SHELF DRILLING, LTD.
INDEX TO INTERIM REPORT
SIX MONTHS ENDED JUNE 30, 2018 AND 2017
(UNAUDITED)

SHELF DRILLING, LTD.
SIX MONTHS ENDED JUNE 30, 2018 AND 2017
(UNAUDITED)

PART I. FINANCIAL INFORMATION

Item 1. Financial Statements

Report of Independent Auditors

To the board of directors of Shelf Drilling, Ltd.

We have reviewed the accompanying condensed consolidated interim financial statements of Shelf Drilling, Ltd. and its subsidiaries (the "Company"), which comprise the condensed consolidated interim balance sheet as of June 30, 2018, and the related condensed consolidated interim statements of operations and comprehensive income for the three-month and six-month periods ended June 30, 2018 and 2017 and the condensed consolidated interim statements of equity and cashflows for the six-month periods ended June 30, 2018 and 2017.

Management's responsibility for the condensed consolidated interim financial statements

The Company's management is responsible for the preparation and fair presentation of the condensed consolidated interim financial statements in accordance with accounting principles generally accepted in the United States of America; this responsibility includes the design, implementation, and maintenance of internal control sufficient to provide a reasonable basis for the preparation and fair presentation of the condensed consolidated interim financial statements in accordance with accounting principles generally accepted in the United States of America.

Auditor's responsibility

Our responsibility is to conduct our review in accordance with auditing standards generally accepted in the United States of America applicable to reviews of interim financial statements. A review of interim financial statements consists principally of applying analytical procedures and making inquiries of persons responsible for financial and accounting matters. It is substantially less in scope than an audit conducted in accordance with auditing standards generally accepted in the United States of America, the objective of which is the expression of an opinion regarding the financial statements taken as a whole. Accordingly, we do not express such an opinion.

Conclusion

Based on our review, we are not aware of any material modifications that should be made to the accompanying condensed consolidated interim financial statements for it to be in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers

PricewaterhouseCoopers
Dubai, United Arab Emirates
August 14, 2018

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

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

	Three months ended June 30,		Six months ended June 30,	
	2018	**2017**	**2018**	**2017**
Revenues				
Operating revenues	$ 149,049	$ 137,462	$ 293,653	$ 279,870
Other revenue	3,466	5,377	6,372	9,222
	152,515	142,839	300,025	289,092
Operating costs and expenses				
Operating and maintenance	87,233	73,080	177,503	141,630
Depreciation	21,809	19,740	43,677	38,110
Amortization of deferred costs	21,428	16,484	40,435	33,328
General and administrative	26,827	14,091	39,434	23,177
Loss on impairment of assets	1,137	34,802	1,137	34,802
Loss on disposal of assets	361	454	241	316
	158,795	158,651	302,427	271,363
Operating (loss) / income	(6,280)	(15,812)	(2,402)	17,729
Other (expense) / income, net				
Interest income	497	258	680	405
Interest expense and financing charges	(27,124)	(16,233)	(66,084)	(46,593)
Other, net	(138)	(474)	901	(788)
	(26,765)	(16,449)	(64,503)	(46,976)
Loss before income taxes	(33,045)	(32,261)	(66,905)	(29,247)
Income tax expense / (benefit)	4,339	(809)	8,996	3,741
Net loss	$ (37,384)	$ (31,452)	$ (75,901)	$ (32,988)
Less: Preferred shares dividend	5,055	4,408	9,550	8,213
Net loss attributable to common and ordinary shares	$ (42,439)	$ (35,860)	$ (85,451)	$ (41,201)
(Loss) / Income per share *:				
Basic - Common shares	$ (0.51)	$ (0.45)	$ (1.03)	$ (0.45)
Diluted - Common shares	$ (0.51)	$ (0.45)	$ (1.03)	$ (0.45)
Basic and Diluted - Class A shares	$ -	$ 1.22	$ -	$ (10.79)
Basic and Diluted - Class B shares	$ -	$ -	$ -	$ -
Basic and Diluted - Class C shares	$ -	$ -	$ -	$ -
Weighted average shares outstanding:				
Basic - Common shares	83,722,547	81,538,112	82,687,056	81,538,112
Diluted - Common shares	83,722,547	81,716,776	82,687,056	81,716,776
Basic and Diluted - Class A shares	-	444,594	-	444,594
Basic - Class B shares	-	19,540	-	20,630
Diluted - Class B shares	-	20,431	-	22,455
Basic - Class C shares	-	5,110	-	5,110
Diluted - Class C shares	-	5,381	-	5,372
Basic - Class D shares	-	-	-	-
Diluted - Class D shares	-	-	-	-

* For the three and six months ended June 30, 2017, the (loss) / income per share is calculated based on information for two months ended June 30, 2017 for the common shares, and based on information for one and four months ended April 30, 2017, respectively, for the ordinary Class A, B, C and D shares. See Note 18 – (Loss) / Income Per Share.

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

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

	Three months ended June 30,		Six months ended June 30,	
	2018	**2017**	**2018**	**2017**
Net loss	$ (37,384)	$ (31,452)	$ (75,901)	$ (32,988)
Other comprehensive income, net of tax				
Change in unrealized (losses) / gains on derivative financial instruments				
Changes in unrealized (losses) / gains	(130)	85	(698)	85
Reclassification of net loss / (gain) from other comprehensive income to net income	(48)	(24)	50	(24)
	$ (178)	$ 61	$ (648)	$ 61
Total comprehensive loss	$ (37,562)	$ (31,391)	$ (76,549)	$ (32,927)

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

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

	June 30, 2018	December 31, 2017
Assets		
Cash and cash equivalents	$ 143,379	$ 84,563
Accounts and other receivables, net	158,420	137,785
Assets held for sale	2,174	-
Restricted cash	287,472	-
Other current assets	90,029	96,960
Total current assets	681,474	319,308
Property and equipment	1,613,513	1,620,830
Less accumulated depreciation	401,007	370,840
Property and equipment, net	1,212,506	1,249,990
Deferred tax assets	502	1,321
Other assets	98,616	112,331
Total assets	$ 1,993,098	$ 1,682,950
Liabilities and equity		
Accounts payable	$ 74,112	$ 95,098
Interest payable	20,625	8,399
Obligations under sale and leaseback	296,517	35,115
Current maturities of debt	1,843	30,167
Accrued income taxes	5,645	4,822
Other current liabilities	34,847	36,681
Total current liabilities	433,589	210,282
Long-term debt	886,969	496,503
Obligations under sale and leaseback	-	278,815
Deferred tax liabilities	3,759	4,407
Other long-term liabilities	18,130	17,719
Total long-term liabilities	908,858	797,444
Mezzanine equity, net of issuance costs	-	165,978
Commitments and contingencies (Note 11)		
Common shares of $0.01 par value; 144,063,473 and 200,000,000 shares authorized at June 30, 2018 and December 31, 2017; 111,240,394 and 83,125,000 issued and outstanding at June 30, 2018 and December 31, 2017, respectively	1,112	831
Additional paid-in capital	880,763	663,090
Accumulated other comprehensive (loss) / income	(648)	-
Accumulated losses	(230,576)	(154,675)
Total equity	650,651	509,246
Total liabilities and equity	$ 1,993,098	$ 1,682,950

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

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

	Six months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
	Shares		Amount	
Common and ordinary shares				
Balance, beginning of period	83,125,000	475,768	$ 831	$ 5
Shares issued to trust	-	1,629	-	-
Repurchase and retirement of shares	(9,606)	(477,397)	-	(5)
Recapitalization	-	55,000,000	-	550
Issuance of common shares	28,125,000	28,125,000	281	281
Balance, end of period	111,240,394	83,125,000	$ 1,112	$ 831
Additional paid-in capital				
Balance, beginning of period			$ 663,090	$ 462,914
Issuance of common shares			215,900	216,720
Recapitalization adjustment			-	(545)
Preferred shares dividend			(9,550)	(8,213)
Share-based compensation expense, net of forfeitures			11,323	425
Balance, end of period			$ 880,763	$ 671,301
Accumulated other comprehensive (loss) / income				
Balance, beginning of period			$ -	$ -
Net unrealized (loss) / gain on derivative financial instruments			(648)	61
Balance, end of period			$ (648)	$ 61
Accumulated losses				
Balance, beginning of period			$ (154,675)	$ (83,465)
Net loss			(75,901)	(32,988)
Balance, end of period			$ (230,576)	$ (116,453)
Total equity				
Balance, beginning of period			$ 509,246	$ 379,454
Issuance of common shares			216,181	217,001
Share-based compensation expense, net of forfeitures			11,323	425
Preferred shares dividend			(9,550)	(8,213)
Total comprehensive loss			(76,549)	(32,927)
Balance, end of period			$ 650,651	$ 555,740

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

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

	Six months ended June 30, 2018	Six months ended June 30, 2017
Cash flows from operating activities		
Net loss	$ (75,901)	$ (32,988)
Adjustments to reconcile net loss to net cash (used in) / provided by operating activities		
Depreciation	43,677	38,110
Loss on impairment of assets	1,137	34,802
Loss / (gain) on derivative financial instruments, net	50	(24)
Provision for / (reversal of) doubtful accounts, net	239	(177)
Amortization of deferred revenue	(7,109)	(8,398)
Share-based compensation expense, net of forfeitures	11,323	425
Non-cash portion of loss on debt extinguishment	7,368	4,371
Debt extinguishment costs	18,761	9,785
Amortization of debt issue costs, premium and discounts	1,606	1,927
Loss on disposal of assets	241	316
Deferred tax expense /(benefit), net	171	(4,372)
(Payments of) / proceeds from settlement of derivative financial instruments	(370)	24
Changes in deferred costs, net *	4,406	19,244
Changes in operating assets and liabilities	(21,206)	(19,041)
Net cash (used in) / provided by operating activities	(15,607)	44,004
Cash flows from investing activities		
Additions to property and equipment *	(14,126)	(169,788)
Advance payment for property and equipment	-	(1,508)
Proceeds from disposal of property and equipment	389	613
Proceeds from sale and leaseback	-	16,880
Net cash used in investing activities	(13,737)	(153,803)
Cash flows from financing activities		
Proceeds from short-term debt, net	1,843	1,358
Proceeds from issuance of common shares	226,908	225,000
Payments for common and preferred shares issuance cost	(7,679)	(8,209)
Payments for redemption of preferred shares	(166,667)	-
Proceeds from issuance of debt	928,000	-
Payments of debt financing costs	(17,710)	(10,351)
Payments to retire long-term debt	(558,250)	(114,250)
Payments of debt extinguishment costs	(12,693)	(9,785)
Payments for obligations under sale and leaseback	(17,413)	(7,175)
Preferred shares dividend paid	(16,268)	(957)
Proceeds from termination of interest rate swaps	320	-
Net cash provided by financing activities	360,391	75,631
Net increase / (decrease) in cash, cash equivalents and restricted cash	331,047	(34,168)
Cash, cash equivalents and restricted cash at beginning of period*	99,825	222,395
Cash, cash equivalents and restricted cash at end of period*	$ 430,872	$ 188,227

* See Note 17 – Supplemental Cash Flow Information for a reconciliation of cash payment for additions to property and equipment and changes in deferred costs, net to total capital expenditures and deferred costs and a reconciliation of cash, cash equivalents and restricted cash balances.

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

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 with principal investors from affiliates of Castle Harlan, Inc., CHAMP Private Equity and Lime Rock Partners (together, the "Sponsors"). SDL is a holding company with no significant operations or assets other than owned interests in its direct and indirect subsidiaries. SDL and its majority owned subsidiaries (together, the "Company") provide shallow-water drilling services to the oil and natural gas industry. On September 9, 2012, the Company entered into a definitive agreement to acquire 37 jackup rigs and one swamp barge (the "Acquisition") from Transocean Inc. (the "Seller") which closed on November 30, 2012. The Company's corporate offices are in Dubai, United Arab Emirates ("UAE"), geographically close to its operations in the Middle East, South East Asia, India, West Africa and the Mediterranean. Since June 25, 2018, SDL shares are listed on the Oslo Stock Exchange under the ticker symbol SHLF.

SDL, through its majority and wholly owned subsidiaries, provides safe and reliable fit-for-purpose independent cantilever jackup drilling services. The Company is primarily engaged in development and workover activity on producing assets in shallow water of up to 400 feet in water depth. As of June 30, 2018, the Company owns 38 independent cantilever jackup rigs, three of which are stacked, and one stacked swamp barge.

