2017.

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.

The average dayrate realized for the three months ended March 31, 2018 was $70.3 thousand, an increase of 1.1% from the average dayrate of $68.5 thousand realized for the three months ended March 31, 2017. The increase in the average dayrate was primarily due to the contract for the second Newbuild which started in June 2017, partly offset by the contract completions of four rigs in India in 2017.

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.

Marketed utilization in Q1 2018 of 63% was lower than the marketed utilization in Q1 2017 of 70%. The decrease was primarily driven by the contract completions of four rigs in India in 2017. There were nine rigs idle awaiting marketing opportunities at the end of Q1 2018 compared to eight rigs at the end of Q1 2017.

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.

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 three months ended March 31, 2018 and 2017 were as follows (in thousands):

	Three months ended March 31,	
	2018	**2017**
Net loss	$ (38,517)	$ (1,534)
Add back:		
Interest expense and financing charges, net of interest income (1)	38,777	30,213
Income tax expense	4,658	4,550
Depreciation	21,868	18,369
Amortization of deferred costs	19,008	16,844
Gain on disposal of assets	(120)	(138)
EBITDA	$ 45,674	$ 68,304
Sponsors' fee (2)	1,125	1,125
Share-based compensation expense, net of forfeitures	202	220
Acquired rig reactivation costs (3)	1,970	-
Adjusted EBITDA	$ 48,971	$ 69,649
Adjusted EBITDA margin	33.2%	47.6%

(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 losses on debt extinguishments in relation to our debt refinancing in Q1 2017 and Q1 2018.

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

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

For the three months ended March 31, 2018 and 2017, the Company's unrestricted subsidiaries accounted for $15.3 million (31.2%) and $7.7 million (11.1%), respectively, of the Company's Adjusted EBITDA. As of March 31, 2018 and December 31, 2017, the Company's unrestricted subsidiaries had assets of $646.7 million, representing 38.3%, and $654.5 million, representing 38.9%, of the Company's total assets, respectively. SDHL has agreed to cause its subsidiary, Shelf Drilling Asset III, Ltd. ("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, as of March 31, 2018 and December 31, 2017, the unrestricted subsidiaries would have accounted for $482.3 million, or 28.5% of our total assets and $487.4 million, or 29.0%, of our total assets, respectively.

Operating Results

Three months ended March 31, 2018 ("Q1 2018") compared to three months ended March 31, 2017 ("Q1 2017")

Revenues

Total revenue for Q1 2018 was $147.5 million compared to $146.3 million for Q1 2017. Revenue for Q1 2018 consisted of $144.6 million (98.0%) of operating revenue and $2.9 million (2.0%) of other revenue. In Q1 2017, these same revenues were $142.4 million (97.3%) and $3.9 million (2.7%), respectively.

Revenue in Q1 2018 increased by $1.2 million compared to Q1 2017 primarily due to $25.0 million of higher operating revenue related to the operations of the two newbuilds and the three premium jack-up rigs acquired in 2017 and $1.1 million of higher other revenue in Q1 2018. This was mostly offset by $19.4 million related to lower marketed utilization (63% in Q1 2018 compared to 70% in Q1 2017), $3.6 million related to lower average earned dayrates excluding the two newbuilds and the three acquired rigs, and $1.9 million lower revenue related to non-drilling activities in Q1 2018.

Operating and maintenance expenses

Total operating and maintenance expenses for Q1 2018 were $90.3 million, or 61.2% of total revenue, compared to $68.5 million, or 46.8% of total revenue, for Q1 2017. Operating and maintenance expenses in Q1 2018 consisted of $81.7 million rig-related expenses and $8.6 million shore-based expenses. In Q1 2017, these same expenses were $60.4 million and $8.1 million, respectively.

In Q1 2018, rig-related expenses included $47.5 million for personnel expenses, $21.7 million for rig maintenance expenses and $12.5 million for other rig-related expenses. This compares to $38.9 million, $13.3 million and $8.2 million for those respective categories during Q1 2017. Compared to Q1 2017, the increase in rig-related expenses of $21.3 million was due to $8.8 million of costs for the three premium jack-up drilling rigs acquired in May and September 2017, $8.4 million of contract preparation and operating expenses for rigs that were idle in Q1 2017 but operating or preparing for new contract in Q1 2018, $4.9 million of higher rig mobilization costs, $3.1 million of increased costs related to the two newbuild rigs and $1.7 million higher maintenance and shipyard expenses. This was partly offset by $2.8 million lower expenses for stacked and idle rigs awaiting marketing opportunities and $2.4 million of cost savings across rigs, primarily due to lower personnel related expenditures and insurance.

There were $0.5 million of higher shore-based expenses (a 6.2% increase from Q1 2017), primarily attributable to the new shore-based office supporting the operations of the two acquired premium jack-up rigs operating in United Arab Emirates.

Depreciation expense

Depreciation expense in Q1 2018 was $21.9 million compared to $18.4 million in Q1 2017. The increase of $3.5 million primarily related to $2.8 million of depreciation for the three recently acquired premium jack-up rigs and $1.8 million depreciation for the second newbuild which was placed into service in June 2017.

Amortization of deferred costs

The amortization of deferred costs in Q1 2018 was $19.0 million compared to $16.8 million in Q1 2017. The $2.2 million increase primarily related to the amortization of contract preparation costs of the three acquired premium jack-up rigs which all started their respective contract in Q1 2018.

General and administrative expenses

General and administrative expenses in Q1 2018 were $12.6 million compared to $9.1 million in Q1 2017. The $3.5 million increase resulted from $2.3 million of net releases of provision for doubtful accounts in Q1 2017 compared to a provision of $0.1 million in Q1 2018 and $1.1 million of higher other costs.

Gain on disposal of assets

Gain on disposal of assets was $0.1 million and $0.1 million in Q1 2018 and Q1 2017, respectively.

Other (expense) / income, net

Other (expense) / income, net was an expense of $37.7 million in Q1 2018 and $30.5 million in Q1 2017. Other expense consisted primarily of interest expense and financing charges of $39.0 million and $30.4 million during Q1 2018 and Q1 2017, respectively. Interest expense and financing charges in Q1 2018 were $8.6 million higher compared to Q1 2017 primarily due to the $4.8 million higher loss on debt extinguishment associated with the refinancing of our debt and $3.8 million of higher interest expense primarily related to the sale and leaseback financing facility.

The loss on debt extinguishment for Q1 2018 was $19.0 million compared to $14.2 million for the same period in Q1 2017.

Also included in the Other (expense) / income, net is Other, net which was an income of $1.0 million in Q1 2018 compared to an expense of $0.3 million in Q1 2017. The difference of $1.3 million was mainly due to increased foreign currency exchange gains in Q1 2018.

Income tax expense

Income tax expense in Q1 2018 was $4.7 million compared to $4.6 million in Q1 2017. 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 or loss before taxes, (iii) rig movements between taxing jurisdictions and changes in our rig operating structures.

Income tax expense in Q1 2018 is higher than in Q1 2017 despite having a loss before income taxes in Q1 2018 as compared to income before income taxes in Q1 2017, primarily due to an increased proportion of expenses in 2018 for which there will be no tax benefit as such expenses are either incurred in jurisdictions which impose tax based on gross revenue rather than on net income or are incurred in jurisdictions in which the Company does not pay tax or which do not allow for a tax deduction for such expenses.

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 $120.6 million and $84.6 million in cash and cash equivalents as of March 31, 2018 and December 31, 2017, respectively. Under the SDHL Revolver, we had $3.5 million and $12.3 million of surety bonds issued as of March 31, 2018 and December 31, 2017, respectively. In addition, there were no cash borrowings under the SDHL Revolver during the same periods. There are certain limitations which restrict the Company's ability to draw down the available balance of the SDHL Revolver.

As of March 31, 2018 and December 31, 2017, the Company had $25 million and nil borrowings under the SDA facility. The outstanding bank guarantees under the uncommitted guarantee facility were $8.1 million and nil as of March 31, 2018 and December 31, 2017, respectively.

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

At any given time, we may require a significant portion of cash on hand and amounts available under the SDHL Revolver for working capital and other needs related to the operation of our business. 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 three months ended March 31, 2018 and 2017 are given below.

Discussion of Cash flows

The following table sets out certain information regarding our cash flow statements for the three months ended March 31, 2018 and 2017 (in thousands):

	Three months ended March 31,	
	2018	**2017**
Net cash (used in) / provided by operating activities	$ (9,627)	$ 2,963
Net cash used in investing activities	(9,018)	(7,225)
Net cash provided by / (used in) financing activities	54,100	(128,353)
Net increase / (decrease) in cash, cash equivalents and restricted cash	$ 35,455	$ (132,615)

Net cash provided by operating activities

Net cash (used in) / provided by operating activities totaled $(9.6) million in Q1 2018 compared to $3.0 million in Q1 2017. The decrease of $12.6 million was primarily due to the overall decline in our drilling business activity and cash payments associated with our debt refinancing. See discussion of operating costs in "—Results of operations."

During the three months ended March 31, 2018 and 2017, we made cash payments of $20.0 million and $24.3 million in interest and financing charges, respectively, net of interest amounts capitalized of nil and $1.6 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 $3.7 million and $3.0 million in income taxes included under "other operating assets and liabilities, net" during the three months ended March 31, 2018 and 2017, respectively.

Net cash used in investing activities

Net cash used in investing activities in Q1 2018 totaled $9.1 million compared to $7.2 million in Q1 2017.

Cash used for capital expenditures, including capitalized interest, totaled $9.3 million in Q1 2018 and $7.4 million in Q1 2017.

As part of the sale and leaseback transactions, interest in kind of $1.0 million was recorded as capitalized interest and obligation under sale and leaseback in Q1 2017. This non-cash transaction was not reflected on the condensed consolidated interim statements of cash flows for the three months ended March 31, 2017. There were no such transactions during the three months ended March 31, 2018.

Net cash provided by / (used in) in financing activities

Net cash provided by (used in) financing activities totaled $54.1 million in Q1 2018 compared to $(128.4) million in Q1 2017.

In February 2018, we completed the issuance of $600.0 million principal amount of the 8.25% Senior Unsecured Notes issued at par. We used the net proceeds of $589.3 million to fully settle the $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 of the debt extinguishment, we recognized a loss of $19.0 million which includes the premiums of $12.2 million, $6.3 million write-off of unamortized debt issuance costs, and professional fees of $0.5 million. The write-off of unamortized debt issuance costs was reflected as non-cash transaction and included in cash provided by operating activities.

On March 27, 2018, the Company drew $25 million under the SDA Facility, used to fund the upgrade and capital expenditure costs for two of the recently acquired premium jackup drilling rigs, and is due in four equal installments with a maturity date of March 31, 2020.

During Q1 2017, in connection with the refinancing of certain of our debt, 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 2017 refinancing of certain of our debt, $166.7 million of preferred shares were issued to certain equity 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 condensed consolidated interim statement of cash flows in Q1 2017.

During Q1 2018, we paid a total of $9.7 million of debt issuance costs and of $12.5 million of debt extinguishments costs compared to $10.4 million and $9.8 million in Q1 2017. Further, in Q1 2017, we paid $0.7 million shares issuance costs for the issuance of preferred shares.

We paid $8.9 million and $1.0 million of preferred dividends during the three months ended March 31, 2018 and 2017, respectively.

We made rental payments to the Lessor of $13.2 million and $4.2 million, of which $8.7 million and $2.8 million were related to principal payments during the three months ended March 31, 2018 and 2017, respectively, for the Newbuild rigs which entered into capital leases in December 2016 and June 2017, respectively.

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 condensed consolidated interim 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 three months ended March 31, 2018 and 2017 (in thousands):

	Three months ended March 31,	
	2018	**2017**
Regulatory and capital maintenance (1)	$ 5,682	$ 4,990
Contract preparation (2)	3,100	1,928
Fleet spares and other (3)	1,600	(743)
	$ 10,382	$ 6,175
Rig acquisitions (4)	6,788	-
Newbuilds (5)	-	9,811
Total capital expenditures and deferred costs	$ 17,170	$ 15,986

(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, if any, contract preparation costs associated with reactivation projects, which are included under "Reactivation projects."

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

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

(5) Includes 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 totaled $17.2 million in Q1 2018 compared to $16.0 million Q1 2017. This included $6.8 million in Q1 2018 relating to the reactivation and contract preparation of the three premium jackup rigs acquired in 2017, compared to $9.8 million for the construction of the newbuilds in Q1 2017.

Capital expenditures and deferred costs excluding newbuilds and acquisitions increased from $6.2 million in Q1 2017 to $10.4 million in Q1 2018 mainly due to a $3.6 million increase in regulatory and capital maintenance and fleet spares and a $0.6 million increase in contract preparation expenditure.

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 three months ended March 31, 2018 and 2017 (in thousands):

	Three months ended March 31, 2018	Three months ended March 31, 2017
Cash payments for additions to property and equipment	$ 9,309	$ 7,423
Net change in accrued but unpaid additions to property and equipment	(4,424)	2,308
	$ 4,885	$ 9,731
Asset addition related to sale and leaseback transactions	-	965
Total capital expenditures	$ 4,885	$ 10,696
Changes in deferred costs, net	$ (6,723)	$ (11,554)
Amortization of deferred costs	19,008	16,844
Total deferred costs	$ 12,285	$ 5,290
Total capital expenditures and deferred costs	$ 17,170	$ 15,986

Certain financial information of SDL and SDHL

The following tables present certain financial information for SDL and SDHL for the three months ended March 31, 2018 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.

March 31, 2018

Condensed Consolidated Interim Statements of Operations for the three months ended March 31, 2018

	Shelf Drilling, Ltd.	Adjustments (In thousands)	Shelf Drilling Holdings, Ltd.
Revenues			
Operating revenues	$ 144,604	$ -	$ 144,604
Other revenue	2,906	-	2,906
	147,510	**-**	**147,510**
Operating costs and expenses			
Operating and maintenance	90,269	-	90,269
Depreciation	21,868	-	21,868
Amortization of deferred costs	19,008	-	19,008
General and administrative	12,607	(137)	12,470
Gain on disposal of assets	(120)	-	(120)
	143,632	**(137)**	**143,495**
Operating income	**3,878**	**137**	**4,015**
Other (expense) / income, net			
Interest income	183	-	183
Interest expense and financing charges	(38,960)	-	(38,960)
Other, net	1,040	-	1,040
	(37,737)	**-**	**(37,737)**
Loss before income taxes	**(33,859)**	**137**	**(33,722)**
Income tax expense	4,658	-	4,658
Net loss	**$ (38,517)**	**$ 137**	**$ (38,380)**
Preferred dividend (1)	(4,495)	4,495	-
Net loss attributable to common shares	**$ (43,012)**	**$ 4,632**	**$ (38,380)**

(1) In January 2017, we refinanced our long-term debt (the "2017 refinancing"). In connection with the 2017 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 dividend on the preferred shares recorded at SDL for the three months ended March 31, 2018. The total dividend recognized for the three months ended March 31, 2018 was $4.5 million, of which $3.0 million was accrued and to be paid in the next semi-annual payment. Total dividends paid in cash on the due date during the three months ended March 31, 2018 was $8.9 million.

Condensed Consolidated Interim Balance Sheets as of March 31, 2018

	Shelf Drilling, Ltd.	Adjustments (In thousands)	Shelf Drilling Holdings, Ltd.
Assets			
Cash and cash equivalents	$ 120,598	$ (10)	$ 120,588
Accounts and other receivables, net[(1)]	128,035	5,525	133,560
Other current assets[(2)]	98,903	(3,778)	95,125
Total current assets	347,536	1,737	349,273
Property and equipment	1,625,456	-	1,625,456
Less accumulated depreciation	392,574	-	392,574
Property and equipment, net	1,232,882	-	1,232,882
Deferred tax assets	690	-	690
Other assets	107,194	-	107,194
Total assets	**$ 1,688,302**	**$ 1,737**	**$ 1,690,039**
Liabilities and equity			
Accounts payable[(3)]	$ 76,465	$ (406)	$ 76,059
Interest payable	7,446	-	7,446
Obligations under sale and leaseback	35,115	-	35,115
Current maturities of long-term debt	14,164	-	14,164
Accrued income taxes	5,878	-	5,878
Other current liabilities[(4)]	22,536	(2,995)	19,541
Total current liabilities	161,604	(3,401)	158,203
Long-term debt	601,761	-	601,761
Obligations under sale and leaseback	270,156	-	270,156
Deferred tax liabilities	4,257	-	4,257
Other long-term liabilities	18,580	-	18,580
Total long-term liabilities	894,754	-	894,754
Mezzanine equity, net of issuance costs[(5)]	165,978	(165,978)	-
Commitments and contingencies			
Common shares[(6)]	831	(831)	-
Additional paid-in capital[(7)]	658,797	84,279	743,076
Accumulated other comprehensive income	(470)	-	(470)
Accumulated losses[(8)]	(193,192)	87,668	(105,524)
Total equity	465,966	171,116	637,082
Total liabilities and equity	**$ 1,688,302**	**$ 1,737**	**$ 1,690,039**

(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 legal activities.

(4) In connection with the 2017 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 paid.

(5) This adjustment relates to the issuance of preferred shares, net of the issuance costs of $0.7 million. Refer to footnote 1 of the Condensed Consolidated Interim Statements of Operations for the three months ended March 31, 2018 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. SDIL is 100% owned by Shelf Drilling Midco, Ltd (“Midco”) which is 100% directly owned by SDL.

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

Condensed Consolidated Interim Statements of Cash flows for the three months ended March 31, 2018

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.
		(In thousands)	
Cash flows from operating activities			
Net loss	$ (38,517)	$ 137	$ (38,380)
Adjustments to reconcile net loss to net cash used in operating activities			
Depreciation	21,868	-	21,868
Loss on derivative financial instruments, net	98	-	98
Provision for doubtful accounts, net	85	-	85
Amortization of deferred revenue	(3,426)	-	(3,426)
Share-based compensation expense, net of forfeitures / Capital contribution by Parent share-based compensation	202	-	202
Non-cash portion of loss on debt extinguishment (1)	6,320	-	6,320
Debt extinguishment costs	12,505	-	12,505
Amortization of debt issue costs	822	-	822
Gain on disposal of assets	(120)	-	(120)
Deferred tax expense, net	481	-	481
Payments for settlement of derivative financial instruments, net	(98)	-	(98)
Changes in deferred costs, net	6,723	-	6,723
Changes in operating assets and liabilities			
Intercompany receivables	-	(137)	(137)
Other operating assets and liabilities, net	(16,570)	39	(16,531)
Net cash used in operating activities	(9,627)	39	(9,588)
Cash flows from investing activities			
Additions to property and equipment	(9,309)	-	(9,309)
Proceeds from disposal of property and equipment	291	-	291
Net cash used in investing activities	(9,018)	-	(9,018)
Cash flows from financing activities			
Short-term debt	2,159	-	2,159
Proceeds from issuance of long-term debt	625,000	-	625,000
Payments for obligations under sale and leaseback	(8,659)	-	(8,659)
Payments to retire long-term debt	(533,250)	-	(533,250)
Payments of debt issuance costs	(9,739)	-	(9,739)
Payments of debt extinguishment costs	(12,505)	-	(12,505)
Preferred shares dividend paid (1)	(8,906)	8,906	-
Ordinary shares dividend paid (2)	-	(8,900)	(8,900)
Net cash provided by financing activities	54,100	6	54,106
Net increase in cash, cash equivalents and restricted cash	35,455	45	35,500
Cash, cash equivalents and restricted cash at beginning of period (3)	99,826	(55)	99,771
Cash, cash equivalents and restricted cash at end of period	**$ 135,281**	**$ (10)**	**$ 135,271**

(1) This adjustment primarily relates to the payment of SDL's preferred dividends.

(2) This adjustment reflects the ordinary shares dividend paid by SDHL to fund SDL's preferred shares dividend payment.

(3) As a result of the adoption of Accounting Standards Update 2016-15 as discussed in *Note 2 – Recently Adopted and Issued Accounting Pronouncements* in "Item 1, Financial Statements" of "Part I, Financial Information", the change in restricted cash of $0.6 million during the three months ended March 31, 2017 previously reported as cash flows from investing activities has been presented as part of cash and cash equivalents and restricted cash.

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 March 31, 2018 (in thousands):

	Years ended March 31,						
	2019	2020	2021	2022	2023	Thereafter	Total
Debt repayment (1)	$ 12,500	$ 12,500	$ -	$ -	$ -	$600,000	$ 625,000
Interest on debt (2)	53,905	52,963	49,728	49,500	49,500	92,897	348,493
Sale and lease back obligations (3)	53,960	52,703	50,276	124,119	88,374	-	369,432
Operating leases and other commitments	7,785	3,322	1,905	820	-	-	13,832
Total	$ 128,150	$ 121,488	$ 101,909	$ 174,439	$137,874	$692,897	$1,356,757

(1) Debt includes 8.25% Senior Unsecured Notes and SDA Facility.

