

Shelf Drilling, Ltd.

**Consolidated financial statements
for the year ended December 31, 2015**

**SHELF DRILLING, LTD.
CONSOLIDATED FINANCIAL STATEMENTS
YEAR ENDED DECEMBER 31, 2015
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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, 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
	<u>1,031,298</u>	<u>1,266,026</u>	<u>787,478</u>
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
	<u>842,283</u>	<u>904,775</u>	<u>475,512</u>
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.....	<u>(68,321)</u>	<u>358,330</u>	<u>311,521</u>
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
	<u>(81,308)</u>	<u>(89,236)</u>	<u>(59,347)</u>
(Loss) / income before income taxes.....	<u>(149,629)</u>	<u>269,094</u>	<u>252,174</u>
Income tax expense	30,373	43,032	19,687
Net (loss) / income.....	<u>\$ (180,002)</u>	<u>\$ 226,062</u>	<u>\$ 232,487</u>
(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

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

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

	December 31,	
	2015	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

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

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,		
	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 beginning of year.....	91,046	225,815	394,758
Cash and cash equivalents at end of year.....	\$ 115,685	\$ 91,046	\$ 225,815

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.

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. 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

SHELF DRILLING, LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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.

SHELF DRILLING, LTD.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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:

	<u>Years</u>
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.

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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

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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

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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
	<u>\$ 1,012,757</u>	<u>\$ 1,213,700</u>	<u>\$ 731,026</u>

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.....	<u>\$ -</u>	<u>\$ 40,259</u>	<u>\$ 290,798</u>

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.

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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		
	Gross carrying amount	Accumulated amortization	Net carrying amount	Gross carrying amount	Accumulated amortization	Net carrying amount
Acquired drilling contract - assets						
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
Acquired drilling contract - liabilities						
	Year ended December 31, 2015			Year ended December 31, 2014		
	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

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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	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.

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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

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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.

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Note 10 — Debt

Debt is comprised of the following (in thousands):

	December 31,	
	2015	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").

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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.

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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.

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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.

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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.

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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

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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):

	<u>Projected benefit payments</u>
Years ending December 31,	
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):

	<u>Operating leases</u>	<u>Sale and leaseback obligations</u>	<u>Total commitments</u>
For the twelve months ending December 31,			
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

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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.

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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.

SHELF DRILLING, LTD.
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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

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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.

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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 Treasury	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

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	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
	<u>\$ 166,109</u>	<u>\$ 282,724</u>

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
	<u>\$ 123,878</u>	<u>\$ 96,899</u>

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Other assets consisted of the following (in thousands):

	December 31,	
	2015	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
	<u>\$ 145,333</u>	<u>\$ 142,208</u>

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

	December 31,	
	2015	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
	<u>\$ 46,672</u>	<u>\$ 76,818</u>

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

	December 31,	
	2015	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
	<u>\$ 33,601</u>	<u>\$ 50,752</u>

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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
	<u>\$ (7,757)</u>	<u>\$ 55,301</u>	<u>\$ (83,048)</u>

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.....	<u>\$ (180,002)</u>	<u>\$ 226,062</u>	<u>\$ 217,082</u>

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	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.

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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.

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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.

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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)