Basis of Preparation

The Company has prepared the accompanying condensed consolidated interim financial statements in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP") for interim financial information. Pursuant to such rules and regulations, these financial statements do not include all disclosures required by U.S. GAAP for complete financial statements. The condensed consolidated interim financial statements reflect all adjustments, which are, in the opinion of management, necessary for a fair statement of financial position, results of operations and cash flows for the interim periods. Such adjustments are of a normal recurring nature unless otherwise noted. Operating results for the three and six months ended June 30, 2018 are not necessarily indicative of the results that may be expected for the year ending December 31, 2018 or for any future period. The accompanying condensed consolidated interim financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto as of December 31, 2017.

Summary of Significant Accounting Policies

These condensed consolidated interim financial statements include the following accounting policies in addition to the significant accounting policies described in the annual consolidated financial statements for the year ended December 31, 2017.

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

Any demobilization fee received upon completion of the contract is accrued as operating revenue over the contract duration, if it is unconditional and there is no significant risk of potential material revenue reversal in the future, otherwise it is recorded when earned. Contractual termination fees due from the customer are recognized as operating revenue when services have been completed under the terms of the contract.

Other revenue consists of revenue from lease rentals and amounts billed for goods and services such as personnel, catering or accommodation which are generally invoiced to customers at a margin. These revenues are recognized when the goods have been delivered and services have been rendered. See Note 3 – Revenue.

Derivative Financial Instruments — The Company's derivative financial instruments consist of foreign exchange ("forex") contracts and interest rate swaps which the Company may designate as cash flow hedges. Each derivative contract is stated in the balance sheet at fair value with gains and losses reflected in the consolidated statements of operations except that, to the extent the derivative qualifies for and is designated as an accounting hedge, the gains and losses are reflected in income in the same period as offsetting gains and losses on the qualifying hedged positions.

Designated hedges are expected to be highly effective, and therefore, adjustments to record the carrying value of the effective portion of the derivative financial instruments to their fair value are recorded as a component of accumulated other comprehensive income / (loss) ("AOCIL"), in the consolidated balance sheets. The effective portion of the cash flow hedge will remain in AOCIL until it is reclassified into earnings in the period or periods during which the hedged transaction affects earnings or it is determined that the hedged transaction will not occur.

For forex contracts, the Company reports realized gains and losses as a component of operating and maintenance expenses in the consolidated statements of operations to offset the impact of foreign currency fluctuations of the expenditures in local currencies in the countries in which the Company operates. For interest rate swaps, the Company reports realized gains and losses as a component of interest expense and financing charges in the condensed consolidated interim statements of operations. Derivatives with asset fair values and derivatives with liability fair values are reported in other current assets or other assets and other current liabilities or other long-term liabilities, respectively, on the condensed consolidated interim balance sheets depending on their maturity date.

The Company has documented policies and procedures to monitor and control the use of the derivative instruments. The Company does not engage in derivative transactions for speculative or trading purposes.

Note 2 — Recently Adopted and Issued Accounting Pronouncements

Recently adopted accounting standards

In May 2017, the FASB issued ASU No. 2017-09, Compensation — Stock Compensation (Topic 718): Scope of Modification. The amendments apply to entities that change the terms or conditions of a share-based payment award. The FASB Accounting Standards Codification currently defines the term modification as “a change in any of the terms or conditions of a share-based payment award”.

These amendments require the entity to account for the effects of a modification unless all the following conditions are met:

- The fair value (or calculated value or intrinsic value, if such an alternative measurement method is used) of the modified award is the same as the fair value (or value using an alternative measurement method) of the original award immediately before the original award is modified. If the modification does not affect any of the inputs to the valuation technique that the entity uses to value the award, the entity is not required to estimate the value immediately before and after the modification;
- The vesting conditions of the modified award are the same as the vesting conditions of the original award immediately before the original award is modified; and
- The classification of the modified award as an equity instrument or a liability instrument is the same as the classification of the original award immediately before the original award is modified.

The amendments are effective for all entities for annual periods, and interim periods within those annual periods, beginning after December 15, 2017, with early adoption permitted. The Company has adopted this standard as of January 1, 2018 with no impact on the condensed consolidated interim financial statements.

In March 2017, the FASB issued ASU No. 2017-07, Compensation — Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost. The amendments require that an employer report the service cost component in the same line item or items as other compensation costs arising from services rendered by the pertinent employees during the period. The other components of net benefit cost are required to be presented in the income statement separately from the service cost component and outside a subtotal of income from operations, if one is presented. The amendments also allow only the service cost component to be eligible for capitalization when applicable. The amendments are effective for fiscal years beginning after December 15, 2017 with early adoption permitted. The Company has adopted this standard as of January 1, 2018. As a result, the Company has disaggregated the other components of net periodic benefit (gain) / costs from other compensation costs included in operating costs and expenses and has presented these costs under other, net on the condensed consolidated interim statement of operations in 2018. The amounts in prior periods were immaterial, therefore no changes to prior periods were made.

In February 2017, the FASB issued ASU No. 2017-05, Other Income – Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets. The amendments clarify that nonfinancial assets within the scope of Subtopic 610-20 may include nonfinancial assets transferred within a legal entity to a counterparty and that an entity should identify each distinct nonfinancial asset or in substance nonfinancial asset promised to a counterparty and derecognize each asset when a counterparty obtains control of it. The amendments are effective for annual and interim periods for fiscal years beginning after December 15, 2017. The Company has adopted this standard as of January 1, 2018 with no material impact on the condensed consolidated interim financial statements.

In January 2017, the FASB has issued ASU No. 2017-01, Business Combinations (Topic 805): Clarifying the Definition of a Business. The amendments affect all companies and other reporting organizations that must determine whether they have acquired or sold a business. The definition of a business affects many areas of accounting including acquisitions, disposals, goodwill, and consolidation. The amendments are intended to help companies and other organizations evaluate whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses. The amendments provide a more robust framework to use in determining when a set of assets and activities is a business. They also provide more consistency in applying the guidance, reduce the costs of application, and make the definition of a business more operable. The amendments are effective for annual periods beginning after December 15, 2017 for public entities, including interim periods within that period. The Company has adopted this standard as of January 1, 2018 with no impact on the condensed consolidated interim financial statements.

In November 2016, the FASB issued ASU No. 2016-18, Statement of Cash Flows (Topic 230): Restricted Cash. The amendments require that a statement of cash flows explain the change during the period in the total of cash, cash equivalents and amounts generally described as restricted cash or restricted cash equivalents. As a result, amounts generally described as restricted cash and restricted cash equivalents should be included with cash and cash equivalents when reconciling the beginning-of-period and end-of-period total amounts shown on the statement of cash flows. The amendments do not provide a definition of restricted cash or restricted cash equivalents. The amendments should be applied using a retrospective transition method to each period presented and is effective beginning after December 15, 2017. The Company has adopted this standard as of January 1, 2018 and has applied the new guidance for restricted cash presentation. Because of this adoption, the Company has included restricted cash of $287.5 million and $15.3 million as part of cash, cash equivalents and restricted cash on the condensed consolidated interim statements of cash flows for the six months ended June 30, 2018 and 2017, respectively. Also, the change in restricted cash of $6.0 million during the six months ended June 30, 2017 previously reported as cash flows from investing activities has been presented as part of cash and cash equivalents and restricted cash.

In August 2016, the FASB issued ASU No. 2016-15 Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments. The amendments provide guidance on eight specific cash flow issues thereby addressing the diversity in how certain cash receipts and cash payments are presented and classified in the statement of cash flows. The eight specific cash flow issues include: Debt prepayment or debt extinguishment costs; settlement of zero-coupon debt instruments or other debt instruments with coupon interest rates that are insignificant in relation to the effective interest rate of the borrowing; contingent consideration payments made after a business combination; proceeds from the settlement of insurance claims; proceeds from the settlement of corporate-owned life insurance policies (COLIs) (including bank-owned life insurance policies (BOLIs)); distributions received from equity method investees; beneficial interests in securitization transactions; and separately identifiable cash flows and application of the predominance principle. The amendments should be applied retrospectively effective for fiscal years beginning after December 15, 2017. The Company has adopted this standard as of January 1, 2018. As a result, the debt extinguishment costs of $9.8 million and cash payment of original issue discount of $10.5 million during the six months ended June 30, 2017 are now presented as cash flows from financing activities under the retrospective treatment of this ASU.

In May 2014, FASB issued ASU 2014-09, Revenues from Contracts with Customers, a new guidance intended to change the criteria for recognition of revenue. The core principle of the guidance is that an entity should recognize revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. In August 2015, an additional guidance ASU No. 2015-14, Revenue from Contracts with Customers (Topic 606): Deferral of the Effective Date was issued to delay the effective date by one year. ASU No. 2014-09, Revenue from Contracts with Customers (Topic 606) is now effective for annual and interim periods for fiscal years beginning after December 15, 2017 for public business entities.

In March 2016 and April 2016, the FASB issued ASU No. 2016-08 Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net) and ASU No. 2016-10 Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing, respectively. The amendments in ASU No. 2016-08 and ASU No. 2016-10 do not change the core principle of ASU No. 2014-09, but instead clarify the implementation guidance on principal versus agent considerations and identify performance obligations and the licensing implementation guidance, respectively. In addition, in May 2016 and December 2016, FASB issued ASU No. 2016-12, Revenue from Contracts with Customers (Topic 606): Narrow-Scope Improvements and Practical Expedients and ASU No. 2016-20, Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers, respectively which are intended to provide clarifying guidance in certain narrow areas and add some practical expedients.

The Company has adopted this standard as of January 1, 2018 using the cumulative effect approach. The Company has applied this standard retrospectively to 28 drilling contracts with customers that were not completed as of January 1, 2018. As a result of the initial application of this standard, there was no necessary adjustment to retained earnings as of January 1, 2018.

The adoption of this standard does not result in any significant changes to the timing or pattern of revenue recognition. The Company will continue to record the dayrate revenue earned with the provision of the integrated drilling services as operating revenue.

Recently issued accounting standards

In June 2018, the FASB issued ASU No. 2018-07, Compensation - Stock Compensation (Topic 718): Improvements to Nonemployee Share-Based Payment Accounting. This ASU intends to improve the usefulness of information provided and reducing the cost and complexity of financial reporting. A main objective of this ASU is to substantially align the accounting for share-based payments to employees and non-employees. The guidance is effective for annual reporting periods beginning after December 15, 2018 for public entities, including interim periods within that period, with early adoption permitted. The Company does not intend to early adopt this standard. The Company believes that the adoption of this standard will not have a material effect on the condensed consolidated interim financial statements.

In August 2017, the FASB issued ASU No. 2017-12, Derivatives and Hedging (Topic 815): Targeted Improvements to Accounting for Hedging Activities. This ASU refines and expands hedge accounting for both financial (e.g. interest rate) and commodity risks and creates more transparency around how economic results are presented, both on the face of the financial statements and in the footnotes, for investors and analysts. The amendments are effective for annual periods beginning after December 15, 2018 for public entities, including interim periods within that period, with early adoption permitted. The Company does not intend to early adopt this standard. The Company is currently evaluating the impact of this standard on the condensed consolidated interim financial statements.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments. The main objective of this ASU is to improve financial reporting by requiring timelier recording of credit losses on loans and other financial instruments and to provide financial statement users with more decision-useful information about the expected credit losses on financial instruments and other commitments with enhanced disclosures that are held by a reporting entity at each reporting date. The guidance is effective for annual reporting periods beginning after December 15, 2019, with early adoption permitted. The Company does not intend to early adopt this standard and is currently evaluating the impact of this standard on the condensed consolidated interim financial statements.

In February 2016, the FASB issued ASU No. 2016-02, Leases (Topic 842). Under the new guidance, lessees will be required to recognize the following for all leases (except for short-term leases) at the commencement date:

- A lease liability, which is a lessee's obligation to make lease payments arising from a lease, measured on a discounted basis; and
- A right-of-use asset, which is an asset that represents the lessee's right to use, or control the use of, a specified asset for the lease term.