(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 (including impact of the recent interest rate hedge) under the sale and leaseback transactions as of March 31, 2018.

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 $102.8 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 $48.2 million and $53.6 million at March 31, 2018 and December 31, 2017, respectively.

The Company also has a $50.0 million uncommitted guarantee facility included in the SDA facility. The outstanding bank guarantees under the uncommitted guarantee facility was $8.1 million and nil as of March 31, 2018 and December 31, 2017, respectively.

In addition, we had outstanding bank guarantees and performance bonds amounting to $3.5 million and $12.3 million as of March 31, 2018 and December 31, 2017, respectively, against the SDHL Revolver.

Therefore, the total outstanding bank guarantees and surety bonds issued by the Company were $59.8 million and $65.9 million as of March 31, 2018 and December 31, 2017, respectively.

Contingencies

As of March 31, 2018, 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 Transocean Inc.. See *Note 6 - Income Taxes and Note 10 - Commitments and Contingencies* in "Item 1. Financial Statements" of "Part I. Financial Information".

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 believe that most of these accounting policies reflect our more significant estimates and assumptions used in preparation of our financial statements.

For a discussion of the critical accounting policies and estimates that we use in the preparation of our Condensed Consolidated Interim Financial Statements, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies, Key Judgements and Estimates" in Part II of our Annual Report on Form 10-K Equivalent for the year ended December 31, 2017. During the three months ended March 31, 2018, there were no material changes to the judgments, assumptions or policies upon which our critical accounting estimates are based, except for the impact of the adoption of the new accounting standard on revenue from contracts with customers. *See Note 1 – Summary of Significant Accounting Policies in "Item 1. Financial Statements" of "Part I. Financial Information".*

New Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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 8.25% Senior Unsecured 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 March 31, 2018, a hypothetical one percentage point change in annual interest rates could result in a corresponding change in annual interest expense of approximately $1.2 million, including the impact of the recent interest rate hedge.

We maintain documented policy and procedures to monitor and control the use of the derivative instruments. We are not engaged in derivative transactions for speculative or trading purposes.

Foreign Currency Risk

Our international operations expose us to currency exchange rate risk. This risk is primarily associated with compensation costs of employees and purchasing costs from non-U.S. suppliers, which are denominated in currencies other than the U.S. dollar. We do not have any 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 utilize forex contracts to manage a portion of foreign exchange risk, for which we maintain documented policy and procedures to monitor and control the use of the derivative instruments. We are not engaged in derivative transactions for speculative or trading purposes. Our forex contracts generally require us to net settle the spread between the contracted foreign currency exchange rate and the spot rate on the contract 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 $2.6 million and $2.5 million as of March 31, 2018 and December 31, 2017, respectively.

Item 4. Controls and Procedures

We are not required to report this Item.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

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

Item 1A. Risk Factors

The information set forth under the caption "Forward-looking Information" of Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 2 of Part I of this report is incorporated by reference in response to this Item and there have been no material changes from the risk factors previously disclosed in the Company's Annual Report for the year ended December 31, 2017.

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

Not applicable.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Material agreements governing indebtedness can be found on our website.

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Report of Independent Auditors

To the board of directors of Shelf Drilling, Ltd.

We have reviewed the accompanying condensed consolidated interim financial statements of Shelf Drilling, Ltd. and its subsidiaries (the "Company"), which comprise the condensed consolidated interim balance sheet as of March 31, 2018, and the related condensed consolidated interim statements of operations, comprehensive income, equity and cashflows for the three-month periods ended March 31, 2018 and 2017.

Management's responsibility for the condensed consolidated interim financial statements

The Company's management is responsible for the preparation and fair presentation of the condensed consolidated interim financial statements in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of the condensed consolidated interim financial statements in accordance with accounting principles generally accepted in the United States of America.

Auditor's responsibility

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial statements. A review of interim financial statements consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for it to be in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers

PricewaterhouseCoopers
Dubai, United Arab Emirates
May 15, 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

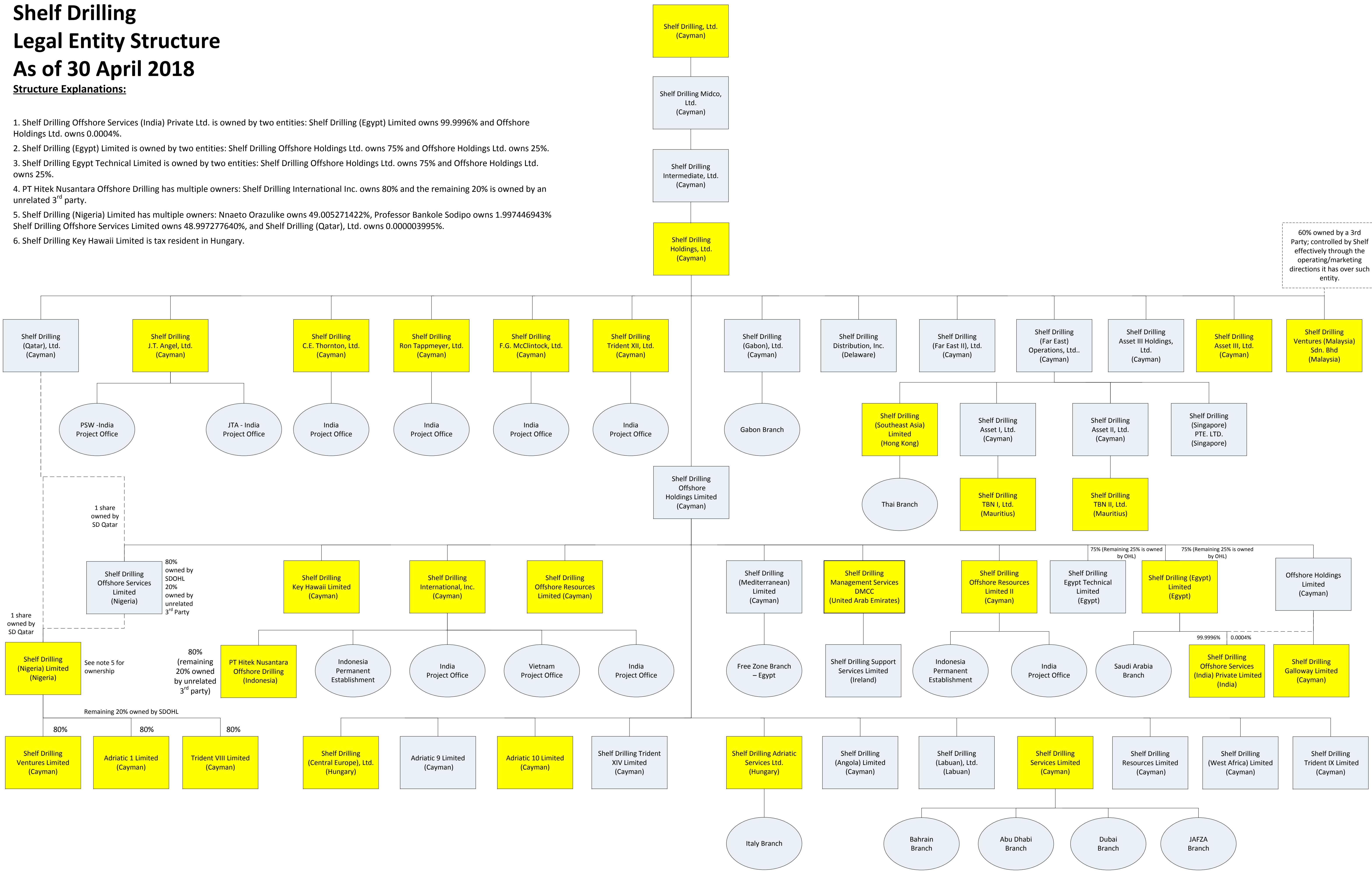
APPENDIX D:

GROUP CHART

Shelf Drilling
Legal Entity Structure
As of 30 April 2018

Structure Explanations:

1. Shelf Drilling Offshore Services (India) Private Ltd. is owned by two entities: Shelf Drilling (Egypt) Limited owns 99.9996% and Offshore Holdings Ltd. owns 0.0004%.
2. Shelf Drilling (Egypt) Limited is owned by two entities: Shelf Drilling Offshore Holdings Ltd. owns 75% and Offshore Holdings Ltd. owns 25%.
3. Shelf Drilling Egypt Technical Limited is owned by two entities: Shelf Drilling Offshore Holdings Ltd. owns 75% and Offshore Holdings Ltd. owns 25%.
4. PT Hitek Nusantara Offshore Drilling has multiple owners: Shelf Drilling International Inc. owns 80% and the remaining 20% is owned by an unrelated 3rd party.
5. Shelf Drilling (Nigeria) Limited has multiple owners: Nnaeto Orazulike owns 49.005271422%, Professor Bankole Sodipo owns 1.997446943% Shelf Drilling Offshore Services Limited owns 48.997277640%, and Shelf Drilling (Qatar), Ltd. owns 0.000003995%.
6. Shelf Drilling Key Hawaii Limited is tax resident in Hungary.



APPENDIX E:

MEMORANDUM AND ARTICLES OF ASSOCIATION OF SHELF DRILLING, LTD. EFFECTIVE UNTIL THE FIRST DAY OF LISTING

THE COMPANIES LAW (AS AMENDED)

OF THE CAYMAN ISLANDS
COMPANY LIMITED BY SHARES

NINTH AMENDED AND RESTATED

MEMORANDUM AND ARTICLES OF ASSOCIATION

OF

SHELF DRILLING, LTD.

(Adopted by Special Resolution Dated May 2, 2017)

GENERAL REGISTRY CAYMAN ISLANDS
Filed: 03-May-2017 14:29 EST
www.verify.gov.ky File#: 271054
Auth Code: A14460321608

THE COMPANIES LAW (AS AMENDED)

OF THE CAYMAN ISLANDS

COMPANY LIMITED BY SHARES

NINTH AMENDED AND RESTATED

MEMORANDUM OF ASSOCIATION

OF

SHELF DRILLING, LTD.

(Adopted by Special Resolution Dated May 2, 2017)

1 The name of the Company is **Shelf Drilling, Ltd.**

2 The Registered Office of the Company shall be at the offices of Centralis (Cayman) Limited, One Capital Place, 3rd Floor, George Town, Grand Cayman, Cayman Islands, or at such other place within the Cayman Islands as the Directors may decide.

3 The objects for which the Company is established are unrestricted and the Company shall have full power and authority to carry out any object not prohibited by the laws of the Cayman Islands.

4 The liability of each Member is limited to the amount unpaid on such Member's shares.

5 The share capital of the Company is US$2,010,000 divided into 201,000,000 shares of a par value of US$0.01 each, of which 200,000,000 shares shall be designated as Common Shares and 1,000,000 shares shall be designated as Preferred Shares.

6 The Company has power to register by way of continuation as a body corporate limited by shares under the laws of any jurisdiction outside the Cayman Islands and to be deregistered in the Cayman Islands.

7 Capitalised terms that are not defined in this Memorandum of Association bear the respective meanings given to them in the Articles of Association of the Company.

GENERAL REGISTRY CAYMAN ISLANDS

Filed: 03-May-2017 14:29 EST
www.verify.gov.ky File#: 271054
Auth Code: A14460321608

THE COMPANIES LAW (AS AMENDED)
OF THE CAYMAN ISLANDS
COMPANY LIMITED BY SHARES

NINTH AMENDED AND RESTATED ARTICLES OF ASSOCIATION OF SHELF DRILLING, LTD.

(Adopted by Special Resolution Dated May 2, 2017)

1 Interpretation

1.1 In the Articles Table A in the First Schedule to the Statute does not apply and, unless there is something in the subject or context inconsistent therewith:

"**Affiliate**" means, with respect to any Person, any officer, director, managing director, general partner, trustee, or manager of such Person, or any other Person directly or indirectly controlling, controlled by or under common control with such first Person. For the purposes of this definition, "control" (including, with correlative meanings, the terms "controlling", "controlled by" and "under common control with") means, with respect to any Person, the possession, directly or indirectly, of the power to direct or cause the direction of the management and policies of such Person, whether through ownership of voting securities, by contract or otherwise. For the purposes of these Articles, (i) neither the Company nor any of its Subsidiaries will be taken to be an Affiliate of any Member, including any Management Shareholder or any Principal Shareholder; (ii) Castle Harlan will not be taken to be an Affiliate of any CHAMP Entity; and (iii) each of CHAMP III Management Pty Ltd. and each of the CHAMP Entities will be taken to be Affiliates of each other.

"**Articles**" means these articles of association of the Company, as amended or substituted from time to time.

"**Auditor**" means the person for the time being performing the duties of auditor of the Company (if any).

GENERAL REGISTRY CAYMAN ISLANDS
Filed: 03-May-2017 14:29 EST
www.verify.gov.ky File#: 271054
Auth Code: A14460321608

"**Business Day**" means any day that is not a Saturday, Sunday or other day on which the commercial banks in New York, New York or Sydney, Australia are authorized or required by law to remain closed.

"**Cash Equivalents**" means any of the following:

1. U.S. dollars, pounds sterling, euros, or the national currency of any member state in the European Union;
2. any investment in direct obligations of, or obligations guaranteed or insured by, the United States of America or any agency thereof, the United Kingdom or any country that is a member of the European Union or any agency or instrumentality thereof maturing within two years of the date of acquisition thereof;
3. investments in demand and time deposit accounts, certificates of deposit and money market deposits and Eurodollar time deposits maturing within one year of the date of acquisition thereof issued by a bank or trust company which bank or trust company has capital, surplus and undivided profits aggregating in excess of US$250,000,000 and has outstanding debt which is rated "A" (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Section 3(a)(62) of the Exchange Act) or a reasonably equivalent rating of another internationally recognized ratings agency;
4. repurchase obligations for underlying securities of the types described in clauses (2) and (3) above entered into with a financial institution meeting the qualifications described in clause (3) above;
5. investments in commercial paper, maturing not more than one year after the date of acquisition, issued by a corporation (other than an Affiliate of the Company) organized and in existence under the laws of the United States of America or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of "P-1" (or higher) according to Moody's or "A-1" (or higher) according to S&P (or reasonably equivalent ratings of another internationally recognized ratings agency if both Moody's and S&P cease publishing ratings of investments);
6. investments in securities with maturities of two years or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least "A" by S&P or "A" by Moody's (or reasonably equivalent

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ratings of another internationally recognized ratings agency if both Moody's and S&P cease publishing ratings of investments);

7. indebtedness issued by persons (other than the Permitted Holders or any of their Affiliates) with a rating of "A" or higher from S&P or "A-2" or higher from Moody's (or reasonably equivalent ratings of another internationally recognized ratings agency if both Moody's and S&P cease publishing ratings of investments);

8. investments in money market funds that invest substantially all their assets in securities of the types described in clauses (1) through (7) above; and

9. instruments equivalent to those referred to in clauses (1) through (8) above denominated in euros or any other foreign currency comparable in credit quality and tenor to those referred to above and commonly used by corporations for cash management purposes in any jurisdiction outside the United States to the extent reasonably required in connection with any business conducted by any Restricted Subsidiary organized in such jurisdiction.

"**Castle Harlan**" means, CHP V AIV Pool 1, Ltd., a Cayman Islands exempted company, CHP V AIV Pool 2, Ltd., a Cayman Islands exempted company, and CHP V SD Co-Invest, LP, a Cayman Islands exempted limited partnership.

"**CHAMP Entity**" means each of Perpetual Trustee Company Limited as trustee of the CHAMP Buyout III Trust, an Australia trust, Perpetual Corporate Trust Limited as trustee of the CHAMP Buyout III (SWF) Trust, an Australia trust, P.T. Limited as trustee of the CHAMP Buyout III (WW) Trust, an Australia trust and CHAMP Buyout III LP, a Cayman Islands exempted limited partnership.

"**Change of Control**" means any transaction pursuant to or as a result of which a single party (or group of affiliated parties), other than a holder (or Affiliate of a holder) of Shares of the Company immediately prior to the adoption of the 9th Amended and Restated Memorandum and Articles of Association of the Company, MidCo or OpCo, acquires or holds capital stock of any such entity representing a majority of the voting power of such entity's outstanding ordinary shares; provided, that the sale of Common Shares of the Company by the holders of the Preferred Shares in which Lime Rock or its Affiliates do not participate or approve shall not be deemed to be a Change of Control.

"**Class" or "Classes**" means any class or classes of Shares as may from time to time be issued by the Company.

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"**Co-Investor**"	means with respect to any Member, any Equityholder of such Member or any other unaffiliated third party to whom such Member has transferred any Shares.
"**Common Share**"	means a share in the capital of the Company that is designated as a Common Share.
"**Company**"	means the above named company.
"**Competitor**"	means any Person, other than the Company and its Subsidiaries and joint ventures, engaged in the business of owning and leasing mobile offshore drilling rigs designed to drill in no more than 400 feet of water.
"**Default Dividend Rate**"	means the sum of the then prevailing Preferred Share Dividend Rate plus 2.00%.
"**Directors**"	means the directors for the time being of the Company.
"**Disinterested Directors**"	has the meaning ascribed to such term in Article 6.2.
"**Dividend**"	means any dividend (whether interim or final) resolved to be paid on Shares pursuant to the Articles.
"**Electronic Record**"	has the same meaning as in the Electronic Transactions Law.
"**Electronic Transactions Law**"	means the Electronic Transactions Law (2003 Revision) of the Cayman Islands, as amended.
"**Equityholder**"	means, with respect to any entity, the partners, members, shareholders and other equity owners of such entity.
"**Exchange Act**"	means the U.S. Securities Exchange Act of 1934, as amended.
"**Exit Event**"	means (a) the transfer (in one or a series of related transactions) of all or substantially all of the consolidated assets of the Company and its Subsidiaries, taken as a whole, to a Person or a group of Persons acting in concert (other than to a wholly-owned Subsidiary or wholly-owned Subsidiaries of the Company), (b) the transfer (in one or a series of related transactions) of all then-outstanding Shares to one Person or a group of Persons acting in concert or (c) an amalgamation, merger or consolidation of the Company with or into another Person (other than to a wholly-owned Subsidiary or wholly-owned Subsidiaries of the Company), and in the case of clauses (b) and (c) above, under circumstances in which immediately following such transaction, a Person or group of Persons acting in concert other than the Initial Principal Shareholders or their Affiliates and transferees that acquire Shares pursuant to a Permitted Transfer (as defined in the Sponsor Shareholders

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Agreement), collectively own a majority in voting power of the then outstanding voting power or equity securities of the Company or the surviving or resulting Person, as the case may be. In addition, a sale (or multiple related sales) of one or more Subsidiaries of the Company to a Person or group of Persons acting in concert (other than to a wholly-owned Subsidiary or wholly-owned Subsidiaries of the Company) (whether by way of amalgamation, merger, consolidation, reorganization or sale of all or substantially all assets or equity securities of such Subsidiary or Subsidiaries), which constitutes all or substantially all of the consolidated assets of the Company and its Subsidiaries, taken as a whole, shall be deemed to be an Exit Event.

"**GAAP**" means generally accepted accounting principles in the United States of America as in effect from time to time.

"**IFRS**" means International Financial Reporting Standards as issued from time to time by the International Accounting Standards Board.

"**Initial Principal Shareholders**" means Castle Harlan, the CHAMP Entities, collectively, and Lime Rock.

"**Initial Public Offering**" means any firm commitment underwritten initial public offering by the IPO Entity of Shares or other equity securities pursuant to an effective registration statement under the U.S. Securities Act of 1933, as amended, and the rules and regulations promulgated thereunder, or the consummation of a similar initial public offering by the IPO Entity pursuant to a comparable process under applicable non-U.S. securities laws which results in equity securities of the IPO Entity being listed on a Qualifying Exchange.

"**IPO Entity**" means (i) the Company or (ii) an Affiliate or a Subsidiary of the Company, or a successor to the Company or an Affiliate or Subsidiary of the Company, that will be the issuer in an Initial Public Offering.

"**Governmental Authority**" means any court, government or political subdivision or department thereof, any governmental or regulatory body, board, bureau, arbitrator or alternative dispute resolution body, administrative agency or commission, securities exchange or other governmental agency or instrumentality of competent jurisdiction.

"**Law**" means any international, foreign, national, federal, state, provincial or local (or other political subdivision) statute, law (including common law), ordinance, Order, rule, directive, decree, judicial or administrative determination or interpretation,

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judgment, code, regulation or binding requirement of any Governmental Authority.