Under the new guidance, lessor accounting is largely unchanged. Certain targeted improvements were made to align, where necessary, lessor accounting with the lessee accounting model and Topic 606, Revenue from Contracts with Customers. The amendment is effective for annual and interim periods for fiscal years beginning after December 15, 2018 with an option of early adoption.

In January 2018, the FASB issued ASU No. 2018-01, Leases (Topic 842): Land Easement Practical Expedient for Transition to Topic 842. The amendment clarifies the application of the new leases guidance to land easements and improves adoption efforts for some land easements. This ASU is expected to reduce the cost of adopting the new leases standard for certain land easements and it is also an attempt to help ensure that companies can make a successful transition to the standard without compromising the quality of information provided to investors about these transactions. Land easements (also commonly referred to as rights of way) represent the right to use, access, or cross another entity's land for a specified purpose.

Based on the initial assessment, with respect to the Company's leases as a lessee, any impact on the net assets included in the balance sheet as a result of recording the Company's operating lease as right-of-use assets and lease liability is not expected to be material. The Company also does not expect any material changes with respect to its finance leases. However, the adoption of this standard will result in additional quantitative and qualitative disclosures. The Company does not intend to early adopt this standard.

Note 3 – Revenue

A significant portion of the Company's revenue is generated from rigs operated by the Company through dayrates charged to the customers for the provision of integrated drilling services. The Company's contracts with customers contain multiple dayrates and the actual dayrate earned during a period could vary based on the actual operations. The lowest dayrate in the drilling contract that the customer could choose at any given point of time is typically the standby rate.

The Company may earn lump-sum fees relating to mobilization, contract preparation, capital upgrades and demobilization in certain drilling contracts. The mobilization, contract preparation and capital upgrade revenues are typically received at the commencement of the contract. In addition, the Company may receive demobilization revenue at the end of the contract.

The Company's integrated drilling service provided under each drilling contract is a single performance obligation satisfied over time utilizing the input method and comprised of a series of distinct time increments, or service periods. Total revenue is determined for each individual drilling contract by estimating both fixed and variable considerations expected to be earned over the contract term. Substantially all the Company's revenues are recorded over time. Fixed consideration generally relates to activities such as rig mobilization, contract preparation, capital upgrades and is recognized on a straight-line basis over the contract term. In some cases, demobilization fees may be contingent upon the occurrence or non-occurrence of a future event and this may result in cumulative-effect adjustments to demobilization revenues upon changes in our estimates of future events during the contract term. Variable consideration generally relates to distinct service periods during the contract term and is recognized in the period when services are performed. We have applied the disclosure practical expedient in ASC 606-10-50-14(b) and have not disclosed variable consideration related to remaining unsatisfied performance obligations. The future recognition of fixed consideration related to remaining unsatisfied performance obligations is disclosed below under contract liabilities.

The Company also provides catering and accommodation services and additional equipment, consumables and personnel on an as needed basis at the request of the customer and may use third parties for the provision of such goods and services. The Company generally acts as a principal in the provision of catering and accommodation services and additional personnel, and as an agent in the provision of additional equipment and consumables. The consideration with respect to the provision of goods or services is recognized when the control of goods or services is transferred to a customer.

Many drilling contracts have termination and/or extension options at the option of the customer. In most cases, if the contract is terminated by the customer, the Company can charge an early termination fee to the customer. The extension options are typically at agreed prices and terms. The contract modifications typically have an increase in scope and a commensurate increase in price and are accounted for as a termination of the existing contract and creation of a new contract. In such cases, any remaining deferred revenue and costs are recorded to the condensed consolidated interim statement of operations upon such termination.

The Company typically invoices its customers monthly for the dayrates and any other goods and services provided, and a receivable is then recognized. Any unbilled revenue is recognized as accrued income at the end of the month. The payment terms are generally 30 to 60 days from billing. There is no significant financing component in the Company's revenue. The Company typically has no obligations for returns, refunds or other similar obligations and does not provide warranties.

Significant judgements are involved in identifying the performance obligations in the customer contracts and determining whether the Company is a principal or an agent in the provision of certain equipment and consumables to the customers.

See condensed consolidated interim statements of operations for the amounts of Operating and other revenues.

See Note 19 – Segment and Related Information for disclosure of total revenues by country based on the location of the service provided.

Contract liabilities

Contract liabilities represent fees received for mobilization or capital upgrades. Current contract liabilities are included in other current liabilities and noncurrent contract liabilities are included in other long-term liabilities on the condensed consolidated interim balance sheets. Contract liabilities are amortized on a straight-line basis over the contract term.

Following are the details of the contract liabilities (in thousands):

	June 30, 2018	December 31, 2017
Current contract liabilities	$ 6,875	$ 11,276
Non-current contract liabilities	$ 4,651	$ 4,985

Significant changes in contract liabilities during the period are as follows (in thousands):

		Contract liabilities
Balance as of December 31, 2017	$	16,261
Increase due to contractual additions		2,374
Decrease due to amortization of deferred revenue		(7,109)
Balance as of June 30, 2018	$	11,526

Deferred contract costs

Costs incurred for upfront rig mobilizations and certain contract preparation are attributable to the Company's future performance obligation under each drilling contract. Such costs are deferred and amortized on a straight-line basis over the contract term. Deferred contract costs were included in other current assets and other assets on the condensed consolidated interim balance sheets and totaled $46.5 million and $53.2 million as of June 30, 2018 and December 31, 2017, respectively. During the three and six months ended June 30, 2018, amortization of deferred contract costs were $12.6 million and $22.3 million, respectively, and $7.8 million and $15.9 million for the three and six months ended June 30, 2017 respectively.

Note 4 — Consolidated Variable Interest Entities

The Company, through its wholly owned indirect subsidiary Shelf Drilling Holdings Ltd ("SDHL"), is the primary beneficiary of four variable interest entities ("VIEs") which are Shelf Drilling Ventures Malaysia Sdn. Bhd. ("SDVM"), PT Hitek Nusantara Offshore Drilling ("PT Hitek"), Shelf Drilling Nigeria Ltd. ("SDNL") and Shelf Drilling Offshore Services Limited ("SDOSL"), which are included in these condensed consolidated interim financial statements. These VIEs are incorporated in jurisdictions where majority or significant foreign ownership of domestic companies is restricted or, commercially incompatible with local content requirements. To comply with such foreign ownership and/or local content restrictions, the Company and the relevant third parties have contractual arrangements to convey decision-making and economic rights to the Company. These VIEs provide drilling and other services.

SDVM is a Malaysian incorporated entity that is 60% owned by a Malaysian third party. The Company has the power to direct the operating and marketing activities of SDVM, which are the activities that most significantly impact SDVM's economic performance. The Malaysian third party is not in a position to provide additional financing and does not participate in any gains or losses of SDVM.

PT Hitek is an Indonesian incorporated entity that is 20% owned by an Indonesian partner. The Company has the power to direct the operating and marketing activities of PT Hitek, which are the activities that most significantly impact such entity's economic performance. The Indonesian partner does not participate in any gains or losses of PT Hitek, does not have capital at risk and is not in a position to provide additional financing.

SDNL is 51% owned by Nigerian third parties. The Company has the power to direct the operating and marketing activities of SDNL, which are the activities that most significantly impact SDNL's economic performance and has the obligation to absorb losses.

SDOSL is 20% owned by Nigerian third parties. The Company is responsible to provide additional subordinated financial support to SDOSL to carry on its activities because the equity contributed by the third parties collectively at risk in times of distress is not sufficient.

Based on the facts discussed above, the Company has determined that these four entities met the criteria of VIEs for accounting purpose because the Company has the power to direct the operating and marketing activities, which are the activities that most significantly impact each entity's economic performance, and has the obligation to absorb losses or the right to receive a majority of the benefits that could be potentially significant to these VIEs.

The carrying amounts associated with the VIEs, after eliminating the effect of intercompany transactions, were as follows (in thousands):

	Shelf Drilling Ventures (Malaysia) Sdn. Bhd	PT Hitek Nusantara Offshore Drilling	Shelf Drilling (Nigeria) Ltd.	Shelf Drilling Offshore Services Limited	Total
June 30, 2018					
Total assets	$ 126	$ 11,583	$ 19,111	$ 2,095	$ 32,915
Total liabilities	$ 454	$ 548	$ 7,379	$ 1,024	9,405
Net carrying amount	$ (328)	$ 11,035	$ 11,732	$ 1,071	$ 23,510
December 31, 2017					
Total assets	$ 78	$ 14,421	$ 14,696	$ 2,787	$ 31,982
Total liabilities	406	781	7,720	864	9,771
Net carrying amount	$ (328)	$ 13,640	$ 6,976	$ 1,923	$ 22,211

Note 5 — Property and Equipment

Property and equipment as of June 30, 2018 and December 31, 2017 consisted of the following (in thousands):

	June 30, 2018	December 31, 2017
Drilling rigs and equipment	$ 1,543,079	$ 1,554,045
Spares	44,211	36,120
Construction in progress	6,291	12,642
Land and building	1,354	1,354
Other	18,578	16,669
Total property and equipment	$ 1,613,513	$ 1,620,830
Less: Accumulated depreciation	(401,007)	(370,840)
Total property and equipment, net	$ 1,212,506	$ 1,249,990

There were no rigs added to the Company's drilling rig fleet during the six months ended June 30, 2018. The Company added three drilling rigs to its fleet during the six months ended June 30, 2017 consisting of one new build high specification jack-up rig ("Newbuild") and two rigs purchased from a third party.

On April 6, 2017, the Company took delivery of the second Newbuild which started its drilling contract with Chevron on June 1, 2017 after completion of final customer acceptance procedures. As a result of this addition, the Company transferred $227.0 million from construction in progress to drilling rigs and equipment. The first Newbuild rig was delivered on September 29, 2016 and started its drilling contract with Chevron on December 1, 2016. These two Newbuilds were financed under sale and leaseback arrangements (see Note 9 – Sale and Leaseback).

On April 29, 2017, the Company entered into three separate asset purchase agreements to acquire three premium jackup drilling rigs from a third party for $75.4 million each using the net proceeds from the Private Placement – See Note 14 – Shareholders' Equity. On May 18, 2017, two of the rigs were delivered, and are capitalized along with the associated transaction costs under "Drilling rigs and equipment". The third rig was delivered on September 8, 2017.

On June 30, 2018, the Company entered into an asset purchase agreement to acquire one premium jackup drilling rig from a third party for $68.5 million. This rig was delivered during the third quarter of 2018.

Total capital expenditures for the six months ended June 30, 2018 and 2017 were $10.1 million and $245.0 million, respectively. During the six months ended June 30, 2017, capital expenditures included $150.8 million related to the two acquired rigs and $91.9 million related to progress payments, internal project costs, change orders, owner furnished equipment and capitalized interest for the Newbuilds.

Total capital expenditures through June 30, 2017 on the Newbuilds were $453.4 million, of which $330.0 million were paid by the Lessor (see Note 9 – Sale and Leaseback).

Interest capitalized on the Newbuild rigs totaled $4.7 million for the six months ended June 30, 2017 which included $2.6 million related to the sale and leaseback financing agreements. There were no such transactions during the six months ended June 30, 2018.

Disposals of other property and equipment with a net carrying amount of $0.6 million and $0.9 million which were sold for $0.4 million and $0.6 million resulted in a loss on disposal of assets of $0.2 million and $0.3 million during each of the six months ended June 30, 2018 and 2017, respectively.

As crude oil prices declined further during the interim period ended June 30, 2017, and the Company observed continued pressure on dayrates and experienced an increase in the number of idle rigs, the Company recognized an additional impairment loss of $34.8 million on four of the Company's rigs, out of which one rig was impaired to salvage value, during the six months ended June 30, 2017.

The fair value of the drilling rigs was calculated using the income approach based on estimated discounted cash flows expected to result from the use of the rigs. The estimate of fair value required the Company to use significant unobservable inputs such as rig utilization rates, dayrates, operating, overhead and overhaul costs, remaining useful life and salvage value, representing a Level 3 fair value measurement. The company did not record an impairment charge on property and equipment during the three and six months ended June 30, 2018.

Drilling rigs under capital and operating leases — The net carrying amount of drilling rigs and equipment as of June 30, 2018 and December 31, 2017 includes two Newbuild rigs held under a capital lease and one rig leased to a customer under an operating lease.

The drilling rigs under a capital lease had a total cost of $456.1 million and $455.8 million, and accumulated depreciation of $19.7 million and $12.7 million, as of June 30, 2018 and December 31, 2017, respectively. The total costs included capital equipment transfers from other rigs.

As of June 30, 2018 and December 31, 2017, the rig under an operating lease had a net carrying value of $13.6 million and $14.5 million, and accumulated depreciation of $9.9 million and $8.9 million, respectively. This rig commenced a three-year bareboat charter contract (with two 12 month extension options) with a private limited liability company on February 8, 2016.

As of June 30, 2018, the following is a summary of contractual future minimum rentals on the operating lease (in thousands):

For the twelve months ending June 30,		
2019	$	4,945
2020		-
2021		-
Thereafter		-
Total future minimum rentals	$	4,945

Due to payment delays by the lessee, the Company has temporarily ceased revenue recognition from May 2017 onwards and recorded a provision of $3.0 million against the total outstanding receivable from the lessee during the six months ended June 30, 2017. The Company is involved in a lawsuit in relation to the operating lease. See Note 11 – Commitments and Contingencies for updated legal proceedings.

Note 6 — Assets held for sale

During the second quarter of 2018, the Company committed to a plan to sell two stacked rigs in the next twelve months, the Key Gibraltar and the Trident IX. As a result, these rigs were classified as assets held for sale as of June 30, 2018 and were recorded at the lower of carrying value or fair value less costs to sell. The fair value of the two rigs classified as assets held for sale were measured by applying a market approach, which was based on third-party estimated prices that would be received in exchange for the assets in an orderly transaction between market participants.

As a result of the sale and purchase agreement to sell the Trident IX effective July 25, 2018, we determined the carrying amount of the Trident IX exceeded its fair value less costs to sell and recognized an impairment of $1.1 million in the three and six months ended June 30, 2018.

Note 7 — Income Taxes

Tax Rate — SDL is exempt from all income taxation in the Cayman Islands.

The provision for income taxes is based on the tax laws and rates applicable in the jurisdictions in which the Company operates and earns income or is considered resident for income tax purposes. The relationship between the provision for income taxes and the income or loss before income taxes can vary significantly from period to period considering, among other factors, (a) the overall level of income before income taxes, (b) changes in the blend of income that is taxed based on gross revenues rather than income before taxes, (c) rig movements between taxing jurisdictions; and (d) changes in rig operating structures which may alter the basis on which the Company is taxed in a particular jurisdiction.

The effective income tax rate for the Company's continuing operations was (13.4%) and (12.8%) for the six months ended June 30, 2018 and 2017, respectively. The effective tax rates for both periods are negative because the Company had income tax expense in each respective period despite also having a loss before income taxes for such periods, primarily due to the Company incurring expenses for which there will be no tax benefit as such expenses are either incurred in jurisdictions which impose tax based on gross revenue rather than based on net income or are incurred in jurisdictions in which the Company does not pay tax or which do not otherwise allow for a tax deduction for such expenses.

Income Tax Expense — Income tax expense/(benefit) was $4.3 million and $9.0 million for the three and six months ended June 30, 2018, as compared to $(0.8) million and $3.7 million for the three and six months ended June 30, 2017. The income tax benefit for the three months ended June 30, 2017 as compared to the income tax expense for the three months ended June 30, 2018 resulted primarily from a reduction in deferred tax liabilities during Q2 2017 related to the future income tax cost of repatriating the unremitted earnings of a certain subsidiary, due to a decrease during the period in the amount of unremitted earnings which the Company believed would be repatriated in the foreseeable future, as well as certain tax benefits during Q2 2017 related to an increase in the amount of income tax refunds the Company believed it would recover in certain jurisdictions primarily due to a favorable court order received during the period.

Income tax expense for the three and six months ended June 30, 2018 and 2017 is calculated using a discrete approach whereby income tax expense is determined by estimating the actual income tax liability that will result from earnings from continued operations for the three and six months ended June 30, 2018 and 2017 rather than by using an estimated annual effective income tax rate as applied to year-to-date income or loss before income taxes, primarily due to management's view that it is not possible to reliably estimate an annual 2018 and 2017 effective tax rate given the sensitivity of the estimated annual effective tax rate to any changes in annual income or losses before income tax.

The Company's deferred tax liabilities as of June 30, 2018 and December 31, 2017 include liabilities related to the future income tax cost of repatriating the unremitted earnings of certain subsidiaries that are not indefinitely reinvested or that will not be indefinitely reinvested in the future. If unforeseen law changes or other facts and circumstances cause a change in expectations regarding the future tax cost of repatriating these earnings, the resulting adjustments to the deferred tax balances could have a material effect on the Company's condensed consolidated interim financial statements. The Company considers a portion of the earnings of a certain subsidiary to be indefinitely reinvested. As such, the Company has not provided for taxes on these unremitted earnings. As of June 30, 2018 and December 31, 2017, the amount of indefinitely reinvested earnings was approximately $11.7 million and $13.9 million, respectively. Should the Company make a distribution from these unremitted earnings in the future, such distributions may be subject to withholding taxes; however, it is not practicable to determine precisely the amount of withholding tax that may be payable on the eventual distribution of these earnings.

The Company's deferred tax assets include subsidiary level net operating loss carry-forwards which are expected to be utilized in future periods. To the extent that insufficient taxable income is generated by the relevant subsidiaries in future years to fully utilize these net operating loss carry-forwards, any remaining carry-forwards will expire by 2024.

Liabilities for Uncertain Tax Positions — The Company has tax liabilities related to various tax positions that have been taken on the tax returns of certain subsidiaries that have resulted in a reduction in tax liabilities for those subsidiaries. In management's judgment, these tax positions are "uncertain" in that they are likely to be successfully challenged by the relevant tax authorities in the future. Any interest and penalties related to such liabilities are included as a component of income tax expense. The liabilities related to uncertain tax positions, including any related interest and penalties, recorded as other long-term liabilities, were as follows (in thousands):

	June 30, 2018	December 31, 2017
Liabilities for uncertain tax positions, excluding interest and penalties	$ 2,118	$ 2,248
Interest and penalties	-	-
Liabilities for uncertain tax positions, including interest and penalties	$ 2,118	$ 2,248

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

	June 30, 2018	December 31, 2017
Balance, beginning of period	$ 2,248	$ 2,455
Reductions for prior period tax positions	-	(273)
Reductions related to statute of limitation expirations	(400)	(81)
Additions for current period tax positions	270	147
Balance, end of period	$ 2,118	$ 2,248

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

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

Note 8 — Debt

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

	June 30, 2018	December 31, 2017
Unsecured overdraft facility - Short-term debt (see note (i) below)	$ 1,843	$ -
8.625% Senior Secured Notes, due November 1, 2018 (see note (ii) below)	-	30,167
	$ 1,843	$ 30,167

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

	June 30, 2018	December 31, 2017
8.25% Senior Unsecured Notes, due February 15, 2025 (see note (iii) below)	$ 886,969	$ -
9.5% Senior Secured Notes, due November 2, 2020 (see note (iv) below)	-	496,503
Revolving Credit Facility, due April 30, 2023 (see note (v) below)	-	-
Senior Secured Credit Facility, due March 31, 2020 (see note (vi) below)	-	-
	$ 886,969	$ 496,503

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

For the twelve months ending June 30,	
2019	$ -
2020	-
2021	-
2022	-
2023 and thereafter	900,000
Total debt	$ 900,000

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

	June 30, 2018			
	Principal Amount	Unamortized Debt Issuance Costs	Unamortized Premium	Carrying Value
8.25% Senior Unsecured Notes, due February 15, 2025	$ 900,000	$ (16,020)	$ 2,989	$ 886,969

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

The effective interest rates on the 8.25% Senior Unsecured Notes due February 15, 2025, 9.5% Senior Secured Notes due November 2, 2020 and 8.625% Senior Secured Notes due November 1, 2018 are approximately 8.54%, 10.02% and 9.79%, respectively.

(i) Unsecured overdraft facility

On April 26, 2017, Shelf Drilling Egypt Limited, a wholly owned subsidiary of the Company, entered into a $5 million equivalent of foreign currency unsecured and uncommitted credit facility. The facility is available in foreign currency to finance the subsidiary's running expenses, overheads and payments to suppliers. Interest is paid monthly on the drawn balance and is calculated using the Central Bank of Egypt Mid Corridor rate plus 3% per annum. Further, an additional stamp duty of 0.2% per annum is to be paid quarterly on actual utilization.

(ii) 8.625% Senior Secured Notes, due November 2018

On January 12, 2017, the Company cancelled $444.585 million aggregate principal amount of 8.625% Senior Secured Notes (the "8.625% Senior Secured Notes") in exchange for $416.09 million aggregate principal amount of 9.5% Senior Secured Notes and a principal payment of $28.5 million in cash. As of December 31, 2017, the Company recognized a loss of $13.7 million associated with this debt extinguishment which included the $7.5 million write-off of the original unamortized debt issuance cost, an incentive fee of $5.7 million paid to the lenders and legal fees of $0.6 million ($55 thousand was incurred in December 2016). These transactions were recorded as an expense in interest expense and financing charges during the six months ended June 30, 2017.

SDHL's obligations under the outstanding 8.625% Senior Secured Notes were guaranteed by a majority of SDHL's subsidiaries, subject to certain exceptions. The indenture governing the 8.625% Senior Secured Notes were amended to eliminate or waive substantially all of the restrictive covenants and to eliminate certain events of default.

In February 2018, the Company fully settled the outstanding $30.4 million of 8.625% Senior Secured Notes. The Company recognized a loss of $0.2 million associated with this debt extinguishment which included the write-off of unamortized debt issuance costs, premium to tender and professional fees. These transactions were recorded as an expense in interest expense and financing charges during the six months ended June 30, 2018. The total amortization of debt issue costs during the six months ended June 30, 2018 was $44 thousand.

(iii) 8.25% Senior Unsecured Notes, due February 2025

On February 7, 2018, SDHL completed the issuance of $600.0 million of new 8.25% Senior Unsecured Notes due 2025 (the "8.25% Senior Unsecured Notes") issued at par. SDHL received net proceeds of $589.3 million, after deduction of the $10.7 million of fees and expenses which are capitalized and amortized over the life of the debt. The Company used the net proceeds to purchase and cancel or redeem $502.8 million of 9.5% Senior Secured Notes and $30.4 million of 8.625% Senior Secured Notes, or such notes redemption provisions. Interest on the 8.25% Senior Unsecured Notes accrues from February 7, 2018 at a rate of 8.25% per year and is payable semi-annually in arrears on February 15 and August 15 of each year, beginning August 15, 2018.

On June 19, 2018, SDHL completed the issuance of an additional $300.0 million of 8.25% Senior Unsecured Notes at an issue price of 101% for total gross proceeds of $303.0 million, including the $3.0 million premium. SDHL received net proceeds of $297.2 million, after the deduction of $5.8 million of fees and expenses which are capitalized and amortized over the life of the debt. The Company used the net proceeds to repay the $25.4 million aggregate principal amount of the SDA facility (defined below) including the accrued interest, and the remaining proceeds were placed in an escrow account and were recorded as current restricted cash. These funds, along with cash on hand, were used for the full repayment of the obligations under sale and leaseback on July 9, 2018. (Refer to Note 9 – Sale and Leaseback and Note 21 – Subsequent Events). In addition, the Company received $9.1 million for the accrued interest from February 7, 2018, the date of the initial issuance of the 8.25% Senior Unsecured Notes. This amount was recorded under other current liabilities in the condensed consolidated interim balance sheet as of June 30, 2018 and will be paid together with the accrued 8.25% Senior Unsecured Notes interest on August 15, 2018.

There have been no changes in the covenants or obligations associated with the issuance of the additional $300 million 8.25% Senior Unsecured Notes. As a result of the issuance of the additional $300.0 million of 8.25% Senior Unsecured Notes, all subsidiaries related to the Newbuild rigs and SDL became guarantors.

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

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

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

On or after February 15, 2021, SDHL may redeem the 8.25% Senior Unsecured Notes, in whole or part, at the redemption prices set forth below, together with accrued and unpaid interest up to and including the redemption date.