"**LIBOR Rate**" means, with respect to any Preferred Share Dividend (as defined in Article 5.1) for any semi-annual period therefor, the rate per annum equal to the arithmetic mean (rounded to the nearest 1/100th of 1%) of the offered rates for deposits in Dollars with a term comparable to such semi-annual period that appears on Reuters Screen LIBOR01 (or such other page as may replace such page on such service for the purpose of displaying the rates at which Dollar deposits are offered by leading banks in the London interbank deposit market as designated by the Company from time to time) at approximately 11:00 a.m., London, England time, on the second full Business Day preceding the first day of such semi-annual period; provided, however, that (i) if no comparable term for a semi-annual period is available, the LIBOR Rate shall be determined using the weighted average of the offered rates for the two terms most nearly corresponding to such semi-annual period and (ii) if Reuters Screen LIBOR01 shall at any time no longer exist, "**LIBOR Rate**" shall mean, with respect to each day during each semi-annual period, the rate per annum equal to the rate at which a financial institution designated by the Company that is a major bank in the London interbank market is offered deposits in Dollars by Credit Suisse AG (or such other financial institution designated by the Company that is a major bank in the London interbank market) at approximately 11:00 a.m., London, England time, two Business Days prior to the first day of such semi-annual period in the London interbank market for delivery on the first day of such semi-annual period for the number of days comprised therein and in an amount comparable to the Liquidation Preference during such semi-annual period. "**Reuters Screen LIBOR01**" shall mean the display designated on the Reuters 3000 Xtra Page (or such other page as may replace such page on such service for the purpose of displaying the rates at which Dollar deposits are offered by leading banks in the London interbank deposit market).

"**Lime Rock**" means LR-Shelf Drilling International, L.P., a Cayman Islands exempted limited partnership.

"**Liquidation Event**" means the commencement of any liquidation or winding up of the Company, or its dissolution.

"**Liquidation Preference**" means, with respect to any issued and outstanding Preferred Share, a per Share amount equal to the Preferred Share Purchase Price plus any amounts added to the Liquidation Preference pursuant to Article 5 plus (without duplication) accrued but unpaid Preferred Share Dividends, whether or not declared, through and including the date on which such

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Liquidation Preference is required to be paid, and as otherwise adjusted in accordance with these Articles.

"**Loan Facilities**" has the meaning ascribed to such term in Article 5.1.

"**Management Shareholders**" means the members of management and employees of the Company and its Subsidiaries who beneficially hold Shares from time to time, each Permitted Transferee (as such term is defined in the Management Shareholders Agreement) of each such member of management or employee and any person designated by the board of Directors as a Management Shareholder.

"**Management Shareholders Agreement**" means the Amended and Restated Management Shareholders Agreement, dated as of May 2, 2017, by and among the Principal Shareholders, the Management Shareholders and the Company governing the ownership by the Management Shareholders of their equity interests in the Company and certain other matters, as amended from time to time.

"**Management Shares**" means any Shares owned by Management Shareholders.

"**Member**" has the same meaning as in the Statute.

"**Memorandum**" means the memorandum of association of the Company.

"**MidCo**" means Shelf Drilling Midco, Ltd., a Cayman Islands exempted company.

"**Minimum Liquidity**" means the excess of (A) the average daily balance of cash and Cash Equivalents of the Company and its Restricted Subsidiaries (other than cash and Cash Equivalents that secure letters of credit, bank guarantees, performance bonds, bid bonds, customs bonds and similar security deposits in the ordinary course of business and other cash and Cash Equivalents that appear (or would be required to appear) as "restricted" on a consolidated balance sheet of the Company) over (B) the average daily outstanding amounts drawn under all revolving credit and working capital facilities of the Company and its Subsidiaries that are Restricted Subsidiaries, in each case during the Minimum Liquidity Test Period for the applicable Preferred Share Dividend Payment Date.

"**Minimum Liquidity Test Period**" means, for any Preferred Share Dividend Payment Date, the 30 calendar day period commencing on the 35th day immediately preceding such Preferred Share Dividend Payment Date.

"**OpCo**" means Shelf Drilling Holdings, Ltd., a Cayman Islands exempted company.

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"**OpCo Notes Indenture**" means, collectively, (a) that certain Indenture, dated as of October 24, 2012 (as amended, supplemented or otherwise modified from time to time) between OpCo and Wilmington Trust, National Association, as Trustee and Notes Collateral Agent for the holders of 8.625% senior secured notes due 2018 issued under the OpCo Notes Indenture ("**OpCo Notes**") and (b) the indenture for the holders of 9.500% senior secured notes due 2020 issued under such indenture in connection with the transactions contemplated by the Transaction Support Agreement.

"**Order**" means any award, decision, injunction, judgment, order, ruling, subpoena or verdict entered, issued, made or rendered by any court, administrative agency or other Governmental Authority or any arbitrator.

"**Ordinary Resolution**" means a resolution passed by the holders of more than 50% of the Shares as, being entitled to vote on the subject matter of the resolution, who vote in person or, where proxies are allowed, by proxy at a general meeting, and includes a unanimous written resolution; *provided* that such resolution is also approved by each of the Principal Shareholders that then holds at least 7% of the issued and outstanding Common Shares. In computing the majority when a poll is demanded regard shall be had to the number of votes to which each Member is entitled by the Articles.

"**OTC List**" The trading support system developed and operated by the Norwegian Securities Dealers Association through its subsidiary, the Norwegian Stockbrokers Information Services, for shares that are not listed on a stock exchange or other regulated market place.

"**Permitted Holders**" means (a) each Initial Principal Shareholder and any person controlling, controlled by, or under common control with, and any account controlled or managed by or under common control or management with such Initial Principal Shareholder, (b) any successor to any Initial Principal Shareholder and its Subsidiaries, (c) one or more investment funds managed or controlled by any Initial Principal Shareholder and any successor thereto or any of its Affiliates, (d) any employee, member of management or director of (including any of their heirs) any of the foregoing entities and their respective Affiliates and (e) any group within the meaning of Section 13(d) of the Exchange Act of which a person described in clauses (a) through (d) above is a member and in which such persons beneficially own or control a majority of the voting Shares held by such group and which such group collectively beneficially owns or controls more voting Shares than any other group of which any Initial Principal Shareholder or any of its Affiliates is not a member.

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"**Person**"	means an individual, corporation, partnership, limited liability company, association, trust or other entity or organisation, including a Governmental Authority.
"**Preferred Share**"	means a preferred Share in the capital of the Company described as such and having the rights and restrictions set out in these Articles.
"**Preferred Share Dividend**"	has the meaning ascribed to such term in Article 5.1.
"**Preferred Share Dividend Payment Date**"	has the meaning ascribed to such term in Article 5.1.
"**Preferred Share Issuance Agreement**"	means that certain Contribution and Issuance Agreement dated as of January 12, 2017, by and between the Company and the Contributors (as defined therein) party thereto.
"**Preferred Share Issue Date**"	means January 12, 2017.
"**Preferred Share Purchase Price**"	means US$166.67 per Preferred Share.
"**Principal Shareholder**"	means each of:

(i) Castle Harlan, collectively;

(ii) the CHAMP Entities, collectively; and

(iii) Lime Rock; together with

(iv) any Person who is admitted as a "Principal Shareholder" (for the purposes of the Sponsor Shareholders Agreement) in accordance with the Sponsor Shareholders Agreement,

for as long as each such Person or its Affiliates hold any Shares; provided that the Shares held by such Principal Shareholder's Affiliates and Co-Investors (to the extent that such Shares are controlled by such Principal Shareholder or one or more entities that form part of such Principal Shareholder, as applicable) shall be deemed to be held by such Principal Shareholder for purposes of calculating the number of Shares held by such Principal Shareholder and determining whether such Principal Shareholder holds the requisite percentage of issued and outstanding Shares to exercise the applicable rights, and be subject to the applicable obligations, set out in these Articles.

For the purposes of a Principal Shareholder serving a notice pursuant to Article 31, such notice shall be executed by each entity that forms part of such Principal Shareholder group.

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"**Qualified IPO**" means an Initial Public Offering the aggregate gross proceeds of which attributable to sales for the account of the IPO Entity (after payment of underwriters' discounts and commissions) exceeds US$250,000,000.

"**Qualifying Exchange**" means each of the New York Stock Exchange, the NASDAQ Stock Market, the London Stock Exchange, the Oslo Stock Exchange, the Hong Kong Stock Exchange, the Singapore Exchange, the Australian Securities Exchange and any other stock exchange deemed a "Qualifying Exchange" in accordance with the terms of the Sponsor Shareholders Agreement.

"**Register of Members**" means the register of Members maintained in accordance with the Statute and includes (except where otherwise stated) any branch or duplicate register of Members.

"**Registered Office**" means the registered office for the time being of the Company.

"**Restricted Subsidiary**" Means MidCo, OpCo and at each time of determination, each "Restricted Subsidiary" as defined under any Loan Facility.

"Revolving Credit Agreement" means that certain Revolving Credit Agreement, dated as of February 24, 2014 (as amended, supplemented or otherwise modified from time to time) among OpCo, as borrower, HSBC Bank plc and RBC Capital Markets, as joint lead arrangers, RBC Europe Limited, as administrative agent, and the lenders party thereto from time to time.

"**Seal**" means the common seal of the Company and includes every duplicate seal.

"**Share**" means a share in the capital of the Company and includes a fraction of a share in the Company.

"**Special Resolution**" means a resolution passed by the holders of more than two-thirds of the Shares as, being entitled to be voted on the subject matter of the resolution, who vote in person or, where proxies are allowed, by proxy at a general meeting, and includes a unanimous written resolution; *provided* that such resolution is also approved by each of the Principal Shareholders that then holds at least 7% of the issued and outstanding Common Shares. In computing the majority when a poll is demanded regard shall be had to the number of votes to which each Member is entitled by the Articles.

"**Sponsor Shareholders Agreement**" means the Third Amended and Restated Sponsor Shareholders Agreement, dated as of May 2, 2017, by and among the Principal Shareholders and the Company governing the ownership by the

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Principal Shareholders of their equity interests in the Company and certain other matters, as amended from time to time.

"**Statute**"	means the Companies Law (as amended) of the Cayman Islands.
"**Subsidiary**"	of any Person means another Person in which such first Person holds, directly or indirectly, such number of the voting securities, or other voting ownership or voting partnership interests, as is sufficient to elect at least a majority of its board of directors or other governing body (or, if there are no such voting interests, 50% or more of the equity interests).
"**Time-Based Restricted Shares**"	means Common Shares issued to a Management Shareholder that are designated as "Time-Based Restricted Shares" under an agreement between the Company and such Management Shareholder.
"**Transaction Support Agreement**"	means that certain Amended and Restated Transaction Support Agreement, dated as of December 2, 2016, by and among the Company, OpCo, MidCo, the Initial Principal Shareholders, York Management Global Advisors, LLC, and Centerbridge Partners, L.P.
"**Treasury Share**"	means a Share held in the name of the Company as a treasury share in accordance with the Statute.
"**Unvested Time-Based Restricted Shares**"	means those Time-Based Restricted Shares that, as of the relevant time of measurement, have not vested in accordance with the terms of the relevant agreements between the Company and the Management Shareholders.
"**Vested Time-Based Restricted Shares**"	means those Time-Based Restricted Shares that, as of the relevant time of measurement, have vested in accordance with the terms of the relevant agreements between the Company and the Management Shareholders.

1.2 In the Articles:

(a) words importing the singular number include the plural number and vice versa;

(b) words importing the masculine gender include the feminine gender;

(c) words importing persons include corporations as well as any other legal or natural person;

(d) "written" and "in writing" include all modes of representing or reproducing words in visible form, including in the form of an Electronic Record;

(e) "shall" shall be construed as imperative and "may" shall be construed as permissive;

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(f) references to provisions of any law or regulation shall be construed as references to those provisions as amended, modified, re-enacted or replaced;

(g) any phrase introduced by the terms "including", "include", "in particular" or any similar expression shall be construed as illustrative and shall not limit the sense of the words preceding those terms;

(h) the term "and/or" is used herein to mean both "and" as well as "or." The use of "and/or" in certain contexts in no respects qualifies or modifies the use of the terms "and" or "or" in others. The term "or" shall not be interpreted to be exclusive and the term "and" shall not be interpreted to require the conjunctive (in each case, unless the context otherwise requires);

(i) headings are inserted for reference only and shall be ignored in construing the Articles;

(j) sections 8 and 19(3) of the Electronic Transactions Law shall not apply;

(k) the term "clear days" in relation to the period of a notice means that period excluding the day when the notice is received or deemed to be received and the day for which it is given or on which it is to take effect; and

(l) the term "holder" in relation to a Share means a person whose name is entered in the Register of Members as the holder of such Share.

2 [*Intentionally left blank.*]

3 Shares

Issue of Shares

3.1 The Shares of the Company consist of Preferred Shares and Common Shares, and such other classes or series of shares as may be authorized, from time to time, in accordance with these Articles.

3.2 Subject to the provisions of these Articles, including the provisions hereof relating to the Preferred Shares, and, if any, in the Memorandum (and to any direction that may be given by the Company in general meeting) and without prejudice to any rights attached to any existing Shares, the Directors may allot, issue, grant options over or otherwise dispose of Shares (including fractions of a Share) with or without preferred, deferred or other rights or restrictions, whether in regard to Dividend or other distribution, voting, return of capital or otherwise and to such persons, at such times and on such other terms as they think proper, and may also (subject to the Statute and the Articles) vary such rights.

3.3 The Company shall not issue Shares to bearer.

4 Specific Rights Attaching to Common Shares

Common Share Dividends

4.1 To the extent that there are any Preferred Shares issued and outstanding at any time, the Company shall not declare any dividends in respect of the Common Shares, except as provided in Article

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5.8(e). At any other time, the holders of Common Shares may be paid dividends of the Company out of amounts lawfully available for distribution, as and to the extent declared by the board of Directors in accordance with, and subject to, the provisions of Article 43.

Return of Capital on Liquidation to the Holders of Common Shares

4.2 On a return of capital on liquidation or winding up of the Company, subject to the provisions hereof relating to the Preferred Shares, the holders of Common Shares shall be entitled to return of capital in accordance with Article 49.

Voting Rights

4.3 The Common Shares shall confer upon such Shareholders the right to receive notice of and to attend and to vote at any general meeting of the Company and each holder of a Common Share shall be entitled at such general meeting to exercise one vote per Common Share held as provided in Article 25.

5 Specific Rights Attaching to Preferred Shares

Preferred Share Dividends

5.1 The holders of the Preferred Shares shall be entitled to receive a cumulative preferred dividend for each Preferred Share (the "**Preferred Share Dividend**") on a semi-annual basis, on January 31 and July 31 of each year or, if such day is not a Business Day, the next succeeding Business Day, and any date on which the Preferred Shares are redeemed (each, a "**Preferred Share Dividend Payment Date**"), accruing on a daily basis from the date of issuance of each Preferred Share until the Liquidation Preference is paid in full in cash. If the Preferred Share Dividend is not, or pursuant to the provisions of applicable law may not be, declared and paid in cash on any Preferred Share Dividend Payment Date, then the Preferred Share Dividend payable on such Preferred Share Dividend Payment Date, as determined below and pursuant to Article 6.4 (if applicable), shall be added to the Liquidation Preference. The Preferred Share Dividend shall accrue at a rate (the applicable "**Preferred Share Dividend Rate**") determined as follows:

(a) subject to the next-following sub-paragraphs, the Preferred Share Dividend shall accrue for the six month (or shorter) period prior to such Preferred Share Dividend Payment Date at a rate equal to the sum of the LIBOR Rate plus 9.00% per annum on the Liquidation Preference;

(b) if either (1) the Company is not permitted to receive cash distributions from its Subsidiaries under its Subsidiaries' debt instruments and other credit facilities (subject to Article 5.1(c)) in effect on a Preferred Share Dividend Payment Date that are sufficient to pay the Preferred Share Dividend or (2) the Minimum Liquidity as of a Preferred Share Dividend Payment Date (determined on a pro forma basis after giving effect to the payment in cash of the Preferred Share Dividend on such Preferred Share Dividend Payment Date) is less than:

(w) in the case of the July 31, 2017 Preferred Share Dividend Payment Date, (A) US$40,000,000, if the Revolving Credit Agreement (or a replacement revolving credit facility entered into by OpCo) is then in effect, will mature no earlier than July 31, 2018 and has an undrawn capacity equal to not less than the amount of the Preferred Share Dividend to be paid (it being understood that the amount of

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unrestricted cash and Cash Equivalents of the Company and its Restricted Subsidiaries in excess of US$40,000,000 shall be deemed to reduce the amount drawn under the Revolving Credit Agreement (or a replacement revolving credit facility entered into by OpCo) on a dollar for dollar basis for purposes of calculating the undrawn capacity) or (B) US$50,000,000, otherwise;

(x) in the case of the January 31, 2018 Preferred Share Dividend Payment Date, (A) US$45,000,000, if the Revolving Credit Agreement (or a replacement revolving credit facility entered into by OpCo) is then in effect, will mature no earlier than January 31, 2019 and has an undrawn capacity equal to not less than the amount of the Preferred Share Dividend to be paid (it being understood that the amount of unrestricted cash and Cash Equivalents of the Company and its Restricted Subsidiaries in excess of US$45,000,000 shall be deemed to reduce the amount drawn under the Revolving Credit Agreement (or a replacement revolving credit facility entered into by OpCo) on a dollar for dollar basis for purposes of calculating the undrawn capacity) or (B) US$50,000,000, otherwise;

(y) in the case of the first two Preferred Share Dividend Payment Dates after February 1, 2018, US$50,000,000; and

(z) in the case of any Preferred Share Dividend Payment Dates thereafter, US$75,000,000 (such amounts in subclauses (w), (x), (y) and (z), the "**Minimum Liquidity Threshold**")

then, subject to Article 5.1(c), unless the board of Directors declares and pays the Preferred Share Dividend entirely in cash on such Preferred Share Dividend Payment Date, the Preferred Share Dividend will only be required to be paid in cash to the extent that the payment of such cash (on a pro forma basis) both (A) is permitted by such debt instruments and other credit facilities and (B) would not cause the Minimum Liquidity to be less than the Minimum Liquidity Threshold on such Preferred Share Dividend Payment Date, and the Preferred Share Dividend to the extent not declared and paid in cash will accrue for the six month (or shorter) period prior to such Preferred Share Dividend Payment Date at a rate equal to the sum of the LIBOR Rate plus 9.75% per annum on the Liquidation Preference (e.g. if 40% of the Preferred Share Dividend as determined under Article 5.1(a) is paid in cash, then the Preferred Share Dividend Rate in this Article 5.1(b) would only apply to 60% of the Liquidation Preference) and shall be paid by adding such accrued and unpaid amount to the Liquidation Preference.

(c) If the Company enters into one or more new credit facilities to refinance its Revolving Credit Agreement or the OpCo Notes Indenture (together with the Revolving Credit Agreement, the "**Loan Facilities**" and each individually, a "**Loan Facility**") prior to January 31, 2018 and (x) (i) each Director appointed by the Principal Shareholders is required to approve such Loan Facility pursuant to Section 3.12(b) of the Sponsor Shareholders Agreement and (ii) any such new credit facility contains covenants that are more restrictive on the ability of the Company's Subsidiaries to make cash distributions as compared to such Loan Facility in effect on the Preferred Share Issuance Date and (y) due solely to such incremental covenants restricting cash distributions, the Company is unable to obtain cash from its Subsidiaries to pay a Preferred Share Dividend entirely in cash as of a Preferred Share Dividend Payment Date, then until January 31, 2018, the Preferred Share Dividend will only be required to be paid in cash (subject to Article 5.1(b)) to the extent that the payment of such cash would not cause a breach of any such replacement Loan Facility.

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and the Preferred Share Dividend (solely to the extent the Preferred Share Dividend is not paid in cash) will accrue for the six month (or shorter) period prior to such Preferred Share Dividend Payment Date at a rate equal to the sum of the LIBOR Rate plus 11.00% per annum on the Liquidation Preference (or portion thereof) and shall be paid by adding such accrued and unpaid amount to the Liquidation Preference. For the avoidance of doubt, if on any Preferred Share Dividend Payment Date prior to and including January 31, 2018, the Preferred Share Dividend (or any portion thereof) is not required to be paid in cash under both Articles 5.1(b) and 5.1(c), then the Preferred Share Dividend Rate set forth in this Article 5.1(c) will apply.

5.2 If (1) the Company is permitted to receive cash distributions from its Subsidiaries under its Subsidiaries' debt instruments and other credit facilities in effect on a Preferred Share Dividend Payment Date that are sufficient to pay the Preferred Share Dividend in cash, (2) the Minimum Liquidity as of such Preferred Share Dividend Payment Date is greater than the applicable Minimum Liquidity Threshold and (3) the applicable Preferred Share Dividend may lawfully be paid, such Preferred Share Dividend shall be paid in cash on such Preferred Share Dividend Payment Date to the maximum extent permitted by this Article 5. If the board of Directors does not declare and pay any such Preferred Share Dividend in cash to the maximum extent required by the previous sentence, then holders of the Preferred Shares shall be entitled to bring a legal action against the Company for the prompt payment of such Preferred Share Dividend (or portion thereof) in cash, plus the reimbursement of reasonable, documented, out-of-pocket legal fees and expenses incurred by the holders of the Preferred Shares as a result of bringing such action. The holders of Preferred Shares acknowledge and agree that the payment in cash by the Company of the maximum Preferred Share Dividend and the reimbursement of such legal fees and expenses are the sole and exclusive remedies available to the holders of Preferred Shares in the event the board of Directors does not declare and pay in cash the Preferred Share Dividend to the extent required by the first sentence of this Article 5.2, and that the holders of the Preferred Shares shall not seek and shall not be entitled to seek or obtain any other remedies, claims for damages or relief (including equitable relief) other than the payment of such amounts, notwithstanding anything to the contrary in this Article 5. To the extent the holders of the Preferred Shares receive payment in cash of the Preferred Share Dividend as a result of such action, any amounts of such Preferred Share Dividend previously added to the Liquidation Preference but then paid in cash as a result of such action shall be cancelled.

5.3 Any Preferred Share Dividend for any partial dividend period will be computed on the basis of a 360-day year consisting of twelve 30-day months. Preferred Share Dividends shall accumulate, be cumulative and accrue daily commencing on the Preferred Share Issue Date (whether or not declared and whether or not there shall be retained profits, amounts to the credit of the share premium account or other amounts of the Company lawfully available for distribution), through and including the Preferred Share Dividend Payment Date or such other date as dividends shall be paid in full. Each fractional Preferred Share outstanding shall be entitled to a ratably proportionate amount of all dividends or distributions accruing or made with respect to each outstanding Preferred Share and all other rights, preferences, privileges, restrictions and payment obligations of the Preferred Shares. Preferred Share Dividends will be payable to holders of record as they appear in the Register of Members at the close of business on the applicable record date. The record date for the payment of the Preferred Share Dividends shall be the fifteenth day of January or July, as the case may be, immediately preceding the relevant Preferred Share Dividend Payment Date. The Preferred Share Dividends will be paid in preference to any dividends on Common Shares or any other securities ranking by their terms junior in terms of priority to the Preferred Shares. The Company's obligation to pay the Preferred Share Dividends will not be subject to counterclaim or

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setoff for, or be otherwise affected by, any claim or dispute the Company or any other Person may have with any holder of any Preferred Shares.

Notwithstanding the foregoing, the board of Directors may elect to pay a cash dividend to the holders of the Preferred Shares at any other time, and from time to time, with any such dividend determined at the Preferred Share Dividend Rate for the applicable period in accordance with Article 5.1(a), and in connection with any such dividend the board of Directors may declare a record date that is no more than 30 days prior to the date on which such dividend is to be paid. After any such record date and dividend are declared, the Company will promptly provide notice to the holders of Preferred Shares of such record date and dividend.

5.4 If and to the extent that the Preferred Share Dividend lawfully available to be declared and paid by the board of Directors is not sufficient to pay the full amount of the Preferred Share Dividend due for payment in cash, then, to the extent part of the Preferred Share Dividend is paid in cash, that part shall be paid *pro rata* based on the relative Liquidation Preference of Preferred Shares. The balance of any Preferred Share Dividend otherwise due to be paid in respect of any Preferred Share Dividend Payment Date shall be paid as soon as practicable once the relevant amount may be lawfully declared and paid.

Dividends Generally

5.5 Holders of the Preferred Shares shall not be entitled to any dividends in excess of the Preferred Share Dividend as described herein. For the avoidance of doubt, the foregoing shall not be read to limit the right of holders of Preferred Shares to receive any payment of the Liquidation Preference pursuant to Article 5.6, Article 6 or Article 49.

Rights of Holders of Preferred Shares in a Liquidation Event

5.6 Upon a Liquidation Event, the holders of Preferred Shares shall be entitled to a return of capital up to the Liquidation Preference.

Voting Rights

5.7 Except as expressly provided in these Articles or as otherwise required by non-waivable Law, Preferred Shares shall confer upon holders of such Preferred Shares no right to receive notice of, nor any right to attend or to vote at, any general meeting of the Company or to otherwise approve or consent to any matter.

Reserved Matters

5.8 Notwithstanding any other provision of these Articles, for so long as any Preferred Shares are outstanding, without prior notice to, and the prior written consent of, the holders of at least 75% of the issued and outstanding Preferred Shares voting as a single Class, no action by the Company or any of its Subsidiaries, may be taken that would:

(a) alter or change in any respect adverse to the holders of the Preferred Shares the rights, restrictions, preferences, privileges or payment obligations with respect to the Preferred Shares, or increase or decrease (below the number of shares outstanding) the authorized number of Preferred Shares, including, for the sake of clarity, causing any new Preferred Shares to be issued, including such alteration or change by plan of merger, scheme of

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arrangement, amalgamation, consolidation, recapitalization, restructuring, continuation or otherwise;

(b) alter, amend or waive any provision of the Memorandum or these Articles in a manner that adversely affects the rights, restrictions, preferences, privileges or payment obligations with respect to the Preferred Shares;

(c) create (by reclassification or otherwise) or issue any Class or series of equity of the Company having rights, restrictions, preferences, privileges or payment obligations senior to or on parity with the Preferred Shares or allow the Company or any of its Subsidiaries to issue any equity other than:

(i) Common Shares;

(ii) preferred shares or any other equity securities issued by the Company that is junior in all respects to the Preferred Shares (including rights to dividends and payments upon liquidation and redemption);

(iii) equity issued to the Company or any of its Subsidiaries;

(iv) equity issued to a director, local shareholder, joint venture partner or consortium member in order to comply with applicable local law; or

(v) equity issued pursuant to any management equity plan or arrangement approved by the board of Directors;

(d) result in the repurchase, redemption or other acquisition by the Company or any of its Subsidiaries of equity securities of the Company or any of its Subsidiaries, other than:

(i) Preferred Shares repurchased, redeemed or otherwise acquired on a pro rata basis;

(ii) repurchases or redemptions by the Company of equity of the Company issued pursuant to any management equity plan or arrangement approved by the board of Directors; or

(iii) repurchases or redemptions by the Company or its Subsidiaries of equity of wholly owned Subsidiaries of the Company (including equity issued to a director, local shareholder, joint venture partner or consortium member in each case solely in order to comply with applicable local law);

provided, however, that notwithstanding anything in these Articles to the contrary, the Company shall be entitled to convert, exchange or reclassify its Common Shares or any junior preferred shares solely into one or more additional classes or series of Shares (provided that each such class or series of Shares is junior in all respects to the Preferred Shares (including rights to dividends and payments upon liquidation and redemption);

(e) result in the declaration or making of any dividend or other distribution by the Company other than dividends or other distributions on the Preferred Shares; or

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(f) result in an Initial Public Offering in which Common Shares then issued to existing holders of Common Shares are sold to the public.

Other Matters

5.9 Payment of the Preferred Share Dividend, redemption price, Liquidation Preference and any other amounts payable to any holder of the Preferred Shares hereunder shall be made in lawful money of the United States of America, by wire transfer of immediately available funds to such holder's account as may be designated to the Company in writing from time to time, or in such other manner as such holder may advise the Company in writing from time to time, provided, however, that notwithstanding anything herein to the contrary if at least three Business Days prior to any Preferred Share Dividend Payment Date a holder of Preferred Shares shall have failed to designate an account to the Company for the receipt of such payment, the Company shall be entitled to make such payment to such holder by check.

5.10 Any notice to be given to any holder of Preferred Shares in accordance with these Articles shall be made by overnight courier pre-paid at the respective addresses of such holders as the same shall appear on the Register of Members and shall also be given by fax and email to any such holder that supplies a fax number and/or email address to the Company.

5.11 The rights of holders of Preferred Shares to take any action as provided in these Articles or otherwise (including without limitation the granting of any consent or waiver of any rights of such holders) may be exercised without a meeting of the holders of the Preferred Shares if a consent or counterpart consents in writing, setting forth the action so taken, shall be signed by the holder or holders of Preferred Shares having not less than the minimum number of Preferred Shares that would be necessary to take such action at a meeting of the holders of the Preferred Shares. Any such consents must be delivered to the Company at the Registered Office of the Company. Prompt notice of the taking of the action without a meeting by less than unanimous written consent shall be given to those holders of Preferred Shares who did not consent in writing to the action, provided that the failure to give such notice shall not affect the validity of such action.

5.12 For the taking of any action as provided in these Articles by the holders of Preferred Shares or for any action as to which the holders of Preferred Shares are entitled to vote, each such holder shall have one vote for each Preferred Share standing in its name on the Register of Members at the close of business on the business day next preceding the day on which notice is given, or if notice is waived, at the close of business on the business day next preceding the day on which the meeting is held (or if there is no meeting, on the date on which the consent of the final holder of Preferred Shares that is required to approve the action is provided). Unless otherwise agreed in writing by the holder of Preferred Shares, any consent given by such holder shall be revocable prior to the time the matter for which such consent is given receives the requisite consents from the holders, and shall expire 60 days after its execution by such holder.

5.13 Upon the Company's receipt of evidence reasonably satisfactory to the Company of the loss, theft, destruction or mutilation of any share certificates issued in respect of any Preferred Shares, and, in the case of loss, theft or destruction, of any unsecured indemnification undertaken by the holder of Preferred Shares to the Company in customary form and, in the case of mutilation, upon surrender and cancellation of such certificates issued in respect of any Preferred Shares, the Company shall execute and deliver new share certificate(s) of like tenor and date.

5.14 Except as provided in Article 5.2, the remedies provided in these Articles shall be cumulative and in addition to all other remedies available under these Articles, at law or in equity, including a decree

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of specific performance and/or other injunctive relief. No remedy contained herein shall be deemed a waiver of compliance with the provisions giving rise to such remedy and nothing herein shall limit the right of a holder of Preferred Shares to pursue actual damages for any failure by the Company to comply with the terms of these Articles. The Company acknowledges that a breach by it of its obligations hereunder will cause irreparable harm to the holders of Preferred Shares for which there is no adequate remedy at law. The Company therefore agrees that, except as otherwise provided in these Articles, in the event of any such breach or threatened breach, the holders of Preferred Shares shall be entitled, in addition to all other available remedies, to an injunction restraining any breach, without the necessity of showing economic loss and without any bond or other security being required.

5.15 No failure or delay on the part of a holder of Preferred Shares in the exercise of any power, right or privilege hereunder shall operate as a waiver thereof, nor shall any single or partial exercise of any such power, right or privilege preclude other or further exercise thereof or of any other right, power or privilege.

5.16 If any right, preference, privilege or limitation of the Preferred Shares set forth in these Articles is invalid, unlawful or incapable of being enforced by reason of any rule of law or public policy, all other rights, preferences and limitations set forth in these Articles that can be given effect without the invalid, unlawful or unenforceable right, preference, privilege or limitation shall, nevertheless, remain in full force and effect, and no right, preference, privilege or limitation herein set forth shall be deemed dependent upon any other such right, preference, privilege or limitation unless so expressed herein.

5.17 Subject to Article 5.2, any holder of Preferred Shares may proceed to protect and enforce its rights and the rights of all holders by any available remedy by proceeding at law or in equity to protect and enforce any such rights, whether for the specific enforcement of any provision in these Articles or in aid of the exercise of any power granted herein, or to enforce any other proper remedy.

5.18 For the avoidance of doubt, the Company’s redemption, purchase and other rights hereunder with respect to the outstanding Preferred Shares are not transferable.

5.19 The Preferred Shares rank senior to all other Shares as to dividends and other distributions and amounts payable upon redemption or repurchase.

6 Optional and Mandatory Redemption for Preferred Shares

6.1 The Company may, at any time and from time to time redeem all or any portion of the issued and outstanding Preferred Shares for cash, out of lawfully available funds, at a price per Share equal to the then-applicable Liquidation Preference as of the applicable redemption date. Any such redemption in part shall be made *pro rata* among the holders of the Preferred Shares.

6.2 Subject to the provisions of Articles 6.4 through 7.4, inclusive, the Company shall, upon the election of (x) the holders of a majority of the outstanding Preferred Shares or (y) a majority of the Directors who are not affiliated with or designated by any of the holders of the Preferred Shares or their Affiliates (“**Disinterested Directors**”), redeem all of the Preferred Shares for cash, out of lawfully available funds, at a price per Share equal to the then-applicable Liquidation Preference (calculated as of the applicable redemption date):

(a) Upon the occurrence of a Change of Control;

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(b) Upon the occurrence of an Exit Event; or

(c) Upon the occurrence of a Qualified IPO.

6.3 Subject to the provisions of Articles 6.5 through 7.4 inclusive, the Company shall, upon the election of the holders of a majority of the outstanding Preferred Shares (provided that such election must be made no later than 30 days after the conclusion of the Company's cure period provided below), redeem Preferred Shares (in an amount determined by the holders of Preferred Shares) for cash, out of lawfully available funds, at a price per Share equal to the then-applicable Liquidation Preference as of the applicable redemption date, upon the breach by the Company of (x) any material provision of the Preferred Share Issuance Agreement or (y) Article 5.8, in either case that is both (a) not cured within a 30 day period after the Company's receipt of notice of breach and (b) not intentionally caused by any holder of Preferred Shares (or any Director designated to the Board by any such holder), the result of which breach is that the holders of Preferred Shares are adversely affected.

6.4 Notwithstanding the provisions of Article 6.2 or 6.3, in no event will the Company be obligated to redeem any Preferred Shares to the extent and during such time that the redemption of such Preferred Shares would violate the Statute; provided, however, that in the event that such redemption would violate the Statute, the redemption will be effected to the fullest extent possible so as not to violate the Statute and the Company will as promptly as practicable continue to redeem the maximum number of Preferred Shares from time to time permitted under the Statute until all Preferred Shares required to be redeemed pursuant to Article 6.2 or 6.3 have been redeemed and during such period of time, neither the Company nor its Subsidiaries may take any action (other than redeeming the Preferred Shares) to delay or reduce the number of Preferred Shares required to be redeemed hereunder. Notwithstanding anything to the contrary contained herein, in the event of any failure by the Company to redeem any Preferred Shares as a result of the first sentence of this Article 6.4, the Preferred Share Dividend Rate shall be increased to the Default Dividend Rate until all such Preferred Shares are so redeemed. For the avoidance of doubt, to the extent that a Specified Fundamental Change Payment in respect of a Change of Control, Exit Event or Qualified IPO (x) is scheduled or contemplated to occur simultaneously with any redemption of Preferred Shares hereunder due to such Change of Control, Exit Event or Qualified IPO and (y) would otherwise result in a reduction pursuant to this Article 6.4 in the amounts to be paid to the holders of Preferred Shares or in the number of Preferred Shares to be redeemed, then such Specified Fundamental Change Payment shall not be made until after the redemption of Preferred Shares. "**Specified Fundamental Change Payment**" means (x) any payment by the Company or any third party to or for the benefit of any holder of Common Shares in connection with any Change of Control, Exit Event or Qualified IPO, or (y) the provision by the Company or any third party of any other cash or non-cash financial benefits to any holder of Common Shares in connection with any Change of Control, Exit Event or Qualified IPO.

6.5 There shall be no right to redeem or repurchase Preferred Shares in favor of the Company other than as contemplated by these Articles.

6.6 In the event of an Initial Public Offering, Change of Control, Exit Event or Liquidation Event, no distribution may be made to the holders of Common Shares unless the Liquidation Preference for each Preferred Share is paid in full and the Preferred Shares are fully redeemed.

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7 Procedures for Redemption of Preferred Shares

7.1 Not less than 10 days (or such shorter period as may be consented to by holders of a majority of the outstanding Preferred Shares) prior to the redemption date in the case of optional redemption as provided in Article 6.1 or mandatory redemption as provided in Article 6.2 or Article 6.3, the Company shall give each applicable holder of record of Preferred Shares a notice of redemption. Such notice shall be given in the manner prescribed in Article 5.9. No failure to give such notice or any defect therein or in the mailing thereof shall affect the validity of the proceedings for the redemption of any Preferred Shares, except as to any holder to whom notice was defective or not given nor otherwise prejudices the right of the holders of the Preferred Shares hereunder, including the right to receive the redemption price on the redemption date.

7.2 In addition to any information required by Law or by these Articles, such notice shall state: (A) the redemption date; (B) the redemption price; (C) the aggregate number of Preferred Shares to be redeemed; (D) the place or places where the Preferred Shares are to be surrendered (if so required in the notice) for payment of the redemption price (if not otherwise included with the notice); and (E) that dividends will cease to accrue on such redemption date with respect to the number of Preferred Shares to be redeemed, unless the Company fails to pay the redemption price in full in all respects as required hereby. If less than all of the Preferred Shares held by any holder is to be redeemed, the notice mailed to such holder shall also specify the total number of Preferred Shares to be redeemed and the number of Preferred Shares held by such holder to be redeemed.

7.3 If fewer than all the outstanding Preferred Shares are to be redeemed, (including if and to the extent that the funds of the Company lawfully available for redemption are not sufficient to pay the full amount due with respect to any redemption) the Company will select those to be redeemed as nearly *pro rata* as practicable based upon the number of Preferred Shares of each holder then held as a percentage of the number of Preferred Shares then issued and outstanding.

7.4 Upon payment in full in cash of the Liquidation Preference with respect to a Preferred Share, such Preferred Share shall be redeemed and cancelled and shall no longer be deemed an outstanding Share of the Company and all rights of the holders of such Preferred Share will terminate. If less than all the Preferred Shares represented by any Preferred Share certificate are redeemed, upon surrender to the Company of such certificate a new certificate or certificates shall be issued evidencing the unredeemed Preferred Shares without cost to the holder thereof.

7.5 Without limiting the generality of any other provision hereof, the applicable redemption date shall occur and the related payment by the Company of the redemption price of the Preferred Shares shall be required to be made simultaneously or prior to the consummation of any Change of Control, Exit Event or Qualified IPO.

8 Transfer of Preferred Shares

8.1 The Preferred Shares are transferrable, except that the Company shall not register any transfer of Preferred Shares:

(a) that is prohibited by Law;

(b) to any Competitor of the Company or any of its Subsidiaries, or any Person that beneficially owns 5% or more of any such Competitor; or

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(c) if such transfer would result in the Company becoming subject to the registration requirements of the U.S. Securities Act of 1933, as amended (the "**Securities Act**"), or the reporting requirements of the Exchange Act, the U.S. Investment Company Act of 1940, as amended, or any similar United States or applicable foreign regulation or registration or reporting requirements.

If a transfer of the Preferred Shares is purported to be made in violation of this Article 8.1, then the dividend, information or approval rights under these Articles with respect to the applicable Preferred Shares shall be suspended; provided that all suspended dividends and information shall upon the remedy of such violation (whether by transfer back to the original holder or to another holder permitted by this Article 8.1) be immediately payable and deliverable to the permitted holder.

8.2 Prior to any transfer of any Preferred Shares, the transferring holder thereof shall give written notice to the Company of such holder's intention to effect such transfer and to comply in all other respects with this Article 8.2. Each such notice shall describe the manner and circumstances of the proposed transfer and, if requested by the Company, shall be accompanied by an opinion of counsel for such holder to the effect that the proposed transfer may be effected without registration of such Preferred Shares under the Securities Act. Such holder shall thereupon be entitled to transfer such Preferred Shares in accordance with the terms of the notice delivered by such holder to the Company. Promptly after the transfer of any Preferred Shares, the transferor shall give written notice to the Company of such transfer of Preferred Shares, including the number of Preferred Shares transferred, and the price and terms at which the Preferred Shares were transferred, and the identity (including name and principal business) of the transferee. This Article 8.2 shall not apply to any transfer of Preferred Shares to the Company or its Affiliates.

8.3 Any certificate issued in respect of any Preferred Shares shall be stamped or otherwise imprinted with a legend in substantially the following form:

> "THE SHARES DESCRIBED BY THIS CERTIFICATE HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT"), AND MAY NOT BE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION EXCEPT PURSUANT TO AN EXEMPTION FROM, OR IN A TRANSACTION NOT SUBJECT TO, SUCH REGISTRATION REQUIREMENTS. IN ADDITION, SUCH SHARES ARE SUBJECT TO THE TERMS OF THE NINTH AMENDED AND RESTATED MEMORANDUM AND ARTICLES OF ASSOCIATION, AS THE SAME MAY BE AMENDED FROM TIME TO TIME (THE "MEMORANDUM") OF SHELF DRILLING, LTD. (THE "COMPANY"). THE TERMS OF SUCH MEMORANDUM INCLUDE, AMONG OTHER THINGS, CERTAIN RESTRICTIONS ON TRANSFERS. A COPY OF THE MEMORANDUM WILL BE FURNISHED WITHOUT CHARGE BY THE COMPANY TO THE HOLDER HEREOF UPON WRITTEN REQUEST."