Period	Redemption Price
Between February 15, 2021 and February 14, 2022	106.188%
Between February 15, 2022 and February 14, 2023	104.125%
Between February 15, 2023 and February 14, 2024	102.063%
On or after February 15, 2024	100.000%

If SDHL experiences a change of control, as defined in the indenture governing the 8.25% Senior Unsecured Notes and a decrease in the rating of the 8.25% Senior Unsecured Notes by both Moody's Investors Services and Standard & Poor's Financial Services LLC by one or more gradations, it must offer to repurchase the 8.25% Senior Unsecured Notes at an offer price in cash equal to 101% of their principal amount, plus accrued and unpaid interest.

The total amortization of debt issue costs during the three and six months ended June 30, 2018 was $0.3 million and $0.5 million, respectively. The total amortization of premium during the three and six months ended June 30, 2018 was $11 thousand.

(iv) 9.5% Senior Secured Notes, due November 2020

On January 12, 2017, SDHL completed the issuance and sale of $502.835 million aggregate principal amount of 9.5% Senior Secured Notes (the "9.5% Senior Secured Notes"). The 9.5% Senior Secured Notes were sold in exchange and cancellation of $444.585 million aggregate principal amount of 8.625% Senior Secured Notes (of which $28.5 million was a principal payment in cash), and $86.75 million in exchange for partial settlement of the $350 million term loan entered into on October 8, 2013 (the "Midco Term Loan"). As a result of this transaction, SDHL incurred $8.1 million of debt issuance costs as a direct deduction from the carrying value of the debt and is amortized over the term using the effective interest rate. Interest on these notes accrued from January 12, 2017 at a rate of 9.5% per year and was payable semi-annually on May 1 and November 1 of each year, beginning May 1, 2017.

SDHL's obligations under the 9.5% Senior Secured Notes were guaranteed by a majority of SDHL's subsidiaries (collectively, the "9.5% Senior Secured Notes Guarantors"), subject to certain exceptions. The obligations of the 9.5% Senior Secured Notes Guarantors were secured by liens on the rigs and other assets owned by the Note Guarantors. These liens were subordinated to the liens securing the obligations of the revolving credit facility Guarantors.

SDHL could have redeemed the 9.5% Senior Secured Notes, in whole or part, at the redemption prices set forth below, together with accrued and unpaid interest up to and including the redemption date.

Period	Redemption Price
On or after January 12, 2017	104.313%
On or after the first anniversary of January 12, 2017	102.156%
On or after the second anniversary of January 12, 2017	100.000%

If SDHL had experienced a change of control, as defined in the indenture governing the 9.5% Senior Secured Notes (the "9.5% Senior Secured Notes Indenture"), it would have had to offer to repurchase the 9.5% Senior Secured Notes at an offer price in cash equal to 101% of their principal amount, plus accrued and unpaid interest. Furthermore, following certain asset sales, SDHL may have been required to use the proceeds to offer to repurchase the 9.5% Senior Secured Notes at an offer price in cash equal to 100% of their principal amount, plus accrued and unpaid interest.

In February 2018, the Company fully settled the outstanding $502.8 million of 9.5% Senior Secured Notes. The Company recognized a loss of $18.8 million associated with this debt extinguishment which included a $6.1 million write-off of unamortized debt issuance costs, redemption premium of $12.2 million and professional fees of $0.5 million. These transactions were recorded as an expense in interest expense and financing charges during the six months ended June 30, 2018. The total amortization of debt issue costs during the three and six months ended June 30, 2018 was nil and $0.2 million, respectively.

(v) Revolving Credit Facility, due April 2023

On February 24, 2014, SDHL entered into a $150 million revolving credit facility ("SDHL Revolver") which was available for utilization on February 28, 2014. This facility amount was increased to $200 million on June 11, 2014 in accordance with the terms of the SDHL Revolver. The SDHL Revolver can be drawn as cash, letters of credit or bank guarantees, or a mixture of cash, letters of credit and guarantees, subject to the satisfaction of customary conditions set forth in the underlying credit agreement.

On January 12, 2017, the Company successfully amended the SDHL Revolver to extend the maturity date from April 30, 2018 to April 30, 2020 and to permanently reduce the facility from $200 million to $160 million with certain other terms of this agreement amended. All borrowings under the SDHL Revolver mature on April 30, 2020, and letters of credit and bank guarantees issued under the SDHL Revolver expire no later than five business days prior to April 30, 2020.

Cash borrowings under the SDHL Revolver bear interest, at SDHL's option, at either (i) the Adjusted LIBOR Rate plus Applicable Margin, as defined in the SDHL Revolver or (ii) the Alternate Base Rate (the highest of the prime rate, the federal funds rate plus 0.5% per year, or the one-month Adjusted LIBOR Rate (as defined in the SDHL Revolver) plus 1% per year), plus Applicable Margin.

Participation fees accrue on financial letters of credit and bank guarantees at the Applicable Margin for borrowings at the Adjusted LIBOR Rate and on non-financial letters of credit and bank guarantees at 50% of the Applicable Margin for borrowings at the Adjusted LIBOR Rate. The Applicable Margin is calculated based on credit ratings of SDL or SDHL by Standard and Poor's and Moody's.

The Applicable Margin ranged from a maximum of 6.5% per year to a minimum of 3.75% per year for borrowings at the Adjusted LIBOR Rate and from a maximum of 5.5% per annum to a minimum of 2.75% per year for borrowings at the Alternate Base Rate. SDHL is liable to pay a commitment fee to the administrative agent on the daily unused amount of the SDHL Revolver at 35% of the Applicable Margin for borrowings at the Adjusted LIBOR Rate. The facility is cancellable by SDHL at any time with no penalty or premium.

Additionally, SDHL Revolver required that SDHL and the Guarantors (as defined below) have a total net leverage ratio (consolidated net indebtedness to consolidated EBITDA, as defined in the SDHL Revolver) not greater than 3.5:1 and tested quarterly. As part of the June 2018 amendment to the SDHL Revolver, the Company is not required to calculate this covenant as of June 30, 2018, with all future periods not impacted. The Company was in compliance with this ratio as of December 31, 2017.

On June 4, 2018, the Company successfully amended the SDHL Revolver that, among other things effective June 19, 2018 (i) extended the maturity date from April 30, 2020 to April 30, 2023; (ii) increased the facility from $160 million to $225 million; (iii) changed the Applicable Margin into a range from a maximum of 5.0% per year to a minimum of 3.0% per year for borrowings at the Adjusted LIBOR Rate and from a maximum of 4.0% per annum to a minimum of 2.0% per year for borrowings at the Alternate Base Rate; (iv) changed the total net leverage ratio to not greater than 4.75:1 for any test period ending on or prior to December 31, 2019, 4.5:1 for any test period after January 1, 2020 and ending on or prior to December 31, 2020 and 4.0:1 for any test period thereafter; (v) requires the collateral rig market values to equal or exceed 140% of the aggregate amount of all revolving commitments, and (vi) SDL is now a guarantor. Additionally, in accordance with the amendment, the Applicable Margin is now calculated based on the higher of either the total net leverage ratio of SDL or the total net leverage ratio of SDHL. As of June 30, 2018 the Applicable Margin is 4.0% per year for borrowings at the Adjusted LIBOR Rate.

All borrowings under the SDHL Revolver mature on April 30, 2023, and letters of credit and bank guarantees issued under the SDHL Revolver expire no later than five business days prior to April 30, 2023.

The Company issued bank guarantees and performance bonds totaling $9.5 million and $12.3 million as of June 30, 2018 and December 31, 2017, respectively, against the SDHL Revolver. As of June 30, 2018 and December 31, 2017, the Company had no outstanding borrowings under the SDHL Revolver. There are certain limitations which restrict the Company's ability to draw down the available balance of the SDHL Revolver.

SDHL's obligations under the SDHL Revolver are guaranteed by the majority of SDHL's subsidiaries (collectively, the "Guarantors"), subject to certain exceptions. The obligations of the Guarantors are secured by liens on the rigs and other assets owned by the Guarantors.

The debt issuance costs associated with this new arrangement, as well as the unamortized balance of the original debt issuance costs, are deferred and amortized over the new term of the SDHL Revolver.

The total unamortized debt issuance costs on the condensed consolidated interim balance sheets amounted to $4.9 million (all non-current) and $3.1 million (current: $1.3 million; non-current: $1.8 million) as of June 30, 2018 and December 31, 2017, respectively.

The amortization of debt issuance costs on the SDHL Revolver amounted to $0.3 million and $0.6 million during the three and six months ended June 30, 2018, respectively, and $0.3 million and $0.7 million during the three and six months ended June 30, 2017, respectively.

(vi) Senior Secured Credit Facility, due March 2020

On December 21, 2017, Shelf Drilling Asset III, Ltd (the "SDAIII"), a wholly owned subsidiary of the Company, entered into a $75 million senior secured credit facility (the "SDA Facility"). The SDA Facility includes a $50 million guarantee facility, which can be used for issuing bank guarantees, and a $25 million term loan facility, which can be used to fund the upgrade and capital expenditure costs for two of the recently acquired premium jackup drilling rigs. On March 27, 2018, the Company drew $25 million under the SDA Facility, which was outstanding as of March 31, 2018. As of December 31, 2017, there was no utilization under this facility. The SDA Facility originally matures on March 31, 2020.

The term loan facility of $25 million is due for repayment in four equal semi-annual instalments beginning on September 28, 2018. Cash borrowings under the term loan facility bear interest at LIBOR plus 5% per annum and a 1.75% per annum commitment fee was payable quarterly on the unused amount of such term loan facility. The guarantee facility fee accrues on issued bank guarantees at 2.75% per annum (or 1.375% per annum if the bank guarantee is cash collateralized). Interest and relevant fees are payable quarterly in arrears.

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

The Company incurred total debt issuance costs of $1.3 million for the term loan facility and guarantee facility. As of December 31, 2017, the unamortized debt issuance costs for the term loan and guarantee facility of $1.3 million was reported as other assets. The total amortization of debt issue costs was both $0.1 million and $0.2 million during the three and six months ended June 30, 2018, respectively.

On June 19, 2018, the Company fully settled the outstanding $25 million SDA Facility using the proceeds from the issuance of the additional $300.0 million of 8.25% Senior Unsecured Notes and transferred the outstanding bank guarantees to the SDHL Revolver.

The Company recognized a total loss on debt extinguishment of $1.1 million which was recorded during the three and six months ended June 30, 2018, primarily related to the write-off of the unamortized debt issuance costs.

Terms Common to All Indebtedness

The 8.25% Senior Unsecured Notes Indenture and the SDHL Revolver contain customary restrictive covenants. These agreements also contain a provision under which an event of default by SDHL or by any restricted subsidiary on any other indebtedness exceeding $25 million would be triggered if such default: a) is caused by failure to pay the principal or interest when due after the applicable grace period, or b) results in the acceleration of such indebtedness prior to maturity.

The 8.25% Senior Unsecured Notes Indenture and the SDHL Revolver contain covenants that, among other things, limit SDHL's ability and the ability of their restricted subsidiaries in connection with:

- Incurrence of new indebtedness or equivalent;
- Restricted payments;
- Disposal of assets;
- Incurrence of new liens;
- Certain transactions with affiliates;
- Consolidation, merger and transfer of assets; and
- Impairment of security interest.

The 8.25% Senior Unsecured Notes Indenture and the SDHL Revolver also contain standard events of default.

Term Loan Facility, due October 2018

On January 12, 2017, the Company fully settled the outstanding $350 million Midco Term Loan for an aggregate consideration of $339.17 million, which included the issuance of $166.67 million of SDL Preferred Shares to certain equity Sponsors (see Note 13 – Mezzanine Equity), issuance of $86.75 million aggregate principal amount of 9.5% Senior Secured Notes and $85.75 million in cash.

The Company recognized a total loss on debt extinguishment of $2.0 million, of which $0.5 million was recorded during the first quarter of 2017 under interest expense and financing charges. This included $5.1 million for legal fees (of which $1.5 million was incurred in December 2016), $4.3 million for the write-off of the unamortized original issue discount and $3.4 million for the write-off of the unamortized debt issuance cost, partly offset by the $10.8 million settlement gain.