9 Financial Reporting Under Preferred Shares

9.1 The holders of Preferred Shares shall, upon executing and delivering a customary confidentiality agreement if requested by the Company, be entitled to receive the same level of written information with respect to the Company and its Subsidiaries as, at least as promptly as it is received by, the lenders under the Loan Facilities, including unaudited quarterly and audited annual consolidated financial statements of the Company and its Subsidiaries (and, for the avoidance of doubt, such financial statements with respect to the Company must be furnished regardless of whether furnished to the lenders) prepared in accordance with GAAP or IFRS, and any consolidated projections that are provided to lenders.

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9.2 Such financial statements shall be delivered to the holders of Preferred Shares within:

(a) 60 days (or such shorter period as may be required by the Loan Facilities) after the end of the reporting period in the case of quarterly financial reports; and

(b) 90 days (or such shorter period as may be required by the Loan Facilities) after the end of the reporting period in the case of annual financial reports.

10 Register of Members

10.1 The Company shall maintain or cause to be maintained the Register of Members in accordance with the Statute.

10.2 The Directors may determine that the Company shall maintain one or more branch registers of Members in accordance with the Statute. The Directors may also determine which register of Members shall constitute the principal register and which shall constitute the branch register or registers, and to vary such determination from time to time.

11 Closing Register of Members or Fixing Record Date

11.1 Other than with respect to the Preferred Shares, for the purpose of determining Members entitled to notice of, or to vote at any meeting of Members or any adjournment thereof, or Members entitled to receive payment of any Dividend or other distribution, or in order to make a determination of Members for any other purpose, the Directors may provide that the Register of Members shall be closed for transfers for a stated period which shall not in any case exceed five days.

11.2 Subject to the provisions hereof relating to the Preferred Shares, in lieu of, or apart from, closing the Register of Members, the Directors may fix in advance or arrears a date as the record date for any such determination of Members entitled to notice of, or to vote at any meeting of the Members or any adjournment thereof, or for the purpose of determining the Members entitled to receive payment of any Dividend or other distribution, or in order to make a determination of Members for any other purpose.

11.3 Subject to the provisions hereof relating to the Preferred Shares, if the Register of Members is not so closed and no record date is fixed for the determination of Members entitled to notice of, or to vote at, a meeting of Members or Members entitled to receive payment of a Dividend or other distribution, the date on which notice of the meeting is sent or the date on which the resolution of the Directors resolving to pay such Dividend or other distribution is passed, as the case may be, shall be the record date for such determination of Members. When a determination of Members entitled to vote at any meeting of Members has been made as provided in this Article, such determination shall apply to any adjournment thereof.

12 Certificates for Shares

12.1 The holders of Common Shares shall only be entitled to a share certificate if the Directors resolve that share certificates shall be issued. A holder of Preferred Shares shall be entitled to a share certificate if requested by such holder and the board of Directors resolve that share certificates shall be issued. Share certificates representing Shares, if any, shall be in such form as the Directors may determine. Share certificates shall be signed by one or more Directors or other person authorised by the Directors. The Directors may authorise certificates to be issued with the authorised signature(s) affixed by mechanical process. All certificates for Shares shall be

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consecutively numbered or otherwise identified and shall specify the Shares to which they relate. All certificates surrendered to the Company for transfer shall be cancelled and subject to these Articles no new certificate shall be issued until the former certificate representing a like number of relevant Shares shall have been surrendered and cancelled.

12.2 The Company shall not be bound to issue more than one certificate for Shares held jointly by more than one person and delivery of a certificate to one joint holder shall be a sufficient delivery to all of them.

12.3 Subject to Article 5.12, if a share certificate is defaced, worn out, lost or destroyed, it may be renewed on such terms (if any) as to evidence and indemnity and on the payment of such expenses reasonably incurred by the Company in investigating evidence, as the Directors may prescribe, and (in the case of defacement or wearing out) upon delivery of the old certificate.

12.4 Subject to Article 5.12, every share certificate sent in accordance with these Articles will be sent at the risk of the Member or other person entitled to the certificate. The Company will not be responsible for any share certificate lost or delayed in the course of delivery.

13 Transfer of Shares

13.1 Except as provided in these Articles (including the provisions hereof relating to the Preferred Shares), the Sponsor Shareholders Agreement (if still in effect), the Management Shareholders Agreement (if still in effect) and any rules or regulations applicable to any Common Shares traded on the OTC List, Shares are transferable subject to the consent of the Directors who may, in their absolute discretion, decline to register any transfer of Shares without giving any reason; provided that the Directors shall consent to any transfer made in accordance with the terms of these Articles relating to the transfer of Preferred Shares, the Sponsor Shareholders Agreement, the Management Shareholders Agreement and any beneficial rights to Common Shares traded on the OTC List. If the Directors refuse to register a transfer they shall notify the transferee within 20 days of such refusal. For the avoidance of doubt, nothing in this Article 13.1 shall permit the Directors to decline to give full effect to a transfer of Preferred Shares that complies with the provisions of Article 8 or to a transfer of beneficial rights to Common Shares that are traded on the OTC List.

13.2 The instrument of transfer of any Share, other than beneficial rights to Common Shares traded on the OTC List, shall be in writing and shall be executed by or on behalf of the transferor (and if the Directors so require, signed by or on behalf of the transferee). The transferor shall be deemed to remain the holder of a Share until the name of the transferee is entered in the Register of Members. Transfers of beneficial rights to Common Shares traded on the OTC List shall be effected in accordance with any rules or regulations applicable to such Shares.

13.3 A Member may deposit Shares held by such Member into a voting trust by transferring record ownership of such Shares to a voting trustee pursuant to the terms of a voting trust agreement (recorded in writing). In such case, the Member shall provide a copy of the voting trust agreement to the Company. For so long as the Shares are held in the voting trust, the voting trustee shall be recognized as the record holder of such Shares and shall obtain all voting power with respect to such Shares (which voting power shall be exercised in accordance with the terms of the voting trust agreement). Notwithstanding the record ownership of such Shares by the voting trustee, all other rights attached to such Shares, including any rights to receive dividends or other distributions, shall remain with the Member who deposited such Shares into the voting trust; provided, that any additional Shares or other securities issued by the Company to such Member shall be issued in the

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name of the voting trustee and held in the voting trust to the extent provided by the terms of the voting trust agreement.

14 Redemption, Repurchase and Surrender of Shares

14.1 Subject to the provisions of the Statute and the provisions hereof relating to the Preferred Shares, (a) the Company may issue Shares that are to be redeemed or are liable to be redeemed at the option of the Member or the Company; provided that the issue of any such Shares, and their terms of redemption (if any), are approved by Special Resolution and (b) the redemption of such Shares shall be effected in such manner and upon such other terms as the Company may, by Special Resolution, determine before the issue of the Shares.

14.2 Subject to the provisions of the Statute and the provisions hereof relating to the Preferred Shares, the Company may purchase its own Shares (including any redeemable Shares) in such manner and on such other terms as the Directors may agree with the relevant Member.

14.3 Without limiting Article 14.2, subject to the provisions of the Statute, upon termination of the employment of any Management Shareholder with the Company and its Subsidiaries, the Company may repurchase the Management Shares held by such Management Shareholders in accordance with the terms of the Management Shareholders Agreement or any other agreement between the Company and such Management Shareholder.

14.4 Subject to the provisions hereof relating to the Preferred Shares, the Company may make a payment in respect of the redemption or purchase of its own Shares in any manner permitted by the Statute, including out of capital.

14.5 The Directors may accept the surrender for no consideration of any fully paid Share.

15 Treasury Shares

15.1 The Directors may, prior to the purchase, redemption or surrender of any Share, determine that such Share shall be held as a Treasury Share.

15.2 The Directors may determine to cancel a Treasury Share or transfer a Treasury Share on such terms as they think proper (including, without limitation, for nil consideration).

15.3 Notwithstanding the provisions of Articles 15.1 and 15.2 above, any Preferred Shares redeemed or repurchased by the Company shall be retired and cancelled and may not be reissued.

16 Variation of Rights of Shares

16.1 All or any of the rights attached to any class of Shares (unless otherwise provided by the terms of issue of the Shares of that class) may, whether or not the Company is being wound up, be varied without the consent of the holders of the issued and outstanding Shares of that class where such variation is considered by the Directors not to have a material adverse effect upon such rights; otherwise, any such variation shall be made only with the consent in writing of the holders of not less than two thirds of the issued and outstanding Shares of that class, or with the sanction of a resolution passed by a majority of not less than two thirds of the votes cast at a separate meeting of the holders of the Shares of that class. For the avoidance of doubt, the Directors reserve the right, notwithstanding that any such variation may not have a material adverse effect, to obtain consent from the holders of Shares of the relevant class. To any such meeting all the provisions

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of the Articles relating to general meetings shall apply *mutatis mutandis*, except that the necessary quorum shall be Persons holding or representing by proxy at least two-thirds of the issued and outstanding Shares of the class and that any holder of Shares of the class present in person or by proxy may demand a poll.

16.2 For the purposes of a separate class meeting in accordance with Article 16.1, the Directors may treat two or more or all the classes of Shares as forming one class of Shares if the Directors consider that such class of Shares would be affected in the same way by the proposals under consideration, but in any other case shall treat them as separate classes of Shares.

16.3 The rights conferred upon the holders of the Shares of any class issued with preferred or other rights shall not, unless otherwise expressly provided by the terms of issue of the Shares of that class, be deemed to be varied by the creation or issue of further Shares ranking pari passu therewith.

16.4 This Article 16 does not apply to the Preferred Shares.

17 Commission on Sale of Shares

The Company may, in so far as the Statute permits, pay a commission to any person in consideration of his subscribing or agreeing to subscribe (whether absolutely or conditionally) or procuring or agreeing to procure subscriptions (whether absolutely or conditionally) for any Shares. Such commissions may be satisfied by the payment of cash and/or the issue of fully or partly paid-up Shares. The Company may also on any issue of Shares pay such brokerage as may be lawful.

18 Non Recognition of Trusts

The Company shall not be bound by or compelled to recognise in any way (even when notified) any equitable, contingent, future or partial interest in any Share (for the avoidance of doubt, this does not prohibit the issuance of fractional Shares), or (except only as is otherwise provided by these Articles or the Statute) any other rights in respect of any Share other than an absolute right to the entirety thereof in the holder.

19 Transmission of Shares

19.1 If a Member dies the survivor or survivors (where he was a joint holder) or his legal personal representatives (where he was a sole holder), shall be the only persons recognised by the Company as having any title to his Shares. The estate of a deceased Member is not thereby released from any liability in respect of any Share, for which he was a joint or sole holder.

19.2 Any person becoming entitled to a Share in consequence of the death or bankruptcy or liquidation or dissolution of a Member (or in any other way than by transfer) may, upon such evidence being produced as may be required by the Directors, elect, by a notice in writing sent by him to the Company, either to become the holder of such Share or to have some person nominated by him registered as the holder of such Share. If he elects to have another person registered as the holder of such Share he shall sign an instrument of transfer of that Share to that person. The Directors shall, in either case, have the same right to decline or suspend registration as they would have had in the case of a transfer of the Share by the relevant Member before his death or bankruptcy or liquidation or dissolution, as the case may be.

19.3 A person becoming entitled to a Share by reason of the death or bankruptcy or liquidation or dissolution of a Member (or in any other case than by transfer) shall be entitled to the same

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Dividends, other distributions and other advantages to which he would be entitled if he were the holder of such Share. However, he shall not, before becoming a Member in respect of a Share, be entitled in respect of it to exercise any right conferred by membership in relation to general meetings of the Company and the Directors may at any time give notice requiring any such person to elect either to be registered himself or to have some person nominated by him be registered as the holder of the Share (but the Directors shall, in either case, have the same right to decline or suspend registration as they would have had in the case of a transfer of the Share by the relevant Member before his death or bankruptcy or liquidation or dissolution or any other case than by transfer, as the case may be). If the notice is not complied with within ninety days of being received or deemed to be received (as determined pursuant to these Articles) the Directors may thereafter withhold payment of all Dividends, other distributions, bonuses or other monies payable in respect of the Share until the requirements of the notice have been complied with.

20 Amendments of Memorandum and Articles of Association and Alteration of Capital

20.1 Subject to the provisions of these Articles, the Company may by Ordinary Resolution:

(a) increase its share capital by such sum as the Ordinary Resolution shall prescribe and with such rights, priorities and privileges annexed thereto, as the Company in general meeting may determine;

(b) consolidate and divide all or any of its share capital into Shares of larger amount than its existing Shares;

(c) convert all or any of its paid-up Shares into stock, and reconvert that stock into paid-up Shares of any denomination;

(d) by subdivision of its existing Shares or any of them divide the whole or any part of its share capital into Shares of smaller amount than is fixed by the Memorandum or into Shares without par value; and

(e) cancel any Shares that at the date of the passing of the Ordinary Resolution have not been taken or agreed to be taken by any person and diminish the amount of its share capital by the amount of the Shares so cancelled;

provided, however, that the Company shall not take any action with respect to the Preferred Shares without the prior written consent of holders of 75% of the issued and outstanding Preferred Shares voting as a single class.

20.2 All new Shares created in accordance with the provisions of the preceding Article shall be subject to the same provisions of these Articles with reference to the payment of calls, liens, transfer, transmission, forfeiture and otherwise as the Shares in the original share capital.

20.3 Subject to the provisions of the Statute and the provisions of these Articles as regards the matters to be dealt with by Ordinary Resolution, and subject to the provisions hereof relating to the Preferred Shares, to the extent applicable, the Company may by Special Resolution:

(a) change its name;

(b) alter or add to these Articles;

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(c) alter or add to the Memorandum with respect to any objects, powers or other matters specified therein; and

(d) reduce its share capital or any capital redemption reserve fund.

21 Offices and Places of Business

Subject to the provisions of the Statute, the Company may by resolution of the Directors change the location of its Registered Office. The Company may, in addition to its Registered Office, maintain such other offices or places of business as the Directors determine.

22 General Meetings

22.1 All general meetings other than annual general meetings shall be called extraordinary general meetings.

22.2 The Company may, but shall not (unless required by the Statute) be obliged to, in each year hold a general meeting as its annual general meeting, and shall specify the meeting as such in the notices calling it. Any annual general meeting shall be held at such time and place as the Directors shall appoint and if no other time and place is prescribed by them, it shall be held at the Registered Office on the second Wednesday in December of each year at ten o'clock in the morning. At these meetings the report of the Directors (if any) shall be presented.

22.3 The Directors may call general meetings, and they shall on a Members' requisition forthwith proceed to convene an extraordinary general meeting of the Company.

22.4 A Members' requisition is a requisition of Members holding at the date of deposit of the requisition not less than ten per cent in par value of the issued and outstanding Shares which as at that date carry the right to vote at general meetings of the Company.

22.5 The Members' requisition must state the objects of the meeting and must be signed by the requisitionists and deposited at the Registered Office, and may consist of several documents in like form each signed by one or more requisitionists.

22.6 If there are no Directors as at the date of the deposit of the Members' requisition or if the Directors do not within twenty-one days from the date of the deposit of the Members' requisition duly proceed to convene a general meeting to be held within a further twenty-one days, the requisitionists, or any of them representing more than one-half of the total voting rights of all of the requisitionists, may themselves convene a general meeting, but any meeting so convened shall be held no later than the day which falls three months after the expiration of the said twenty-one day period.

22.7 A general meeting convened as aforesaid by requisitionists shall be convened in the same manner as nearly as possible as that in which general meetings are to be convened by Directors.

23 Notice of General Meetings

23.1 At least fourteen clear days' notice shall be given of any general meeting. Every notice shall specify the place, the day and the hour of the meeting and the general nature of the business to be conducted at the general meeting and shall be given in the manner hereinafter mentioned or in such other manner if any as may be prescribed by the Company, provided that a general meeting of the Company shall, whether or not the notice specified in this Article has been given and whether

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or not the provisions of these Articles regarding general meetings have been complied with, be deemed to have been duly convened if it is so agreed:

(a) in the case of an annual general meeting, by all of the Members entitled to attend and vote thereat; and

(b) in the case of an extraordinary general meeting, by a majority in number of the Members having a right to attend and vote at the meeting, together holding not less than ninety five per cent in par value of the Shares giving that right.

23.2 The accidental omission to give notice of a general meeting to, or the non receipt of notice of a general meeting by, any person entitled to receive such notice shall not invalidate the proceedings of that general meeting.

24 Proceedings at General Meetings

24.1 No business shall be transacted at any general meeting unless a quorum is present. Members holding at least 50% of the Shares in issue (provided that such members must include each Principal Shareholder then holding at least 7% of the issued and outstanding Common Shares) being individuals present in person or by proxy or if a corporation or other non-natural person by its duly authorised representative or proxy shall be a quorum unless the Company has only one Member entitled to vote at such general meeting in which case the quorum shall be that one Member present in person or by proxy or (in the case of a corporation or other non-natural person) by its duly authorised representative or proxy.

24.2 A person may participate at a general meeting by conference telephone or other communications equipment by means of which all the persons participating in the meeting can communicate with each other; provided that such person participating by conference telephone or other communications equipment is not present at the time in Australia, the United Kingdom or any other jurisdiction designated by the board of Directors. Participation by a person in a general meeting in this manner is treated as presence in person at that meeting.

24.3 A resolution of the Members (including a Special Resolution) in writing (in one or more counterparts) signed by or on behalf of all of the Members for the time being entitled to receive notice of and to attend and vote at general meetings (or, being corporations or other non-natural persons, signed by their duly authorised representatives) shall be as valid and effective as if the resolution had been passed at a general meeting of the Company duly convened and held.

24.4 If a quorum is not present within half an hour from the time appointed for the meeting to commence or if during such a meeting a quorum ceases to be present, the meeting, if convened upon a Members' requisition, shall be dissolved and in any other case it shall stand adjourned to the same day in the next week at the same time and/or place or to such other day, time and/or place as the Directors may determine, and if at the adjourned meeting a quorum is not present within half an hour from the time appointed for the meeting to commence, the meeting shall be so adjourned again.

24.5 The Directors may, at any time prior to the time appointed for the meeting to commence, appoint any person to act as chairman of a general meeting of the Company or, if the Directors do not make any such appointment, the chairman, if any, of the board of Directors shall preside as chairman at such general meeting. If there is no such chairman, or if he shall not be present within fifteen

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minutes after the time appointed for the meeting to commence, or is unwilling to act, the Directors present shall elect one of their number to be chairman of the meeting.

24.6 If no Director is willing to act as chairman or if no Director is present within fifteen minutes after the time appointed for the meeting to commence, the Members present shall choose one of their number to be chairman of the meeting.

24.7 The chairman may, with the consent of a meeting at which a quorum is present (and shall if so directed by the meeting) adjourn the meeting from time to time and from place to place, but no business shall be transacted at any adjourned meeting other than the business left unfinished at the meeting from which the adjournment took place.

24.8 When a general meeting is adjourned for thirty days or more, notice of the adjourned meeting shall be given as in the case of an original meeting. Otherwise it shall not be necessary to give any such notice of an adjourned meeting.

24.9 A resolution put to the vote of the meeting shall be decided on a show of hands unless before, or on the declaration of the result of, the show of hands, the chairman demands a poll, or any other Member or Members collectively present in person or by proxy (or in the case of a corporation or other non-natural person, by its duly authorised representative or proxy) and holding at least ten percent in par value of the Shares giving a right to attend and vote at the meeting demand a poll.

24.10 Unless a poll is duly demanded and the demand is not withdrawn a declaration by the chairman that a resolution has been carried or carried unanimously, or by a particular majority, or lost or not carried by a particular majority, an entry to that effect in the minutes of the proceedings of the meeting shall be conclusive evidence of that fact without proof of the number or proportion of the votes recorded in favour of or against such resolution.

24.11 The demand for a poll may be withdrawn.

24.12 Except on a poll demanded on the election of a chairman or on a question of adjournment, a poll shall be taken as the chairman reasonably directs, and the result of the poll shall be deemed to be the resolution of the general meeting at which the poll was demanded.

24.13 A poll demanded on the election of a chairman, on a question of adjournment or on any other question shall be taken forthwith.

24.14 In the case of an equality of votes, whether on a show of hands or on a poll, the chairman shall not be entitled to a second or casting vote.

25 Votes of Members

25.1 Subject to a matter requiring a separate vote of the holders of any class of Shares under these Articles or the Statute, the holders of the Common Shares will vote together on all matters as a single class.

25.2 Subject to any rights or restrictions attached to any Shares, including pursuant to Article 3 and pursuant to the provisions of these Articles regarding the Preferred Shares, on a show of hands every Member who (being an individual) is present in person or by proxy or, if a corporation or other non-natural person is present by its duly authorised representative or by proxy, shall have one vote

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and on a poll every Member present in any such manner shall have one vote for every Share of which he is the holder.