Note 9 — Sale and Leaseback

On October 10, 2015, two wholly owned subsidiaries of SDL, Shelf Drilling TBN I, Ltd and Shelf Drilling TBN II, Ltd (collectively, the "Lessee"), whose assets consisted solely of the two "fit-for-purpose" new build jackup rigs under construction entered into a combined minimum of $296.2 million and maximum of $330.0 million ("Purchase Price") sale and leaseback financing transactions (the "Sale and Leaseback Transactions") with Hai Jiao 1502 Limited and Hai Jiao 1503 Limited (collectively, the "Lessor"), wholly owned subsidiaries of Industrial and Commercial Bank of China Limited. In connection with these transactions, the Lessee executed bareboat charter agreements (the "Bareboat Charter Agreements") with the Lessor to operate the newbuild rigs and to execute two drilling service contracts with Chevron for a period of 5 years. See Note 5 – Property and Equipment.

The Company incurred a commitment fee of 1.20% per annum to the Lessor calculated on the undrawn amount of the Purchase Price calculated from October 10, 2015 until the Purchase Price was paid in full for each rig. The commitment fee was payable on the date of first installment payment of Purchase Price and quarterly in arrears thereafter. The milestone payments bear interest at 3 months LIBOR plus an applicable margin of 4% annually. Such interest was capitalized at intervals of three months from the date of payment of each installment until the charter hire accrual date, as defined in the lease contract.

The Bareboat Charter Agreements require rent with variable and fixed payment components from the charter hire accrual dates, as defined in the lease contract, through its expiry dates of December 28, 2021 and July 5, 2022 at which time the Lessee will have the obligation to acquire the Newbuild rigs from the Lessor for $82.5 million each ("Purchase Obligation Price"). The fixed monthly payments for each rig at the inception of the bareboat charter period are calculated using the Prepaid Purchase Price (Purchase Price and capitalized interest on milestone payments net of Purchase Obligation Price) over the lease term. The average variable payments over the lease term for each rig are calculated on each payment date using a projected three month LIBOR rate plus applicable margin of 4.0% annually on the Notional Rent Outstanding (Prepaid Purchase Price reduced by fixed payments). The charter payments are made on every fifth day of the month.

The first and second Newbuild rigs commenced five-year contracts with Chevron after completion of the final customer acceptance requirements on December 1, 2016 and June 1, 2017, respectively. The Company accounted for these Sale and Leaseback Transactions as capital leases and transferred $228.6 million for the first Newbuild rig and $227.0 million for the second Newbuild rig from construction in progress to drilling rigs and equipment reported in property and equipment. See Note 5 – Property and Equipment

The Lessor paid $74.1 million directly to the Builder during the six months ended June 30, 2017. The Lessor also paid $16.8 million to the Company during the six months ended June 30, 2017 for cost incurred during the construction period. In addition, the Company recorded $3.0 million for interest in kind on the obligations under the Sale and Leaseback Transactions during the six months ended June 30, 2017, respectively. There were no such payments made to the Builder or the Company during the six months ended June 30, 2018.

The Company has the right to purchase either of the rigs on an "as is where is" basis, after the delivery date and without any default during the bareboat charter agreement period, at redemption prices as follows:

Period	Redemption Price
Year 1	Notional Rent Outstanding * (1+3%)
Year 2	Notional Rent Outstanding * (1+2%)
Year 3	Notional Rent Outstanding * (1+2%)
Year 4	Notional Rent Outstanding * (1+1%)
Year 5	Notional Rent Outstanding * (1+1%)

Besides the redemption price, the Company is required to pay any rent and other amounts due, and the broken funding costs as defined in the Bareboat Charter agreements.

The Lessor also has the right to compel the Company to purchase the relevant rig when there is a termination event at a price of an aggregate of the Notional Rent Outstanding plus a 3% fee on the Notional Rent Outstanding. The Company is also required to pay any rent and other amounts due, and the broken funding costs as defined in the Bareboat Charter agreements. This option is not exercisable by the Lessor when the relevant rig is in service under its contract with Chevron.

The Company's obligation under the sale and leaseback transactions is secured by pledge over all bank accounts specific to this transaction and pledge of shares of certain wholly owned subsidiaries of the Company. The Company has also assigned to Lessor the construction contracts with the Builder, the advance payment guarantee covering 30% of the contract price received from the Builder which is valid during the construction period, an additional payment guarantee covering 10% of the contract price which is also valid during the construction period, and the receivable and earnings from the Chevron contracts.

The Company is also required to maintain (1) a minimum of 90 days of Rent in a debt reserve account; (2) 120% of Security Coverage Ratio (Fair Market Value of the rig plus additional cash collateral or any additional security provided by the Company to the lessor divided by the Notional Rent Outstanding); and (3) a Consolidated Net Debt to Consolidated EBITDA Ratio at or below 4:1, as defined in the Bareboat Charter Agreement and tested semi-annually. As of December 31, 2017, the Company was in compliance with all above mentioned requirements.

On June 8, 2018, the Company issued a termination notice for the obligations under the Sale and Leaseback Transactions and agreed with the Lessor to reduce the notice period from 90 days to 30 days.

Upon completion of the notice period on July 9, 2018, the then remaining principal balance outstanding under the obligations under Sale and Leaseback Transactions of $293.5 million and a call premium of $5.9 million were paid in full. The Company recorded the $5.9 million call premium as debt extinguishment costs in interest expense and financing charges in the condensed consolidated interim statements of operations for the three and six months ended June 30, 2018 and in other current liabilities in the condensed consolidated interim balance sheet as of June 30, 2018. Additionally, the related requirement for a fully funded debt reserve account was classified as current restricted cash on the condensed consolidated interim balance sheet as of June 30, 2018 and will be released upon the termination of the Sale and Leaseback facility. See Note 21 – Subsequent Events.

The Company made rental payments of $13.6 million and $26.8 million, including interest of $4.8 million and $9.4 million, during the three and six months ended June 30, 2018, and $6.5 million and $10.7 million, including interest of $2.1 million and $3.5 million for the three and six months ended June 30, 2017.

The total outstanding balance of obligations under the Sale and Leaseback Transactions is $296.5 million and $313.9 million as of June 30, 2018 and December 31, 2017, respectively, of which $296.5 million and $35.1 million were classified as current on the condensed consolidated interim balance sheets.

The associated interest rate swap was terminated on June 21, 2018. See Note 16 – Derivative Financial Instrument.

Note 10 — Employee Benefit Plans

Retirement Plan Under a Trust fund – On August 1, 2016, the Company replaced the end of service benefit covering certain employees previously reported under a defined benefit plan with a defined retirement contribution plan managed under a trust fund.

Contributions are made on a monthly basis by the Company irrespective of fund performance and are not pooled, but are separately identifiable and attributable to each employee. The Company has no further obligation for this retirement plan and the Company's contributions are expensed as incurred.

The contribution expense related to this plan is $81 thousand and $161 thousand during the three and six months ended June 30, 2018, respectively, and $70 thousand and $132 thousand during the three and six months ended June 30, 2017, respectively.

End of Service Plans — The Company offers end of service plans to employees in certain countries in accordance with the labor laws in these countries or the Company policy. The Company has recorded approximately $0.8 million and $2.5 million in expense related to employee end of service plans during the three and six months ended June 30, 2018, respectively, compared to $1.5 million and $3.3 million for the three and six months ended June 30, 2017, respectively.

Retention Plans —The Company has recorded approximately $0.5 million and $1.3 million in expense related to its employee retention plans for the three and six months ended June 30, 2018, and approximately $0.7 million and $1.6 million for the three and six months ended June 30, 2017, respectively. The estimated total cash payments under the retention plans for 2019 are $2.8 million.

Note 11 — Commitments and Contingencies

Operating Leases and Other Commitments – The Company has operating leases and other commitments expiring at various dates, principally for office and yard space, expatriate employee accommodation and office equipment.

Sale and Leaseback Obligations – This represents the obligations and associated call premium under the sale and leaseback transactions as of June 30, 2018. See Note 9 - Sale and Leaseback.

Purchase Commitment– The Company has a commitment to acquire a premium jackup rig from a third party at a purchase price of $68.5 million. This rig was delivered during the third quarter of 2018.

As of June 30, 2018, contractual payments related to those matters were as follows (in thousands):

	Operating leases and other commitments	Purchase commitment	Sale and leaseback obligations	Total commitments
For the twelve months ending June 30,				
2019	$ 8,195	$ 68,500	$ 302,387	$ 379,082
2020	6,054	-	-	6,054
2021	4,165	-	-	4,165
2022	1,421	-	-	1,421
2023	314	-	-	314
Total	$ 20,149	$ 68,500	$ 302,387	$ 391,036

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.

During the three months ended June 30, 2018, one of the subsidiaries of the Company has filed a lawsuit in relation to one of the rigs that entered into a Bareboat Charter Agreement (“Agreement”) with Offshore Drilling Solutions Ltd. (“Original Charterer”) for the intended use of the rig under a drilling contract with Furie Operating Alaska, LLC (“Furie”) to operate and drill in Alaska. Furie, Cornucopia Oil & Gas Company LLC and Corsair Oil & Gas LLC hold the ownership interests in the said drilling wells and Furie was the operator of the wells. By a Deed of Guarantee in July 2015, Deutsche Oel and Gas (“Guarantor”), the parent company of Cornucopia Oil & Gas Company, LLC, which is the sole member and owner of Furie, guaranteed the obligations of the Charterer under the Agreement for securing the payments of future chartering costs of the Company rig by Furie.

The Company entered into the agreement with Offshore Drilling Solutions Ltd. Furie in July 2015 which was later assigned to Kadmas Limited in November 2015.

Kadmas has breached the terms of this agreement by failing to pay the Company amounts owed under the Agreement. An amount of $11.0 million plus accrued interest and all reasonable expenses, costs and attorney’s fees incurred by the Company was owed as of June 2018. In addition to this, the Company will be owed an additional $23,000 per day from July 2018 through February 2019.

Based on legal advice received, the Company filed a complaint on June 4, 2018 before the Superior Court for the State of Alaska at Anchorage, against Furie, Cornucopia Oil & Gas Company, LLC, Corsair Oil & Gas LLC and Furies’ lender, Energy Capital Partners Mezzanine Opportunities Fund, LP, (collectively “Defendants”) in relation to various alleged breaches by the Defendants.

The Company reserves its right to pursue claims against the Original Charterer or the Guarantor under the Agreement and/or the Deed of Guarantee at a later date.

The resolution of this legal case filed by the Company is not expected to have a material impact on the results of operations as the Company has ceased revenue recognition from May 2017 for this Agreement and recorded a provision against the total outstanding receivable due from Kadmas.

Surety Bonds — It is customary in the contract drilling business to have various surety bonds in place that secure customs obligations relating to the temporary importation of rigs and equipment and certain contractual performance and other obligations.

The Company has surety bond facilities in either U.S. dollars or local currencies of approximately $102.6 million provided by several banks to guarantee various contractual, performance, and customs obligations. The Company entered into these facilities in India, Egypt, UAE and Nigeria. The outstanding surety bonds were $49.1 million and $53.6 million as of June 30, 2018 and December 31, 2017, respectively.

The Company also had a $50.0 million uncommitted guarantee facility included in the SDA Facility until it was terminated in June 2018. The outstanding bank guarantees under the uncommitted guarantee facility was nil as of December 31, 2017.

In addition, the Company had outstanding bank guarantees and performance bonds amounting to $9.5 million and $12.3 million as of June 30, 2018 and December 31, 2017, respectively, issued against the SDHL Revolver. Therefore, the total outstanding bank guarantees and surety bonds issued by the Company were $58.6 million and $65.9 million as of June 30, 2018 and December 31, 2017, respectively.

Note 12 — Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, which include cash and cash equivalents, accounts receivable, current restricted cash, accounts payable, accrued liabilities and short-term debt, approximate their fair market values due to the short-term nature of the instruments (except for non-current portion of restricted cash with carrying value of $14.6 million and an estimated fair value of $13.2 million as of December 31, 2017). We measured the estimated fair value of the non-current portion of restricted cash as of December 31, 2017 using significant other observable inputs, representative of a Level 3 fair value measurement, including the terms of the instruments.

The following table represents the estimated fair value and carrying value of the long-term debt (in thousands):

	June 30, 2018		December 31 , 2017	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
8.25% Senior Unsecured Notes, due February 15, 2025.............	$ 886,969	$ 918,909	$ -	$ -
9.5% Senior Secured Notes, due November 2, 2020....................	-	-	496,503	512,721
8.625% Senior Secured Notes, due November 1, 2018................	-	-	30,167	31,022
Total debt..	$ 886,969	$ 918,909	$ 526,670	$ 543,743

The estimated fair value of the Company's long-term debt was determined using quoted market prices.