25.3 In the case of joint holders the vote of the senior holder who tenders a vote, whether in person or by proxy (or, in the case of a corporation or other non-natural person, by its duly authorised representative or proxy), shall be accepted to the exclusion of the votes of the other joint holders, and seniority shall be determined by the order in which the names of the holders stand in the Register of Members.

25.4 A Member of unsound mind, or in respect of whom an order has been made by any court, having jurisdiction in lunacy, may vote, whether on a show of hands or on a poll, by his committee, receiver, curator bonis, or other person on such Member's behalf appointed by that court, and any such committee, receiver, curator bonis or other person may vote by proxy.

25.5 No person shall be entitled to vote at any general meeting unless he is registered as a Member on the record date for such meeting nor unless all calls or other monies then payable by him in respect of Shares have been paid.

25.6 No objection shall be raised as to the qualification of any voter except at the general meeting or adjourned general meeting at which the vote objected to is given or tendered and every vote not disallowed at the meeting shall be valid. Any objection made in due time in accordance with this Article shall be referred to the chairman whose decision shall be final and conclusive.

25.7 On a poll or on a show of hands votes may be cast either personally or by proxy (or in the case of a corporation or other non-natural person by its duly authorised representative or proxy). A Member may appoint more than one proxy or the same proxy under one or more instruments to attend and vote at a meeting. Where a Member appoints more than one proxy the instrument of proxy shall state which proxy is entitled to vote on a show of hands and shall specify the number of Shares in respect of which each proxy is entitled to exercise the related votes.

25.8 On a poll, a Member holding more than one Share need not cast the votes in respect of his Shares in the same way on any resolution and therefore may vote a Share or some or all such Shares either for or against a resolution and/or abstain from voting a Share or some or all of the Shares and, subject to the terms of the instrument appointing him, a proxy appointed under one or more instruments may vote a Share or some or all of the Shares in respect of which he is appointed either for or against a resolution and/or abstain from voting a Share or some or all of the Shares in respect of which he is appointed.

25.9 Nothing in these Articles shall give, or be deemed to give, any holder of a Preferred Share a right to vote on matters except where these Articles expressly specify that a holder of “Preferred Shares” (and not “Shares”) has the right to vote on such matter.

26 Proxies

26.1 The instrument appointing a proxy shall be in writing and shall be executed under the hand of the appointor or of his attorney duly authorised in writing, or, if the appointor is a corporation or other non natural person, under the hand of its duly authorised representative. A proxy need not be a Member.

26.2 Subject to Article 26.3 below, the Directors may, in the notice convening any meeting or adjourned meeting, or in an instrument of proxy sent out by the Company, specify the manner by which the

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instrument appointing a proxy shall be deposited and the place and the time (being not later than the time appointed for the commencement of the meeting or adjourned meeting to which the proxy relates) at which the instrument appointing a proxy shall be deposited. In the absence of any such direction from the Directors in the notice convening any meeting or adjourned meeting or in an instrument of proxy sent out by the Company, the instrument appointing a proxy shall be deposited physically at the Registered Office not less than 48 hours before the time appointed for the meeting or adjourned meeting to commence at which the person named in the instrument proposes to vote.

26.3 An instrument of proxy relating to any class meeting or adjourned class meeting of the Preferred Share holders may be deposited physically at the Registered Office at any time prior to such meeting or deposited at the meeting at any time during the meeting at which the person named in the instrument proposes to vote.

26.4 The chairman may in any event at his discretion declare that an instrument of proxy shall be deemed to have been duly deposited. An instrument of proxy that is not deposited in the manner permitted, or which has not been declared to have been duly deposited by the chairman, shall be invalid.

26.5 The instrument appointing a proxy may be in any usual or common form (or such other form as the Directors may approve) and may be expressed to be for a particular meeting or any adjournment thereof or generally until revoked. An instrument appointing a proxy shall be deemed to include the power to demand or join or concur in demanding a poll.

26.6 Votes given in accordance with the terms of an instrument of proxy shall be valid notwithstanding the previous death or insanity of the principal or revocation of the proxy or of the authority under which the proxy was executed, or the transfer of the Share in respect of which the proxy is given unless notice in writing of such death, insanity, revocation or transfer was received by the Company at the Registered Office before the commencement of the general meeting, or adjourned meeting at which it is sought to use the proxy.

27 Corporate Members

Any corporation or other non-natural person which is a Member may in accordance with its constitutional documents, or in the absence of such provision by resolution of its directors or other governing body, authorise such person as it thinks fit to act as its representative at any meeting of the Company or of any class of Members, and the person so authorised shall be entitled to exercise the same powers on behalf of the corporation which he represents as the corporation could exercise if it were an individual Member.

28 Shares that May Not be Voted

Shares in the Company that are beneficially owned by the Company shall not be voted, directly or indirectly, at any meeting and shall not be counted in determining the total number of issued and outstanding Shares at any given time.

29 Directors

There shall be a board of Directors consisting of not more than 12 persons (exclusive of alternate Directors); provided that the Directors (with written consent of all Principal Shareholders then holding at least 7% of the issued and outstanding Common Shares) may increase this limit in the number of Directors and this limit may be reduced in accordance with Article 31.4.

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30 Powers of Directors

30.1 Subject to the provisions of the Statute, the Memorandum and these Articles and to any directions given by Special Resolution, the business of the Company shall be managed by the Directors who may exercise all the powers of the Company. No alteration of the Memorandum or Articles and no such direction shall invalidate any prior act of the Directors which would have been valid if that alteration had not been made or that direction had not been given. A duly convened meeting of Directors at which a quorum is present may exercise all powers exercisable by the Directors.

30.2 All cheques, promissory notes, drafts, bills of exchange and other negotiable or transferable instruments and all receipts for monies paid to the Company shall be signed, drawn, accepted, endorsed or otherwise executed as the case may be in such manner as the Directors shall determine by resolution.

30.3 The Directors acting by unanimous resolution on behalf of the Company may pay a gratuity or pension or allowance on retirement to any Director who has held any other salaried office or place of profit with the Company or to his widow or dependants and may make contributions to any fund and pay premiums for the purchase or provision of any such gratuity, pension or allowance.

30.4 The Directors may exercise all the powers of the Company to borrow money and to mortgage or charge its undertaking, property and assets (present and future) and uncalled capital or any part thereof and to issue debentures, debenture stock, mortgages, bonds and other such securities whether outright or as security for any debt, liability or obligation of the Company or of any third party.

31 Appointment and Removal of Directors

31.1 For as long as a Principal Shareholder holds at least 17% of the issued and outstanding Common Shares, such Principal Shareholder may appoint three individuals as Directors.

31.2 For as long as a Principal Shareholder holds at least 7% but less than 17% of the issued and outstanding Common Shares, such Principal Shareholder may appoint one individual as a Director.

31.3 Subject to Article 31.4, each Principal Shareholder may appoint, replace or remove Directors appointed in accordance with Articles 31.1 and 31.2 by written notice to the Company; provided that such Principal Shareholder may not appoint or replace any such Directors if such Principal Shareholder's ownership of Common Shares is below the threshold specified in such Articles at any time after the time of such appointment. The appointment, replacement or removal shall take effect when the notice is delivered to the Company, unless the notice indicates a later effective time.

31.4 In the event that any Director appointed in accordance with Article 31.1 or 31.2 for any reason ceases to serve as a Director, the Principal Shareholder that appointed such individual shall have the right to appoint a different individual pursuant to Articles 31.1 or 31.2 to fill the vacant directorship; provided that such Principal Shareholder may not appoint or replace any such Director if such Principal Shareholder's ownership of Common Shares is below the threshold specified in such Articles at the relevant time. If any Principal Shareholder ceases at any point in time to hold the requisite percentage of the issued and outstanding Common Shares necessary to designate the number of Directors that had previously been designated by such Principal Shareholder, then the Principal Shareholders shall cause the appropriate number of Directors designated by such Principal Shareholder to immediately be removed as Directors by written notice to the Company

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and the authorised number of Directors shall be reduced by the number of Directors who are so removed; provided that if after the removal of such Directors, such Principal Shareholder would still have the power to designate one Director, then such Principal Shareholder shall be permitted to decide which of its designees are removed as Directors.

31.5 Two individuals may be appointed in writing by written notice to the Company signed by each of the Principal Shareholders that then holds at least 7% of the issued and outstanding Common Shares.

31.6 The Chief Executive Officer of the Company (who shall be appointed and may be removed by the Directors) shall be appointed as a Director. If the Chief Executive Officer ceases to serve as Chief Executive Officer, then he or she shall be immediately removed as a Director and the new Chief Executive Officer, if any, shall be appointed as a Director.

31.7 For so long as a Principal Shareholder holds at least 7% of the issued and outstanding Common Shares, it shall be entitled to designate one observer (a "**Board Observer**") to participate in all meetings, including telephonic meetings, of the Directors and all committees that the Directors may establish. No Board Observer shall have any voting rights with respect to any action brought by the Directors or any fiduciary obligations to the Company or the Shareholders. Notwithstanding the foregoing, Board Observers shall not be entitled to attend any portion of a meeting of the Directors or any committee thereof that would constitute, or be deemed to constitute, a waiver of the attorney-client privilege. Board Observers shall be entitled to receive all materials provided to members of the Directors or any committee thereof in preparation for meetings unless the provision of such materials would constitute, or be deemed to constitute, a waiver of the attorney-client privilege. Board Observers shall receive notice of all actions taken by the Directors or any committee thereof, whether such action is taken at a meeting. Each Board Observer shall be bound by the same confidentiality obligations as the members of the Board. Each such Principal Shareholder may cause its Board Observer to resign and/or appoint a replacement Board Observer from time to time by giving written notice to the Company.

32 Vacation of Office of Director

The office of a Director shall be vacated if:

(a) the Director gives notice in writing to the Company that he resigns the office of Director; or

(b) the Director dies; or

(c) the Director is found to be or becomes of unsound mind; or

(d) the Director is removed in accordance with Article 31.

33 Proceedings of Directors

33.1 The quorum for the transaction of the business of the Directors shall be a majority in voting power of all the Directors from time to time being present at a meeting of the Directors held in accordance with these Articles; provided that at least one Director appointed by each Principal Shareholder for as long as any Principal Shareholder has the right to appoint a Director pursuant to Article 31 must be present at a meeting to have a quorum. If a quorum shall not be present at any meeting of the Directors, the Directors present at such meeting may adjourn the meeting from time to time, without notice other than announcement at the meeting, until a quorum shall be present.

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33.2 A person who holds office as an alternate Director shall, if his appointor is not present, be counted in the quorum. A Director who also acts as an alternate Director shall, if his appointor is not present, count twice towards the quorum.

33.3 All meetings of the Directors or any committee of Directors shall be held outside Australia, the United Kingdom and any other jurisdiction designated by the Directors and subject to the guidelines adopted or to be adopted by the Directors.

33.4 Subject to the provisions of the Articles, the Directors may regulate their proceedings as they deem appropriate. Any matter requiring the vote or consent of the Directors or a committee thereof shall (subject to any express provision of the Sponsor Shareholders Agreement and these Articles) require approval of a majority of the voting power of the Directors or members of such committee; provided that for as long as any Principal Shareholder has the right to appoint a Director or member of such committee pursuant to these Articles, then at least one Director or member of such committee appointed by each such Principal Shareholder must vote in favor of or consent to such matter for such matter to be approved by the Directors or such committee.

33.5 Each Director shall have one vote; provided, however, that any Director appointed by a Principal Shareholder shall be entitled to cast more than one vote under the following circumstances: (i) if any Director appointed by a Principal Shareholder pursuant to Article 31.1 is not present at such meeting or is unable to vote, then one Director appointed by such Principal Shareholder who is present at the meeting shall be given an aggregate number of additional votes equal to the aggregate number of absent Directors and Directors unable to vote appointed by such Principal Shareholder (and such Directors who are absent or unable to vote shall be deemed to have given a proxy to vote at such meeting to any other such Director who is present at such meeting and able to vote and was appointed by the same Principal Shareholder to serve as a Director) or (ii) if any Principal Shareholder has the right under Article 31.1 to appoint two or more Directors, but has not appointed one or more of such Directors, then any Director appointed by such Principal Shareholder shall be given an aggregate number of additional votes equal to the number of vacancies that such Principal Shareholder has the right to appoint.

33.6 A Director who is also an alternate Director shall be entitled in the absence of his appointor to a separate vote on behalf of his appointor in addition to his own vote.

33.7 A person may participate in a meeting of the Directors or committee of Directors by conference telephone or other communications equipment by means of which all the persons participating in the meeting can communicate with each other at the same time; provided that such person participating by conference telephone or other communications equipment is not present at the time in Australia, the United Kingdom or any other jurisdiction designated by the board of Directors. Participation by a person in a meeting in this manner is treated as presence in person at that meeting. Unless otherwise determined by the Directors the meeting shall be deemed to be held at the place where the chairman is located at the start of the meeting.

33.8 A resolution of the Directors may not be passed in writing.

33.9 Unless notice is waived: (i) in writing by each Director (or their alternates) that did not receive such notice; or (ii) by the attendance at the relevant meeting of such Director(s) that did not receive such notice for any purpose other than solely to protest the inadequacy of such notice:

(a) a schedule of regular meetings of the Directors may be adopted by the Directors from time to time (in accordance with Article 27.4), such meetings to be held at such places and times

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as determined by the Directors; provided that notice of the adoption of a schedule of regular meetings of the Board, if any, shall be given to any Directors (or Board Observers) who were not present at the meeting at which such schedule was adopted; and

(b) special meetings of the Directors may be called by any two Directors; provided that (i) for as long as any Principal Shareholder holds at least 7% of the issued and outstanding Common Shares, then at least one Director appointed by any such Principal Shareholder must consent to calling a special meeting of Directors; and (ii) two Directors appointed by the same Principal Shareholder may not call a special meeting of the Directors unless an additional Director who was not appointed by such Principal Shareholder joins in calling such special meeting. Each Director shall use his or her commercially reasonable efforts to attend (or to cause his or her proxy to attend) each duly called special meeting of the Directors. Any such meeting shall be held on such date, at such place and at such time as the Directors calling such meeting shall specify in the notice of the meeting which shall be delivered to each other Director (and each Board Observer) at least 96 hours prior to such meeting (unless waived (i) in writing by each Director and Board Observer that did not receive such notice or (ii) by the attendance at such meeting of each such Director and Board Observer, as applicable, that did not receive such notice for any purpose other than solely to protest the inadequacy of such notice). The purpose of and business to be transacted at such special meeting must be specified in the notice (or waiver of notice) of such meeting.

To any such notice of a meeting of the Directors the provisions of Article 48.1 relating to the giving of notices by the Company to the Members shall apply *mutatis mutandis*.

33.10 Unless the Directors have appointed a chairman of the board, the Directors present at any meeting may choose one of their number to act as the chairman solely for such meeting.

33.11 All acts done by any meeting of the Directors or of a committee of the Directors (including any person acting as an alternate Director) shall, notwithstanding that it is afterwards discovered that there was some defect in the appointment of any Director or alternate Director, and/or that they or any of them were disqualified, and/or had vacated their office and/or were not entitled to vote, be as valid as if every such person had been duly appointed and/or not disqualified to be a Director or alternate Director and/or had not vacated their office and/or had been entitled to vote, as the case may be.

33.12 A Director but not an alternate Director may be represented at any meetings of the board of Directors by a proxy appointed in writing by him. The proxy shall count towards the quorum and the vote of the proxy shall for all purposes be deemed to be that of the appointing Director.

34 [*Intentionally left blank.*]

35 Directors' Interests

35.1 A Director or alternate Director may hold any other office or place of profit under the Company (other than the office of Auditor) in conjunction with his office of Director for such period and on such terms as to remuneration and otherwise as the Directors may determine.

35.2 A Director or alternate Director may act by himself or by, through or on behalf of his firm in a professional capacity for the Company and he or his firm shall be entitled to remuneration for professional services as if he were not a Director or alternate Director.

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35.3 A Director or alternate Director may be or become a director or other officer of or otherwise interested in any company promoted by the Company or in which the Company may be interested as a shareholder, a contracting party or otherwise, and no such Director or alternate Director shall be accountable to the Company for any remuneration or other benefits received by him as a director or officer of, or from his interest in, such other company.

35.4 No person shall be disqualified from the office of Director or alternate Director or prevented by such office from contracting with the Company, either as vendor, purchaser or otherwise, nor shall any such contract or any contract or transaction entered into by or on behalf of the Company in which any Director or alternate Director shall be in any way interested be or be liable to be avoided, nor shall any Director or alternate Director so contracting or being so interested be liable to account to the Company for any profit realised by or arising in connection with any such contract or transaction by reason of such Director or alternate Director holding office or of the fiduciary relationship thereby established. A Director (or his alternate Director in his absence) shall be at liberty, except as otherwise provided in the Sponsor Shareholders Agreement, to vote in respect of any contract or transaction which he is interested provided that the nature of the interest of any Director or alternate Director in any such contract or transaction shall be disclosed by him at or prior to its consideration and any vote thereon.

35.5 A general notice that a Director or alternate Director is a shareholder, director, officer or employee of any specified firm or company and is to be regarded as interested in any transaction with such firm or company shall be sufficient disclosure for the purposes of voting on a resolution in respect of a contract or transaction in which he has an interest, and after such general notice it shall not be necessary to give special notice relating to any general transaction.

36 Minutes

The Directors shall cause minutes to be made in books kept for the purpose of all appointments of officers made by the Directors, all proceedings at meetings of the Company or the holders of any class of Shares and of the Directors, and of committees of the Directors, including the names of the Directors or alternate Directors present at each meeting.

37 Delegation of Directors' Powers

37.1 The Directors may delegate any of their powers, authorities and discretions, including the power to sub-delegate, to any committee consisting of one or more Directors. They may also delegate to any managing director or any Director holding any other executive office such of their powers, authorities and discretions as they consider desirable to be exercised by him provided that an alternate Director may not act as managing director and the appointment of a managing director shall be revoked forthwith if he ceases to be a Director. Any such delegation may be made subject to any conditions the Directors may impose and either collaterally with or to the exclusion of their own powers and any such delegation may be revoked or altered by the Directors. Subject to any such conditions, the proceedings of a committee of Directors shall be governed by these Articles regulating the proceedings of Directors, so far as they are capable of applying.

37.2 The Directors may establish any committees, local boards or agencies or appoint any person to be a manager or agent for managing the affairs of the Company and may appoint any person to be a member of such committees, local boards or agencies. Any such appointment may be made subject to any conditions the Directors may impose, and either collaterally with or to the exclusion of their own powers and any such appointment may be revoked or altered by the Directors. Subject to any such conditions, the proceedings of any such committee, local board or agency shall be

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governed by the Articles regulating the proceedings of Directors, so far as they are capable of applying.

37.3 The Directors may by power of attorney or otherwise appoint any person to be the agent of the Company on such conditions as the Directors may determine, provided that the delegation is not to the exclusion of their own powers and may be revoked by the Directors at any time.

37.4 The Directors may by power of attorney or otherwise appoint any company, firm, person or body of persons, whether nominated directly or indirectly by the Directors, to be the attorney or authorised signatory of the Company for such purpose and with such powers, authorities and discretions (not exceeding those vested in or exercisable by the Directors under the Articles) and for such period and subject to such conditions as they may think fit, and any such powers of attorney or other appointment may contain such provisions for the protection and convenience of persons dealing with any such attorneys or authorised signatories as the Directors may think fit and may also authorise any such attorney or authorised signatory to delegate all or any of the powers, authorities and discretions vested in him.

37.5 The Directors may appoint such officers of the Company (including, for the avoidance of doubt and without limitation, any secretary) as they consider necessary on such terms, at such remuneration and to perform such duties, and subject to such provisions as to disqualification and removal as the Directors may think fit. Unless otherwise specified in the terms of his appointment an officer of the Company may be removed by resolution of the Directors or Members. An officer of the Company may vacate his office at any time if he gives notice in writing to the Company that he resigns his office.

38 Alternate Directors

38.1 Any Director (but not an alternate Director) may by writing appoint any other Director, or any other person willing to act, to be an alternate Director and by writing may remove from office an alternate Director so appointed by him.

38.2 An alternate Director shall be entitled to receive notice of all meetings of Directors and of all meetings of committees of Directors of which his appointor is a member, to attend and vote at every such meeting at which the Director appointing him is not personally present and generally to perform all the functions of his appointor as a Director in his absence.

38.3 An alternate Director shall cease to be an alternate Director if his appointor ceases to be a Director.

38.4 Any appointment or removal of an alternate Director shall be by notice to the Company signed by the Director making or revoking the appointment or in any other manner approved by the Directors.

38.5 Subject to the provisions of these Articles, an alternate Director shall be deemed for all purposes to be a Director and shall alone be responsible for his own acts and defaults and shall not be deemed to be the agent of the Director appointing him.