The estimated fair value of the 8.25% Senior Unsecured Notes excludes unamortized debt issuance costs and unamortized premium as of June 30, 2018 of $16.0 and $3.0 million, respectively. The estimated fair value of the 9.5% Senior Secured Notes and the 8.625% Senior Secured Notes exclude unamortized debt issuance costs as of December 31, 2017 of $6.3 million and $0.2 million, respectively. See Note 8 – Debt.

Derivative financial instruments were measured at fair value on a recurring basis using Level 2 inputs. See Note 16 – Derivative Financial Instrument.

Note 13 — Mezzanine Equity

On January 12, 2017, SDL issued 1,000,000 preferred shares at $166.67 per share for a value of $166.67 million to certain equity Sponsors as part of the retirement of the Midco Term Loan. The Company incurred $0.7 million of incremental direct costs to issue the preferred shares. These costs were netted against the issue value of the preferred shares.

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

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

The preferred shares are entitled to a dividend rate equal to LIBOR plus 9% per annum paid semi-annually on January 31 and July 31. If the preferred dividend is not paid in cash on each due date, the dividend amount is added to the Liquidation Preference of the preferred shares at a rate of LIBOR plus 9.75% per annum. The total dividend recognized for the six months ended June 30, 2018 and 2017 were $9.6 million ($8.9 million of dividend and $0.7 million of direct costs to issue the preferred shares) and $8.2 million, respectively, of which nil and $7.2 million, respectively, were accrued and to be paid in the next semi-annual payment.

In the event of the occurrence of any liquidation, dissolution or winding up of the Company, preferred shareholders have the first right over the assets available for distribution amongst SDL shareholders up to the Liquidation Preference.

On June 25, 2018, the Company paid $174.0 million to redeem all outstanding preferred shares, including accrued but unpaid dividend of $7.4 million, with the proceeds from the Offering as defined in Note 14 – Shareholders' Equity.

Note 14 — Shareholders' Equity

On June 25, 2018, the Company successfully completed an initial public offering of 28,125,000 new common shares at approximately $8 per share for total gross proceeds of $226.9 million (the "Offering"). The incremental direct costs of the Offering were $10.7 million, resulting in approximately $216.2 million of net proceeds. The Offering proceeds were used to redeem all outstanding preferred shares and the remainder is to be used to assist in the acquisition of one premium jack-up drilling rig from a third party. As a result of the consummation of the Offering, the Company amended the Articles of Association (the "Articles") to reduce the authorized share capital to 144,063,473 ordinary shares with a par value of $0.01 per share.

During the first quarter of 2017, a new ordinary share class (Class D) was approved with an authorized share capital of 1,020 shares. Class D shares had no dividend rights. The Company also amended its Articles to increase the authorized capital to 5,001,020 ordinary shares with a par value of $0.01 per share for a total amount of $50 thousand.

During the period up to April 2017, the Company granted 1,629 ordinary shares (554 Class B shares, 55 Class C shares and 1,020 Class D shares) under the time-based and performance-based share compensation plan to members of the Company's management. These shares were issued to a Voting Trust, managed under the voting trust agreement by one of the Sponsors, for further issuance to the employees upon fulfilling the vesting conditions. See Note 15 – Share-based Compensation.

The changes in ordinary shares by class from January 1, 2017 to April 28, 2017 were as follows:

	Number of ordinary shares issued and outstanding				
	Class A	Class B	Class C	Class D	Total
Balance, at January 1, 2017	444,594	25,099	6,075	-	475,768
Shares issued to trust for share-based compensation	-	554	55	1,020	1,629
Balance, at April 28, 2017	444,594	25,653	6,130	1,020	477,397

During the six months ended June 30, 2018, 9,606 common shares issued under share-based compensation plans (4,428 time-based restricted shares and 5,178 performance restricted shares) were forfeited for nil consideration. There were no repurchase or retirement of ordinary shares after the Recapitalization (defined below).

Recapitalization and Common Share Issuance

On April 28, 2017, the Company executed a recapitalization to simplify its capital structure. The Company repurchased and retired all the ordinary shares in Classes A, B, C, and D from the Shareholders and replaced these with a new single class of common shares (the "Recapitalization"). The Company also increased its authorized capital from 5,001,020 ordinary shares to 200,000,000 single class new common shares with a par value of $0.01 per share for a total par value of $2 million.

The Company issued 55,000,000 of new common shares to replace the existing A, B, C, and D ordinary share classes as follows:

	Outstanding ordinary shares before Recapitalization	Equivalent new common shares at the Recapitalization date
Class A	444,594	51,970,740
Class B	25,653	1,893,513
Class C	6,130	-
Class D	1,020	1,135,747
Total	477,397	55,000,000

In order to determine the number of new common shares to be allocated against each ordinary share repurchased, the Company determined the fair value of each ordinary share class by allocating the estimated equity value before the Recapitalization to the ordinary share classes in accordance with the Waterfall provisions within the Articles in effect at that date. Accordingly, it was determined that Class C shares have no value, resulting in allocation of no new common shares to the Class C shareholders. The 1,020 Class D shares were only in existence briefly before being exchanged into common shares and were only used for performance-based restricted share awards, which were unvested at the Recapitalization date. Accordingly, Class D had no consequence on the Waterfall considerations for the Recapitalization. However, pursuant to the Articles, a value was allocated from Class A to Class D shares.

The Recapitalization has been accounted for as a repurchase of ordinary shares for new common shares. Therefore, the numbers for previously presented Class A, Class B and Class C ordinary shares, for all share count references and per-share information, have been retained for periods prior to the Recapitalization. The Recapitalization did not result in a change in total shareholder equity as there were no cash proceeds. The par values of the ordinary shares and the new common shares are identical at $0.01 per share.

Private Placement and Offering

On April 28, 2017, the Company successfully completed an offering of 28,125,000 new common shares at a price of $8.00 per share for total gross proceeds of $225.0 million (the "Private Placement"). The incremental direct costs of the Private Placement were $7.8 million, resulting in approximately $217.2 million of net proceeds.

On May 5, 2017, the new common shares issued in the Private Placement began trading on the Norwegian over-the-counter (OTC) market under the symbol SHLF.

On June 25, 2018, following the completion of the Offering, the 28,125,000 shares issued in the Private Placement were delisted from the OTC market and together with the 28,125,000 Offering shares were registered in the Norwegian Central Securities Depository (VPS) and listed on Oslo Børs ASA under the symbol SHLF.

Following is the summary of all classes of ordinary shares / common shares issued and outstanding during the six months ended June 30, 2018 and 2017 (in thousands, except share data):

	Six months ended June 30, 2018		
	Number of shares issued and outstanding	Amount of shares issued and outstanding (at par value)	
	Common shares		
Balance, beginning of period	83,125,000	$	831
Issuance of shares	28,125,000		281
Shares issued to trust	-		-
Repurchase and retirement of shares	(9,606)		-
Balance, end of period	111,240,394	$	1,112

	Six months ended June 30, 2017					
	Number of ordinary / new common shares issued and outstanding					
	Class A	Class B	Class C	Class D	New common shares	Total
Balance, beginning of period	444,594	25,099	6,075	-	-	475,768
Shares issued to trust	-	554	55	1,020	-	1,629
Repurchase and retirement of ordinary shares	(444,594)	(25,653)	(6,130)	(1,020)	-	(477,397)
Recapitalization	-	-	-	-	55,000,000	55,000,000
Issuance of new common shares - Private Placement	-	-	-	-	28,125,000	28,125,000
Balance, end of period	-	-	-	-	83,125,000	83,125,000

	Six months ended June 30, 2017					
	Amount of ordinary / new common shares issued and outstanding (at par value)					
	Class A	Class B	Class C	Class D	New common shares	Total
Balance, beginning of period	$ 5	$ -	$ -	$ -	$ -	$ 5
Shares issued to trust	-	-	-	-	-	-
Repurchase and retirement of ordinary shares	(5)	-	-	-	-	(5)
Recapitalization	-	-	-	-	550	550
Issuance of new common shares- Private Placement	-	-	-	-	281	281
Balance, end of period	$ -	$ -	$ -	$ -	$ 831	$ 831

The total shares issued to trust for share-based compensation were nil common shares and 2,274,860 ordinary shares as of June 30, 2018 and 2017, respectively.

All common shares have pari passu rights to participate in any common share dividends declared and represent the residual claim on the Company's assets. The Company did not pay any ordinary or common dividend during the six months ended June 30, 2018 and 2017. The Company was restricted in declaring and paying dividends to its new common shareholders until the preferred shares were fully redeemed. See Note 13 – Mezzanine Equity.

In connection with the Private Placement, the Sponsors and the Company amended and restated a sponsor shareholders agreement. Under the amended agreement, a Sponsor had preferential governance rights if it maintained a minimum level of ownership of 7% in the Company. Subject to certain exceptions and conditions, these preferential governance rights included, but were not limited to, the right to appoint and remove directors, a veto right on the approval of significant corporate transactions and certain corporate actions, pre-emptive rights, a consent right to any articles' amendment and the right to require the Company to file a registration statement for a public offering of common shares. Investors participating in the Private Placement were not provided these equivalent rights.

Upon consummation of the Offering, the previous sponsor shareholders agreement and the preferential governance rights provided therein terminated. However, the right of the sponsors to appoint and remove directors, subject to certain ownership thresholds being met, remains pursuant to the tenth amended and restated memorandum and articles of association which were adopted by the Company upon consummation of the Offering.

Note 15 — Share-based Compensation

The Company has a share-based compensation plan under which it had issued time-based Class B and performance-based Class C and Class D restricted shares prior to the Recapitalization (See Note 14 – Shareholder's Equity). These Class B, C and D shares were awarded to certain members of the Company's management as remuneration for future services of employment and were held in a voting trust on the employees' behalf.

Time-based restricted Class B shares typically vest in equal proportion over a five-year required service period from the date of grant. In the event of an initial public offering ("IPO") or other exit event, all time-based unvested shares would vest immediately, regardless of grant date. In the event of an IPO, the shares are non-transferable and are required to remain in the voting trust pursuant to the terms of a management shareholder agreement. These transfer restrictions would lapse ratably over three years, at one year intervals beginning twelve months after an IPO. Compensation cost is being recognized over a period of five years from the grant date subject to acceleration as discussed above in the event of an IPO or other exit event.

Performance-based restricted Class C shares had rights to dividends or distributions while Class D shares had none of these rights. Upon an exit event or IPO, Class C and Class D shares would vest immediately. Class C and Class D shares were subject to the same transferability restrictions as described above regarding Class B shares upon an IPO. Compensation expense related to the grant date fair value of the performance-based shares were to be recognized upon vesting.

During the first quarter of 2017, the Company granted 243 ordinary shares (228 Class B shares and 15 Class C shares) to members of the Company's management. During April 2017, the Company granted 1,386 additional ordinary shares (326 Class B shares, 40 Class C shares and 1,020 Class D shares) to members of the Company's management.

The grant date fair values for the Class B and Class C grants during the first quarter of 2017 were estimated using standard quantitative modeling techniques performed by an independent third party. The estimates were established using a zero premium option, with reference to the volatility of a group of broadly similar offshore drilling service companies.

The following assumptions were used in the valuation calculations for shares awarded during the periods presented:

	Three months ended March 31, 2017	
	Class B	**Class C**
Valuation assumptions:		
Expected term	2 years	2 years
Risk free interest rate	1.20% p.a.	1.20% p.a.
Expected volatility	65.0%	65.0%

Expected Term: The expected term represented the period from the grant date to the expected date of vesting, either through an IPO or other exit event.

Risk Free interest rate: The US Treasury Bond rate as of the grant date over a similar period to the Expected Term.

Expected Volatility: The average historical 36-month period volatility of the quoted share prices of a group of broadly similar publicly quoted offshore drilling service companies. The variables are adjusted to reflect the gross debt to capitalization ratio of each company.

Dividend Yield: The Company had not historically issued any dividends on these classes of shares and did not expect to in the future nor were the unvested shares entitled to dividends at the time of the grant.

The grant date fair values of all the share awards in April 2017 were measured based on the number of new common shares allocated against the awards at the Recapitalization date and the Private Placement value of $8 per share.