39 No Minimum Shareholding

The Company in general meeting may fix a minimum shareholding required to be held by a Director, but unless and until such a shareholding qualification is fixed a Director is not required to hold Shares.

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40 Remuneration of Directors

40.1 Directors shall be entitled to prompt reimbursement by the Company of all reasonable out-of-pocket expenses (including travel expenses) incurred in the course of the performance of their duties subject to the limitations on such reimbursements set forth in Section 3.5(e) of the Sponsor Shareholders Agreement, if applicable, but shall not otherwise be entitled to compensation for their services in their capacity as Directors; provided that the Directors, if any, appointed pursuant to Section 3.1(a)(iv) of the Sponsor Shareholders Agreement shall be entitled to such compensation as the Directors may approve by resolution from time to time, if any.

40.2 The Directors may by resolution approve additional remuneration to any Director for any services which in the opinion of the Directors go beyond his ordinary routine work as a Director. Any fees paid to a Director who is also counsel, attorney or solicitor to the Company, or otherwise serves it in a professional capacity shall be in addition to his remuneration as a Director.

41 Designated Company Directors

41.1 With respect to any subsidiary of the Company that is not a U.S. corporation or that is not treated as a pass-through or entity disregarded from its owner for U.S. federal income tax purposes or any other subsidiary of the Company that has been designated by the Directors of the Company as a "Designated Company" (together, the "**Designated Companies**"), the Company shall procure the following:

(a) the directors of each such Designated Company shall consist of the persons who have been nominated by the Members of the Company by Ordinary Resolution as "**Designated Company Directors**";

(b) the persons designated or otherwise appointed as alternates to directors of each such Designated Company, if and to the extent authorized, shall consist only of persons who have been nominated by the Members of the Company by Ordinary Resolution as "**Designated Alternate Company Directors**"; and

(c) the Members of the Company by Ordinary Resolution may nominate the persons to be removed as directors of such Designated Company (the "**Removed Company Directors**").

41.2 Notwithstanding the general authority set out in Articles 30 and 37, the Directors shall vote all shares owned by the Company in each Designated Company:

(a) to elect the Designated Company Directors as the directors of such Designated Company, authorize only the Designated Alternate Company Directors to act as alternates to directors, and to remove the Removed Company Directors as directors of such Designated Company; and

(b) to ensure, to the extent reasonably practicable, that the constitutional documents of such Designated Company require such Designated Company Directors to be elected, authorize only the Designated Alternate Company Directors to act as alternates to directors, and such Removed Company Directors to be removed as provided in this Article 41.

41.3 The Directors and the Company shall, to the extent reasonably practicable, ensure that the constitutional documents of each such Designated Company shall effectuate or implement the provisions of this Article 41. The Company shall also enter into agreements with each such

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Designated Company and take such other actions as are necessary to effectuate or implement the provisions of this Article 41.

42 Seal

42.1 The Company may, if the Directors so determine, have a Seal. The Seal shall only be used by the authority of the Directors or of a committee of the Directors authorised by the Directors. Every instrument to which the Seal has been affixed shall be signed by at least one person who shall be either a Director or some officer of the Company or other person appointed by the Directors for the purpose.

42.2 The Company may have for use in any place or places outside the Cayman Islands a duplicate Seal or Seals each of which shall be a facsimile of the common Seal of the Company and, if the Directors so determine, with the addition on its face of the name of every place where it is to be used.

42.3 A Director or officer, representative or attorney of the Company may without further authority of the Directors affix the Seal over his signature alone to any document of the Company required to be authenticated by him under seal or to be filed with the Registrar of Companies in the Cayman Islands or elsewhere wheresoever.

43 Dividends, Distributions and Reserve

43.1 Subject to the Statute and these Articles, including the provisions hereof relating to the Preferred Shares, and except as otherwise provided by the rights and restrictions attached to any Shares, (a) the Directors may resolve to pay Dividends and other distributions on Shares in issue and authorise payment of the Dividends or other distributions out of the funds of the Company lawfully available therefor and (b) a Dividend (other than a Dividend with respect to the Preferred Shares) shall be deemed to be an interim Dividend unless the terms of the resolution pursuant to which the Directors resolve to pay such Dividend specifically state that such Dividend shall be a final Dividend. No Dividend or other distribution shall be paid except out of the realised or unrealised profits of the Company, out of the share premium account or as otherwise permitted by the Statute.

43.2 Subject to the Statute and this Article and except as otherwise provided by the rights and restrictions attached to any Shares, the Company by Ordinary Resolution may declare dividends, but no dividend shall exceed the amount recommended by the Directors.

43.3 Except as otherwise provided by the rights and restrictions attached to any Shares, all Dividends and other distributions shall be declared and paid according to the amounts paid up on the Shares on which the Dividend and other distribution is paid and except as otherwise provided by the rights attached to any Shares, all Dividends and other distributions shall be apportioned and paid proportionately according to the amounts paid up on the Shares during any portion or portions of the period in respect of which the Dividend and other distribution is paid. If any Share (including the Preferred Shares) is issued on terms providing that it shall rank for Dividend as from a particular date, that Share shall rank for Dividend accordingly.

43.4 The Directors may deduct from any Dividend or other distribution payable to any Member all sums of money (if any) then payable by him to the Company on account of calls or otherwise.

43.5 Subject to the provisions hereof relating to the Preferred Shares, the Directors may resolve that any Dividend or other distribution be paid wholly or partly by the distribution of specific assets and

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in particular (but without limitation) by the distribution of shares, debentures, or securities of any other company or in any one or more of such ways and where any difficulty arises in regard to such distribution, the Directors may settle the same as they think expedient and in particular may issue fractional Shares and may fix the value for distribution of such specific assets or any part thereof and may determine that cash payments shall be made to any Members upon the basis of the value so fixed in order to adjust the rights of all Members and may vest any such specific assets in trustees in such manner as may seem expedient to the Directors.

43.6 Except as otherwise provided by the rights attached to any Shares (including Preferred Shares), (a) Dividends and other distributions may be paid in any currency and (b) the Directors may determine the basis of conversion for any currency conversions that may be required and how any costs involved are to be met.

43.7 Other than with respect to the Preferred Shares, the Directors may, before resolving to pay any Dividend or other distribution, set aside such sums as they think proper as a reserve or reserves which shall, at the discretion of the Directors, be applicable for any purpose of the Company and pending such application may, at the discretion of the Directors, be employed in the business of the Company.

43.8 Subject to the provisions of these Articles regarding the Preferred Shares, any Dividend, other distribution, interest or other monies payable in cash in respect of Shares may be paid in any manner as the Directors may determine, including by inter-bank transfer, electronic form, electronic means or other means approved by the Directors directly to an account (of a type approved by the Directors) nominated in writing by the Member, or by cheque or warrant or other similar financial instrument made payable to the Member entitled to it and sent through the post directed to the registered address of the holder or, in the case of joint holders, to the registered address of the holder who is first named on the Register of Members or to such person and to such address as such holder or joint holders may in writing direct. Every such cheque or warrant shall be made payable to the order of the person to whom it is sent. Any one of two or more joint holders may give effectual receipts for any Dividends, other distributions, bonuses, or other monies payable in respect of the Share held by them as joint holders. Different methods of payment may apply to different Members or groups of Members.

43.9 No Dividend or other distribution payable in respect of a Share shall bear interest against the Company unless otherwise provided by the rights attached to such Share.

43.10 Any Dividend or other distribution which cannot be paid to a Member (including because the Directors determine that payments will be made by electronic transfer to an account (of a type approved by the Directors) nominated by a Member, but no such account is nominated by the Member or an electronic transfer into a nominated account is rejected or refunded) and/or remains unclaimed after six months from the date on which such Dividend or other distribution becomes payable may, in the discretion of the Directors, be paid into a separate account in the Company's name, provided that the Company shall not be constituted as a trustee in respect of that account and the Dividend or other distribution shall remain as a debt due to the Member. Any Dividend or other distribution which remains unclaimed after a period of six years from the date on which such Dividend or other distribution becomes payable shall be forfeited and shall revert to the Company.

43.11 The Company shall be entitled to cease sending dividend warrants and cheques by post or otherwise to a Member if those instruments have been returned undelivered to, or left uncashed by, that Member on at least two consecutive occasions, or, following one such occasion, reasonable enquiries have failed to establish the Member's new address. The entitlement

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conferred on the Company under this Article in respect of any Member shall cease if the Member claims a Dividend or cashes a dividend warrant or cheque.

44 Capitalisation

The Directors may at any time capitalise any sum standing to the credit of any of the Company's reserve accounts or funds (including the share premium account and capital redemption reserve fund) or any sum standing to the credit of the profit and loss account or otherwise available for distribution; appropriate such sum to Members in the proportions in which such sum would have been divisible amongst such Members had the same been a distribution of profits by way of Dividend or other distribution; and apply such sum on their behalf in paying up in full unissued Shares for allotment and distribution credited as fully paid-up to and amongst them in the proportion aforesaid. In such event the Directors shall do all acts and things required to give effect to such capitalisation, with full power given to the Directors to make such provisions as they think fit in the case of Shares becoming distributable in fractions (including provisions whereby the benefit of fractional entitlements accrue to the Company rather than to the Members concerned). The Directors may authorise any person to enter on behalf of all of the Members interested into an agreement with the Company providing for such capitalisation and matters incidental or relating thereto and any agreement made under such authority shall be effective and binding on all such Members and the Company.

45 Books of Account

45.1 The Directors shall cause proper books of account (including, where applicable, material underlying documentation including contracts and invoices) to be kept with respect to all sums of money received and expended by the Company and the matters in respect of which the receipt or expenditure takes place, all sales and purchases of goods by the Company and the assets and liabilities of the Company. Such books of account must be retained for a minimum period of five years from the date on which they are prepared. Proper books shall not be deemed to be kept if there are not kept such books of account as are necessary to give a true and fair view of the state of the Company's affairs and to explain its transactions.

45.2 The Directors shall determine whether and to what extent and at what times and places and under what conditions or regulations the accounts and books of the Company or any of them shall be open to the inspection of Members not being Directors and no Member (not being a Director) shall have any right of inspecting any account or book or document of the Company except as conferred by Statute or authorised by the Directors or by the Company in general meeting.

45.3 The Directors may cause to be prepared and to be laid before the Company in general meeting profit and loss accounts, balance sheets, group accounts (if any) and such other reports and accounts as may be required by law.

46 Audit

46.1 The Directors may appoint an Auditor of the Company who shall hold office on such terms as the Directors determine.

46.2 Every Auditor of the Company shall have a right of access at all times to the books and accounts and vouchers of the Company and shall be entitled to require from the Directors and officers of the Company such information and explanation as may be necessary for the performance of the duties of the Auditor.

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46.3 Auditors shall, if so required by the Directors, make a report on the accounts of the Company during their tenure of office at the next annual general meeting following their appointment in the case of a company which is registered with the Registrar of Companies as an ordinary company, and at the next extraordinary general meeting following their appointment in the case of a company which is registered with the Registrar of Companies as an exempted company, and at any other time during their term of office, upon request of the Directors or any general meeting of the Members.

47 Initial Public Offering

47.1 In connection with any proposed Initial Public Offering, subject to the Statute and the terms of the Sponsor Shareholders Agreement, the Directors may take such action as may be necessary or appropriate to (a) amend these Articles to provide for the conversion of the Company into another form of entity, (b) move the Company to another jurisdiction, (c) create a new holding company and distribute its shares to the Members, (d) distribute shares of a Subsidiary of the Company to the Members, or (e) otherwise create an appropriate vehicle to serve as the IPO Entity.

47.2 In connection with the actions described in Article 47.1 in connection with a proposed Initial Public Offering, subject to the Statute and the terms of the Sponsor Shareholders Agreement, including any required shareholder vote or action, the Directors shall have authority to take such actions as are necessary to cause the conversion or exchange, directly or indirectly, of each Share into or for a share (or other equity security and/or other right) issued by the IPO Entity. For the avoidance of doubt, upon any such conversion or exchange, the Common Shares may be converted into or exchanged for shares or other equity interests of a single class.

48 Notices

48.1 Except as otherwise provided herein with respect to the Preferred Shares, all notices, requests, claims, demands and other communications given to Members or the Company shall be in writing and shall be delivered by hand, sent by facsimile or sent, postage prepaid, return receipt requested, by registered, certified or express mail or overnight courier service and shall be deemed given when so delivered by hand or facsimile (if received prior to 5:00 pm in the place of receipt and such day is a Business Day in the place of receipt, otherwise, any such notice, request or communication shall be deemed not to have been received until the next succeeding Business Day in the place of receipt), or if mailed, three calendar days after mailing (one Business Day in the case of express mail or overnight courier service), to the Company or Members at the last addresses given by such Member to the Company.

48.2 A notice may be given by the Company to the person or persons which the Company has been advised are entitled to a Share or Shares in consequence of the death or bankruptcy of a Member in the same manner as other notices which are required to be given under these Articles and shall be addressed to them by name, or by the title of representatives of the deceased, or trustee of the bankrupt, or by any like description at the address supplied for that purpose by the persons claiming to be so entitled, or at the option of the Company by giving the notice in any manner in which the same might have been given if the death or bankruptcy had not occurred.

48.3 Notice of every general meeting shall be given in any manner authorised by these Articles to every holder of Shares carrying an entitlement to receive such notice on the record date for such meeting except that in the case of joint holders the notice shall be sufficient if given to the joint holder first named in the Register of Members and every person upon whom the ownership of a Share devolves by reason of his being a legal personal representative or a trustee in bankruptcy of a

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Member where the Member but for his death or bankruptcy would be entitled to receive notice of the meeting, and no other person shall be entitled to receive notices of general meetings.

49 Winding Up

49.1 The Company shall not commence voluntary winding up without the approval of a Special Resolution.

49.2 If the Company shall be wound up, the liquidator shall apply the assets of the Company in satisfaction of creditors' claims in such manner and order as such liquidator thinks fit. Subject to the rights attaching to any Shares, including Preferred Shares, in a winding up:

(a) if the assets available for distribution amongst the Members shall be insufficient to repay the whole of the Company's issued and outstanding share capital, such assets shall be distributed so that, as nearly as may be, the losses shall be borne by the Members in proportion to the par value of the Shares held by them; or

(b) if the assets available for distribution amongst the Members shall be more than sufficient to repay the whole of the Company's issued and outstanding share capital at the commencement of the winding up, the surplus shall be distributed amongst the Members in proportion to the par value of the Shares held by them at the commencement of the winding up subject to a deduction from those Shares in respect of which there are monies due, of all monies payable to the Company for unpaid calls or otherwise.

49.3 Subject to Article 49.1, if the Company shall be wound up, the liquidator may, subject to the rights attaching to any Shares and with the sanction of a Special Resolution, divide among the Members in kind the whole or any part of the assets of the Company (whether such assets shall consist of property of the same kind or not) and may for that purpose value any assets and determine how the division shall be carried out as between the Members or different classes of Members. The liquidator may, with the like sanction, vest the whole or any part of such assets in trustees upon such trusts for the benefit of the Members as the liquidator, with the like sanction, shall think fit, but so that no Member shall be compelled to accept any asset upon which there is a liability.

50 Indemnity and Insurance

50.1 To the maximum extent permitted by applicable Law, no Director shall be liable to the Company, any Member or any other Person for losses sustained or liabilities incurred as a result of any act or omission, including any breach of a duty (fiduciary or otherwise), that such Director may have taken or omitted with respect to the Company, such Member, or such other Person, unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that, in respect of such act or omission, and taking into account the acknowledgments and agreements set forth in these Articles, such Director engaged in willful misconduct or actual fraud.

50.2 Every Director (each an "**Indemnified Director**") shall be indemnified and held harmless by the Company (but only to the extent of the Company's assets), to the fullest extent permitted by applicable Law, from and against any and all losses, liabilities and expenses (including taxes; penalties; judgments; fines; amounts paid or to be paid in settlement; costs of investigation and preparations; and reasonable fees, expenses and disbursements of attorneys (as incurred), whether or not the dispute or proceeding involves the Company or any Director or Member) incurred or suffered by any such Indemnified Director in connection with the activities of the Company or its subsidiaries; provided that, such Indemnified Director shall not be so indemnified

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and held harmless if there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that, in respect of the matter for which such Indemnified Director is seeking indemnification or seeking to be held harmless hereunder, such Indemnified Director engaged in willful misconduct or actual fraud. An Indemnified Director shall not be denied indemnification in whole or in part under this Article 50.2 because such Indemnified Director had an interest in the transaction with respect to which the indemnification applies if the transaction was otherwise permitted by these Articles.

50.3 Every officer of the Company (each an "**Indemnified Officer**", and collectively with the Indemnified Directors, the "**Indemnified Persons**") shall be indemnified and held harmless by the Company (but only to the extent of the Company's assets), to the fullest extent permitted by applicable Law, from and against any and all losses, liabilities and expenses (including taxes, penalties, judgments, fines, amounts paid or to be paid in settlement; costs of investigation and preparations and reasonable fees, expenses and disbursements of attorneys (as incurred), whether or not the dispute or proceeding involves the Company or any Director or Member) incurred or suffered by any such Indemnified officer in connection with the activities of the Company or its subsidiaries; provided that, such Indemnified officer shall not be so indemnified and held harmless if there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that, in respect of the matter for which such Indemnified Officer is seeking indemnification or seeking to be held harmless hereunder, such Indemnified Officer engaged in wilful misconduct or actual fraud or failed to act in good faith and in a manner such Indemnified Officer reasonably believed to be in the best interests of the Company. An Indemnified Officer shall not be denied indemnification in whole or in part under this Article 50.3 because such Indemnified Officer had an interest in the transaction with respect to which the indemnification applies if the transaction was otherwise permitted by these Articles.

50.4 An Indemnified Person shall be fully protected in relying in good faith, and shall incur no liability in acting or refraining from acting, upon the records of the Company and upon such resolutions, certificates, instruments, information, opinions, reports, statements, notices, requests, consents, orders, bonds, debentures, signatures or writings reasonably believed by it to be genuine and presented to the Company and may rely on a certificate signed by an officer, agent or representative of any Person as to matters the Indemnified Person reasonably believes are within the professional or expert competence of such Person and who has been selected with reasonable care by or on behalf of the Company, including such documents, certificates, information, opinions, reports or statements as to the value and amount of the assets, liabilities, income, loss or any other facts pertinent to the existence and amount of assets from which distributions to Members might properly be paid, in each case, unless there has been a final and non-appealable judgment entered by a court of competent jurisdiction determining that, in respect of such reliance, action or inaction, such Indemnified Director engaged in willful misconduct or actual fraud or such Indemnified Officer engaged in wilful misconduct or actual fraud or failed to act in good faith and in a manner such Indemnified Officer reasonably believed to be in the best interests of the Company, as applicable.

50.5 The Company shall advance to an Indemnified Person the reasonable, documented expenses incurred by such Indemnified Person for which such Indemnified Person could reasonably be expected to be entitled to indemnification under this Article 50 in defending any civil, criminal, administrative or investigative action, suit or proceeding in advance of the final disposition of such action, suit or proceeding upon receipt by the Company of the written affirmation of such Indemnified Person of its good faith belief that it is entitled to indemnification hereunder and an undertaking by such Indemnified Person to repay any such advances if it is subsequently determined that such Indemnified Person is not entitled to be indemnified hereunder.

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50.6 Certain of the Indemnified Persons ("**Third-Party Indemnitees**") have certain rights to indemnification, advancement of expenses or insurance provided by a Member or certain of its Affiliates (collectively, the "**Third-Party Indemnitors**"). To the extent lawfully permitted (and by the terms of any other agreement between the Company and a Third-Party Indemnitee), (a)(i) the Company is the indemnitor of first resort (i.e., its obligations to each Third-Party Indemnitee are primary and any obligation of the Third-Party Indemnitors to advance expenses or to provide indemnification for the same expenses or liabilities incurred by any Third-Party Indemnitee are secondary) and (ii) the Company shall be required to advance the full amount of expenses incurred by any Third-Party Indemnitee and shall be liable for the full amount of all expenses, judgments, penalties, fines and amounts paid in settlement, without regard to any rights that a Third-Party Indemnitee may have against the Third-Party Indemnitors and (b) the Company irrevocably waives, relinquishes and releases the Third-Party Indemnitors from any and all claims for contribution, subrogation or any other recovery of any kind in respect of any of the matters described in clause (a) of this sentence for which any Third-Party Indemnitee has received indemnification or advancement from the Company. No advancement or payment by any Third-Party Indemnitor on behalf of any Third-Party Indemnitee with respect to any claim for which a Third-Party Indemnitee has sought indemnification from the Company shall affect the foregoing, and the Third-Party Indemnitors shall have a right of contribution and/or be subrogated to the extent of such advancement or payment to all of the rights of recovery of such Third-Party Indemnitee against the Company.

50.7 The rights to indemnification and advancement of expenses provided by this Article 50 shall be in addition to any other rights to which an Indemnified Person may be entitled under any agreement, as a matter of law or otherwise, both as to actions in such Indemnified Person's capacity as an Indemnified Person hereunder and as to actions in any other capacity, and shall continue as to an Indemnified Person who has ceased to serve in such capacity as an Indemnified Person and shall inure to the benefit of the heirs, successors, assigns and administrators of such Indemnified Person.

50.8 Any indemnification or advance of expenses under this Article 50 shall be made only against a written request therefore submitted by or on behalf of the Person seeking such indemnification or advance. All expenses (including reasonable attorneys' fees) incurred by such Person in connection with successfully establishing such Person's right to indemnification or advance of expenses under this Article 50, in whole or in part, shall also be indemnified by the Company.

50.9 Each Indemnified Person may consult with outside legal counsel approved by the Company in connection with any matter the subject of this Article 50, which approval shall not be unreasonably withheld, and any action or omission taken or suffered reasonably and in good faith in reliance and accordance with the written opinion or advice of such counsel will be conclusive evidence that such action or omission does not constitute wilful misconduct or actual fraud or in the case of an Indemnified Officer failure to act in good faith and in a manner such Indemnified Officer reasonably believed to be in the best interests of the Company, as applicable.

50.10 Unless there is a specific finding that an Indemnified Person's actions constituted engaging in wilful misconduct or actual fraud or in the case of an Indemnified Officer failure to act in good faith and in a manner such Indemnified Officer reasonably believed to be in the best interests of the Company, as applicable, (or, in any such case, where any such finding is an essential element of a judgment or order), the termination of any action, suit or proceeding by judgment, order or settlement, or upon a plea of nolo contendere or its equivalent, will not, of itself, create a presumption for the purposes of this Article 50 as to whether or not such Indemnified Person engaged in wilful misconduct or actual fraud or in the case of an Indemnified Officer failed to act in

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good faith and in a manner such Indemnified Officer reasonably believed to be in the best interests of the Company, as applicable.

50.11 The obligations of the Company to the Indemnified Persons provided in this Article 50 or arising under Law are solely the obligations of the Company, and no personal liability whatsoever shall attach to, or be incurred by, any Indemnified Person or any Member for such obligations, to the fullest extent permitted by applicable Law. Where the foregoing provides that no personal liability shall attach to or be incurred by an Indemnified Person, any claims against or recourse to such Indemnified Person for or in connection with such liability, whether arising in common law or equity or created by rule of law, statute, constitution, contract or otherwise, are expressly released and waived under this Article 50, to the fullest extent permitted by applicable Law.

50.12 The provisions of this Article 50 will inure to the benefit of the successors, assigns, heirs, and personal representatives of the Indemnified Persons.

50.13 The Directors will promptly notify the Principal Shareholders of any payment made by the Company to any Indemnified Person in respect of indemnification pursuant to this Article 50.

50.14 The Directors may authorise the Company to enter into any deed poll, indemnity agreement or other agreement to extend the benefit of the provisions of this Article 50 to any Indemnified Person and/or Third-Party Indemnitor.

50.15 The Company may purchase and maintain insurance for the benefit of any Indemnified Person against any liability which, by virtue of any rule of law, would otherwise attach to such person in respect of any negligence, default, breach of duty or breach of trust of which such person may be guilty in relation to the Company.

51 Financial Year

Unless the Directors otherwise prescribe, the financial year of the Company shall end on 31st December in each year and, following the year of incorporation, shall begin on 1st January in each year.

52 Transfer by Way of Continuation

If the Company is exempted as defined in the Statute, it shall, and subject to the provisions of the Statute and with the approval of a Special Resolution and the Directors, have the power to register by way of continuation as a body corporate under the Laws of any jurisdiction outside the Cayman Islands and to be deregistered in the Cayman Islands.

53 Mergers and Consolidations

53.1 The Company shall, with the approval of a Special Resolution and the Directors, have the power to merge or consolidate with one or more constituent companies (as defined in the Statute), upon such terms as the Directors may determine.

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APPENDIX F:

APPLICATION FORM FOR THE RETAIL OFFERING

APPLICATION FORM FOR THE RETAIL OFFERING

General information: The terms and conditions for the Retail Offering are set out in the prospectus dated 12 June 2018 (the "**Prospectus**"), which has been issued by Shelf Drilling, Ltd. ("**Shelf**" or the "**Company**") in connection with the offer of unsubscribed and unpaid Securities (as defined in the Prospectus) (the "**Offering**") issued by the Company, and the listing of the Company's Securities on the Oslo Stock Exchange. All capitalized terms not defined herein shall have the meaning as assigned to them in the Prospectus.

Application procedure: Norwegian applicants in the Retail Offering who are residents of Norway with a Norwegian personal identification number may apply for Offer Securities through the VPS online application system by following the link to such online application system on the following websites: www.dnb.no/emisjoner, http://securities.clarksons.com, www.arctic.com/secno and www.sb1markets.no. Applications in the Retail Offering can also be made by using this Retail Application Form. Retail Application Forms must be correctly completed and submitted by the expiry of the Application Period to one of the following application offices:

DNB Markets, Registrars Department	**Clarksons Platou Securities AS**	**Arctic Securities AS**	**Sparebank 1 Markets AS**
Dronning Eufemias gate 30	Munkedamsveien 62c	Haakon VII's gate 5	Olav V's gate 5
P.O. Box 1600 Sentrum		P.O. Box 1833 Vika	P.O. Box 1398 Vika
N-0021 Oslo	N-0270 Oslo	N-0123 Oslo	N-0114 Oslo
Norway	Norway	Norway	Norway
Tel: +47 23 26 81 01	Tel: +47	Tel: + 47 21 01 30 40	Tel: + 47 24 14 74 00
E-mail: retail@dnb.no	E-mail: ecm.oslo@clarksons.com	E-mail: subscription@arctic.com	E-mail: subscription@sb1markets.no
www.dnb.no/emisjoner	www.http://securities.clarksons.com	www.arctic.com/secno	www.sb1markets.no

The applicant is responsible for the correctness of the information filled in on this Retail Application Form. Retail Application Forms that are incomplete or incorrectly completed, electronically or physically, or that are received after the expiry of the Application Period, and any application that may be unlawful, may be disregarded without further notice to the applicant. **Subject to any shortening or extension of the Application Period, applications made through the VPS online application system must be duly registered, and applications made on Retail Application Forms must be received, by one of the application offices by 12:00 hours (CET) on 21 June 2018**. None of the Company or any of the Managers may be held responsible for postal delays, unavailable internet lines or servers or other logistical or technical matters that may result in applications not being received in time or at all by any of the application offices. All applications made in the Retail Offering will be irrevocable and binding upon receipt of a duly completed Retail Application Form, or in the case of applications through the VPS online application system, upon registration of the application, irrespective of any shortening or extension of the Application Period, and cannot be withdrawn, cancelled or modified by the applicant after having been received by the application office, or in the case of applications through the VPS online application system, upon registration of the application.

Price of Offer Securities: The Company has, together with the Managers, set an Indicative Price Range for the Offering from NOK 64.47 to NOK 72.53 per Offer Security. The Company will, in consultation with the Managers, determine the final number of Offer Securities and the final Offer Price on the basis of the applications received and not withdrawn in the Institutional Offering during the Bookbuilding Period and the number of applications received in the Retail Offering. The Offer Price will be determined on or about 22 June 2018 and announced through the Oslo Stock Exchange's information system on or about the same date under the ticker code "SHLF". The Indicative Price Range is non-binding and the Offer Price may be set within, below or above the Indicative Price Range. Each applicant in the Retail Offering will be permitted, but not required, to indicate when ordering through the VPS online application system or on the Retail Application Form that the applicant does not wish to be allocated Offer Securities should the Offer Price be set above the highest price in the Indicative Price Range (i.e. NOK 72.53 per Offer Security). If the applicant does so, the applicant will not be allocated any Offer Securities in the event that the Offer Price is set above the highest price in the Indicative Price Range. If the applicant does not expressly stipulate such reservation when ordering through the VPS online application system or on the Retail Application Form, the application will be binding regardless of whether the Offer Price is set within or above (or below) the Indicative Price Range.

Allocation, payment and delivery of Offer Securities: DNB Markets, acting as settlement agent for the Retail Offering, expects to issue notifications of allocation of Offer Securities in the Retail Offering on or about 22 June 2018, by issuing allocation notes to the applicants by mail or otherwise. Any applicant wishing to know the precise number of Offer Securities allocated to it may contact one of the application offices listed above from on or about 22 June 2018 during business hours. Applicants who have access to investor services through an institution that operates the applicant's account with the VPS for the registration of holdings of securities ("**VPS account**") should be able to see how many Offer Securities they have been allocated from on or about 22 June 2018. In registering an application through the VPS online application system or by completing a Retail Application Form, each applicant in the Retail Offering will grant DNB Markets (on behalf of the Managers) an irrevocable authorization to debit the applicant's Norwegian bank account for the total amount due for the Offer Securities allocated to the applicant. The applicant's bank account number must be stipulated on the VPS online application or on the Retail Application Form. Accounts will be debited on or about 25 June 2018 (the "**Payment Date**"), and there must be sufficient funds in the stated bank account from and including 22 June 2018. Applicants who do not have a Norwegian bank account must ensure that payment for the allocated Offer Securities is made on or before the Payment Date. Further details and instructions will be set out in the allocation notes to the applicant to be issued on or about 22 June 2018, or can be obtained by contacting the Managers. DNB Markets (on behalf of the Managers) reserves the right (but has no obligation) to make up to three debit attempts through 29 June 2018 if there are insufficient funds on the account on the Payment Date. Should any applicant have insufficient funds on its account, or should payment be delayed for any reason, or if it is not possible to debit the account, overdue interest will accrue and other terms will apply as set out under the heading "Overdue and missing payment" below. Subject to timely payment by the applicant, delivery of the Offer Securities allocated in the Retail Offering is expected to take place on or about 26 June 2018 (or such later date upon the successful debit of the relevant account).

Guidelines for the applicant: Please refer to the second page of this Retail Application Form for further application guidelines.

Applicant's VPS account (12 digits):	**Applicant's LEI code (20 digits):**	**I/we apply for Offer Securities for a total of NOK (minimum NOK 10,500 and maximum NOK 1,999,999):**	**Applicant's bank account to be debited (11 digits):**

OFFER PRICE: My/our application is conditional upon the final Offer Price not being set above the Indicative Price Range (insert cross) **(must only be completed if the application is conditional upon the final Offer Price not being set above the Indicative Price Range):**	

I/we hereby irrevocably (i) apply for the number of Offer Securities allocated to me/us, at the Offer Price, up to the aggregate application amount as specified above subject to the terms and conditions set out in this Retail Application Form and in the Prospectus, (ii) authorize and instruct each of the Managers (or someone appointed by any of them) acting jointly or severally to take all actions required to purchase and/or subscribe the Offer Securities allocated to me/us on my/our behalf, to take all other actions deemed required by them to give effect to the transactions contemplated by this Retail Application Form, and to ensure delivery of such Offer Securities to me/us in the VPS, (iii) authorize DNB Markets to debit my/our bank account as set out in this Retail Application Form for the amount payable for the Offer Securities allocated to me/us, and (iv) confirm and warrant to have read the Prospectus and that I/we are aware of the risks associated with an investment in the Offer Securities and that I/we are eligible to apply for and purchase Offer Securities under the terms set forth therein.

Date and place*:	**Binding signature****:

* Must be dated during the Application Period.

** The applicant must be of legal age. If the Retail Application Form is signed by proxy, documentary evidence of authority to sign must be attached in the form of a power of attorney or company registration certificate.

DETAILS OF THE APPLICANT — ALL FIELDS MUST BE COMPLETED	
First name	Surname/Family name/Company name
Home address (for companies: registered business address)	Zip code and town
Identity number (11 digits) / business registration number (9 digits)	Nationality
Telephone number (daytime)	E-mail address

Please note: If the application form is sent to the Managers by e-mail, the e-mail will be unsecured unless the applicant takes measures to secure it. The Managers recommend the applicant to secure all e-mails with application forms attached.

GUIDELINES FOR THE APPLICANT

THIS RETAIL APPLICATION FORM IS NOT FOR DISTRIBUTION OR RELEASE, DIRECTLY OR INDIRECTLY, IN OR INTO THE UNITED STATES, AUSTRALIA, CANADA, JAPAN OR ANY OTHER JURISDICTION IN WHICH THE DISTRIBUTION OR RELEASE WOULD BE UNLAWFUL. OTHER RESTRICTIONS ARE APPLICABLE. PLEASE SEE "SELLING RESTRICTIONS" BELOW.

Regulatory issues: Legislation passed throughout the European Economic Area (the "**EEA**") pursuant to the Markets and Financial Instruments Directive ("**MiFID**") implemented in the Norwegian Securities Trading Act, imposes requirements in relation to business investment. In this respect, the Managers must categorize all new clients in one of three categories: Eligible counterparties, Professional clients and Non-professional clients. All applicants applying for Offer Securities in the Offering who/which are not existing clients of one of the Managers will be categorized as Non-professional clients. The applicant can by written request to the Managers request to be categorized as a Professional client if the applicant fulfils the provisions of the Norwegian Securities Trading Act and ancillary regulations. For further information about the categorization, the applicant may contact one of the Managers. The applicant represents that it has sufficient knowledge, sophistication and experience in financial and business matters to be capable of evaluating the merits and risks of an investment decision to invest in the Company by applying for Offer Securities, and the applicant is able to bear the economic risk, and to withstand a complete loss of an investment in the Company.

Execution only: As the Managers are not in the position to determine whether the application for Offer Securities is suitable for the applicant, the Managers will treat the application as an execution only instruction from the applicant to apply for Offer Securities in the Offering. Hence, the applicant will not benefit from the corresponding protection of the relevant conduct of business rules in accordance with the Norwegian Securities Trading Act.

Information Exchange: The applicant acknowledges that, under the Norwegian Securities Trading Act and the Norwegian Financial Undertakings Act and foreign legislation applicable to the Managers, there is a duty of secrecy between the different units of the Managers as well as between the Managers and the other entities in the Managers' respective groups. This may entail that other employees of the Managers or the Managers' respective groups may have information that may be relevant to the subscriber, but which the Managers will not have access to in their capacity as Managers for the Retail Offering.

Information barriers: The Managers are securities firms offering a broad range of investment services. In order to ensure that assignments undertaken in the Managers' corporate finance departments are kept confidential, the Managers' other activities, including analysis and stock broking, are separated from their corporate finance departments by information barriers known as "Chinese walls". The applicant acknowledges that the Managers' analysis and stock broking activity may act in conflict with the applicant's interests with regard to transactions in the Offer Securities as a consequence of such Chinese walls.

VPS account and anti-money laundering procedures: The Retail Offering is subject to applicable anti-money laundering legislation, including the Norwegian Money Laundering Act of 6 March 2009 no. 11 and the Norwegian Money Laundering Regulation of 13 March 2009 no. 302 (collectively, the "**Anti-Money Laundering Legislation**"). Applicants who are not registered as existing customers of one of the Managers must verify their identity to one of the Managers in accordance with requirements of the Anti-Money Laundering Legislation, unless an exemption is available. Applicants who have designated an existing Norwegian bank account and an existing VPS account on the Retail Application Form are exempted, unless verification of identity is requested by a Manager. Applicants who have not completed the required verification of identity prior to the expiry of the Application Period will not be allocated Offer Securities. Participation in the Retail Offering is conditional upon the applicant holding a VPS account. The VPS account number must be stated in the Retail Application Form. VPS accounts can be established with authorized VPS registrars, which can be Norwegian banks, authorized investment firms in Norway and Norwegian branches of credit institutions established within the EEA. Establishment of a VPS account requires verification of identity to the VPS registrar in accordance with the Anti-Money Laundering Legislation. However, non-Norwegian investors may use nominee VPS accounts registered in the name of a nominee. The nominee must be authorized by the Norwegian Ministry of Finance.

Selling restrictions: The Offering is subject to specific legal or regulatory restrictions in certain jurisdictions, see Section 18 ("Selling and Transfer Restrictions") in the Prospectus. The Company does not assume any responsibility in the event there is a violation by any person of such restrictions. The Offer Securities have not been, and will not be, registered under the United States Securities Act of 1933, as amended (the "**U.S. Securities Act**") or under any securities laws of any state or other jurisdiction of the United States and may not be taken up, offered, sold, resold, transferred, delivered or distributed, directly or indirectly, within, into or from the United States except pursuant to an applicable exemption from, or in a transaction not subject to, the registration requirements of the U.S. Securities Act and in compliance with the securities laws of any state or other jurisdiction of the United States. There will be no public offer in the United States. The Offer Securities will, and may, not be offered, sold, resold, transferred, delivered or distributed, directly or indirectly, within, into or from any jurisdiction where the offer or sale of the Offer Securities is not permitted, or to, or for the account or benefit of, any person with a registered address in, or who is resident or ordinarily resident in, or a citizen of, any jurisdiction where the offer or sale is not permitted, except pursuant to an applicable exemption. In the Retail Offering, the Offer Securities are being offered and sold to non-U.S. persons outside the United States in offshore transactions within the meaning of and in compliance with Regulation S under the U.S. Securities Act.

The Company has not authorized any offer to the public of its securities in any Member State of the EEA other than Norway. With respect to each Member State of the EEA other than Norway which has implemented the EU Prospectus Directive (each, a "**Member State**"), no action has been undertaken or will be undertaken to make an offer to the public of the Offer Securities requiring a publication of a prospectus in any Member State. Any offers outside Norway will only be made in circumstances where there is no obligation to publish a prospectus.

Investment decisions based on full Prospectus: Investors must neither accept any offer for, nor acquire any Offer Securities, on any other basis than on the complete Prospectus.

Terms and conditions for payment by direct debiting - securities trading: Payment by direct debiting is a service provided by cooperating banks in Norway. In the relationship between the payer and the payer's bank the following standard terms and conditions apply.

a. The service "Payment by direct debiting — securities trading" is supplemented by the account agreement between the payer and the payer's bank, in particular Section C of the account agreement, General terms and conditions for deposit and payment instructions.
b. Costs related to the use of "Payment by direct debiting — securities trading" appear from the bank's prevailing price list, account information and/or information is given by other appropriate manner. The bank will charge the indicated account for incurred costs.
c. The authorization for direct debiting is signed by the payer and delivered to the beneficiary. The beneficiary will deliver the instructions to its bank who in turn will charge the payer's bank account.
d. In case of withdrawal of the authorization for direct debiting the payer shall address this issue with the beneficiary. Pursuant to the Financial Contracts Act, the payer's bank shall assist if payer withdraws a payment instruction which has not been completed. Such withdrawal may be regarded as a breach of the agreement between the payer and the beneficiary.
e. The payer cannot authorize for payment a higher amount than the funds available at the payer's account at the time of payment. The payer's bank will normally perform a verification of available funds prior to the account being charged. If the account has been charged with an amount higher than the funds available, the difference shall be covered by the payer immediately.
f. The payer's account will be charged on the indicated date of payment. If the date of payment has not been indicated in the authorization for direct debiting, the account will be charged as soon as possible after the beneficiary has delivered the instructions to its bank. The charge will not, however, take place after the authorization has expired as indicated above. Payment will normally be credited the beneficiary's account between one and three working days after the indicated date of payment/delivery.
g. If the payer's account is wrongfully charged after direct debiting, the payer's right to repayment of the charged amount will be governed by the account agreement and the Financial Contracts Act.

Overdue and missing payments: Overdue payments will be charged with interest at the applicable rate under the Norwegian Act on Interest on Overdue Payments of 17 December 1976 no. 100, which at the date of the Prospectus is 8.5% per annum. Should payment not be made when due, the Offer Securities allocated will not be delivered to the applicant, and the Managers reserve the right, at the risk and cost of the applicant, to cancel at any time thereafter the application and to re-allot or, from the third day after the Payment Date, otherwise dispose of or assume ownership to the allocated Offer Securities, on such terms and in such manner as the Managers may decide (and the applicant will not be entitled to any profit therefrom). The original applicant will remain liable for payment of the Offer Price for the Offer Securities allocated to the applicant, together with any interest, costs, charges and expenses accrued, and the Company and/or the Managers may enforce payment of any such amount outstanding.

In order to provide for prompt delivery of the Offer Securities, the Managers are expected to subscribe and pay for the Offer Securities allocated in the Offering at a total subscription amount equal to the Offer Price multiplied by the number of Offer Securities and to sell such Offer Securities onwards to the applicants at the Offer Price.

Shelf Drilling, Ltd.
One Capital Place, 3rd Floor
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P.O. Box 1564 Grand Cayman
KY1-1110
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Managers

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Joint Bookrunners

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