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

	Time - based restricted shares		Performance based shares				Total	
	Class B shares		Class C shares		Class D shares			
	Vested	Unvested	Vested	Unvested	Vested	Unvested	Vested	Unvested
Balance, at December 31, 2016	7,174	7,704	-	965	-	-	7,174	8,669
Granted	-	554	-	55	-	1,020	-	1,629
Vested	2,145	(2,145)	-	-	-	-	2,145	(2,145)
Balance, at April 28, 2017	9,319	6,113	-	1,020	-	1,020	9,319	8,153

Effects of Recapitalization

As part of the Recapitalization, the employee share-based compensation awards in ordinary share Classes B and D were replaced with new common shares on a relative value basis consistent with the overall allocation of shareholder equity value. No other changes were made to the terms of the awards. The new common shares associated with the employee share-based compensation awards were held in a voting trust on employees' behalf until the Offering, at which time the shares were transferred to the owners and the trust terminated.

The table below summarizes the replacement of the Class B, C and D shares with new common shares at the Recapitalization date:

	Ordinary Shares Prior to Recapitalization			Equivalent new common shares at the Recapitalization date		
	Vested	Unvested	Total	Vested	Unvested	Total
Class B	9,319	6,113	15,432	687,876	451,240	1,139,116
Class C	-	1,020	1,020	-	-	-
Class D	-	1,020	1,020	-	1,135,648	1,135,648
Total	9,319	8,153	17,472	687,876	1,586,888	2,274,764

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

As no value was allocated to the former Class C performance based shares on Recapitalization due to the application of the Waterfall provisions within the Articles, and therefore Class C awards had no applicable exchange ratio and were effectively cancelled pursuant to the Recapitalization, the Company did not recognize the previously measured and unrecognized cumulative compensation cost of $5.8 million relating to Class C awards.

The Company has recorded a share-based compensation expense related to the share-based compensation plan of $11.1 million and $11.3 million during the three and six months June 30, 2018, and $0.2 million and $0.4 million for the three and six months ended June 30, 2017. As a result of the consummation of the initial public offering in June 2018, the remaining unamortized shared-based compensation of $10.9 million was recognized in June 2018. No income tax benefit was recognized for these plans.

The following table summarizes the total unrecognized compensation expense and the expected weighted average period for the shares to be recognized:

	Six months ended June 30,			
	2018		2017	
	Time based restricted shares	Performance based shares	Time based restricted shares	Performance based shares
	Common shares		Class B	Class C
Total unrecognized compensation expense (in thousands)	$ -	$ -	$ 3,011	$ 9,085
Weighted-average period unvested compensation expense	N/A	N/A	3.14 years	N/A

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

	Number of shares		Weighted average grant date fair value per share	
	Time based restricted shares	Performance based shares	Time based restricted shares	Performance based shares
Non-vested shares at January 1, 2018	393,760	1,135,747	$ 5.89	$ 8.00
Granted	-	-	-	-
Vested	(389,332)	(1,130,569)	5.89	8.00
Forfeited	(4,428)	(5,178)	8.00	8.00
Non-vested shares at June 30, 2018	-	-	$ -	$ -

	Time based restricted shares	Performance based shares		Weighted average grant date fair value per share		
	Class B	Class C	Class D	Class B	Class C	Class D
Non-vested ordinary shares at January 1, 2017....	7,704	965	-	$ 357.05	$ 5,808.48	$ -
Granted	554	55	1,020	73.81	2,979.67	8,907.05
Vested..	(2,145)	-	-	39.60	-	-
Forfeited	-	-	-	-	-	-
Non-vested ordinary shares at April 28, 2017.......	6,113	1,020	1,020	$ 442.80	$ 5,653.33	$ 8,907.05

	Number of shares		Weighted average grant date fair value per share	
	Time based restricted shares	Performance based shares	Time based restricted shares	Performance based shares
Non-vested ordinary shares at April 28, 2017..	6,113	2,040	$ 442.80	$ 7,281.50
Replaced for new common shares..	451,240	1,135,648	6.67	8.00
Vested..	-	-	-	-
Surrender of ordinary shares..	(6,113)	(2,040)	(442.80)	(7,281.50)
Non-vested common shares at June 30, 2017..	451,240	1,135,648	$ 6.67	$ 8.00

The total grant date fair value of the time and performance based restricted vested ordinary shares was $11.1 million and $11.3 million during the three and six months ended June 30, 2018, respectively, and $0.1 million and $0.1 million during the three and six months ended June 30, 2017, respectively.

Note 16 — Derivative Financial Instrument

Foreign Currency Forward Exchange Contracts

The Company may enter into forex contracts when management believes that market conditions are favorable to purchase contracts for future settlement with the expectation that such contracts, when settled, will reduce the exposure to foreign currency gains and losses on future foreign currency expenditures. The amount and duration of such contracts are based on the monthly forecast of expenditures in which the Company conducts significant business and for which there is a financial market. These forward contracts are derivatives and any change in fair value resulting from ineffectiveness is recognized immediately in earnings.

During the three and six months ended June 30, 2018, the Company settled forex contracts with aggregate notional values of approximately $6.4 million and $10.1 million as compared to $3.5 million and $3.6 million for the three and six months ended June 30, 2017, of which the aggregate amounts were designated as an accounting hedge.

As of June 30, 2018, the estimated amount of net unrealized losses associated with the forex contracts that will be reclassified to earnings during the next six months was $0.6 million. The net unrealized gains / (losses) associated with this derivative financial instrument will be reclassified to operating and maintenance expense, to the extent fully effective.

Interest Rate Swaps

The Company may enter into interest rate swaps to manage exposures arising from business activities that result in the payment of future known and uncertain cash amounts, the value of which are determined by interest rates. The Company's derivative financial instruments are used to manage differences in the amount, timing, and duration of the Company's known or expected cash payments principally related to the Company's borrowings.

The Company's objectives in using interest rate derivatives are to add stability to interest expense and to manage its exposure to interest rate movements. To accomplish this objective, the Company primarily uses interest rate swaps as part of its interest rate risk management strategy. Interest rate swaps designated as cash flow hedges involve the receipt of fixed-rate amounts from a counterparty in exchange for the Company making variable-rate payments over the life of the agreements without exchange of the underlying notional amount.

During the three months ended March 31, 2018, the Company entered into an interest rate swaps with aggregate notional values of approximately $407.0 million, of which the aggregate amounts were designated as an accounting hedge. As a result of the anticipated payment and termination of the obligations under the Sale and Leaseback Transactions in July 2018, the Company terminated the interest rate swaps on June 21, 2018 and recognized a gain of $0.3 million in Other, net during the three months ended June 30, 2018.

The following table presents the amounts recognized in the Company's condensed consolidated interim balance sheets and condensed consolidated interim statements of operations related to the derivative financial instruments designated as cash flow hedges for the three and six months ended June 30, 2018 and 2017 (in thousands). The effective portion of gain / (loss) reclassified from AOCIL is recorded under operating and maintenance expense for forex contracts and under interest expense and financing charges for interest rate swaps.

	Unrealized (loss)/gain recognized through AOCIL		Unrealized (loss)/gain recognized through AOCIL	
	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Cash flow hedges				
Foreign currency forward contracts	$ (643)	$ 85	$ (911)	$ 85
Interest rate swaps	513	-	213	-
	$ (130)	$ 85	$ (698)	$ 85

		Gain / (Loss) reclassified from AOCIL		Gain / (Loss) reclassified from AOCIL	
		Three months ended June 30,		Six months ended June 30,	
	Statement of operation classification	2018	2017	2018	2017
Cash flow hedges					
Foreign currency forward contracts	Operating and maintenance	$ (236)	$ 24	$ (263)	$ 24
Interest rate swaps	Interest expense and financing charges	(36)	-	(107)	-
		$ (272)	$ 24	$ (370)	$ 24

	Gain / (loss) recognized through "Other, net"		Gain / (loss) recognized through "Other, net"	
	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Interest rate swaps, other	$ 320	$ -	$ 320	$ -

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

	Balance sheet classification	June 30, 2018	December 31, 2017
Liability derivatives			
Short-term foreign currency forward contracts	Other current liabilities	$ (648)	$ -

Note 17 — Supplemental Cash Flow Information

As part of the sale and leaseback agreements for the Newbuilds, contractual commitments totaling $74.1 million were paid by a third party financial institution directly to the Builder during the six months ended June 30, 2017. There were no such payments during the six months ended June 30, 2018.

Interest in kind of $3.0 million was recorded as obligations under sale and leaseback during the six months ended June 30, 2017. This non-cash financing activity was not reflected on the condensed consolidated interim statements of cash flows for the six months ended June 30, 2017. There were no such transactions during the six months ended June 30, 2018.

In relation to the refinancing of the Company's debt in January 2017, $166.67 million of preferred shares were issued to certain equity Sponsors and $86.75 million 9.5% Senior Secured Notes were issued for the full settlement of the Midco Term Loan, and $416.09 million 8.625% Senior Secured Notes were cancelled in exchange for 9.5% Senior Secured Notes. These non-cash financing activities were not reflected on the condensed consolidated interim statements of cash flows for the six months ended June 30, 2017.

Capital expenditures and deferred costs

Capital expenditures and deferred costs include rig acquisition and other fixed asset purchases, construction expenditures on the Newbuilds and certain expenditures associated with regulatory inspections, major equipment overhauls, contract preparation, including rig upgrades, mobilization and stacked rig reactivations.

The following table sets out the Company's capital expenditures and deferred costs (in thousands):

	Six months ended June 30,	
	2018	2017
Regulatory and capital maintenance	$ 21,139	$ 11,176
Contract preparation	12,360	4,769
Fleet spares and others	4,036	475
	$ 37,535	$ 16,420
Rig acquisitions	8,573	150,823
Newbuilds construction	-	91,887
Total capital expenditures and deferred costs	$ 46,108	$ 259,130

The following table reconciles the cash payment for additions to property and equipment and changes in deferred costs, net to total capital expenditures and deferred costs (in thousands):

	Six months ended June 30,	
	2018	2017
Cash payments for additions to property and equipment	$ 14,126	$ 169,788
Net change in accrued but unpaid additions to property and equipment	(4,047)	(1,024)
	$ 10,079	$ 168,764
Add: Asset addition related to sale and leaseback transactions	-	76,282
Total capital expenditures	$ 10,079	$ 245,046
Changes in deferred costs, net	$ (4,406)	$ (19,244)
Add: Amortization of deferred costs	40,435	33,328
Total deferred costs	$ 36,029	$ 14,084
Total capital expenditures and deferred costs	$ 46,108	$ 259,130

The total cash and cash equivalents excludes restricted cash amounting to $287.5 million and $15.3 million as of June 30, 2018 and December 31, 2017, respectively. These amounts were included under current assets, except for the non-current portion of $21 thousand and $15.3 million as of June 30, 2018 and December 31, 2017, respectively, included in other assets. The restricted cash as of June 30, 2018 is primarily related to the cash in escrow account which will be used to repay in full the sale and lease obligations and associated costs.

The following table provides a reconciliation of cash, cash equivalents, and restricted cash reported in the condensed consolidated interim balance sheets to the total of such amounts reported in the condensed consolidated interim statements of cash flows (in thousands):

	As of December 31,	As of June 30,	
	2017	2018	2017
Cash and cash equivalents	$ 84,563	$ 143,379	$ 172,975
Restricted cash included in current assets	632	287,472	-
Restricted cash included in other assets	14,630	21	15,252
Total cash, cash equivalents and restricted cash	$ 99,825	$ 430,872	$ 188,227

Note 18 — Loss / (Income) Per Share

The net (loss) / income is allocated to the three classes of common stock under the provisions of the Waterfall distribution set forth in the Articles until Recapitalization date. See Note 14 – Shareholders' Equity. The Company presented the (loss)/earnings per share information into pre and post Recapitalization periods for the three and six months ended June 30, 2018 and 2017.

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

	Three months ended June 30, 2018	For the three months ended June 30, 2017				
		One month ended April 30, 2017				Two months ended June 30, 2017
	Common Shares	Class A	Class B	Class C	Class D	Common Shares
Numerator for (loss) / income per share						
Net (loss) / income	$ (37,384)	$ 1,994	$ -	$ -	$ -	$ (33,446)
Less: Preferred shares dividend	5,055	1,450	-	-	-	2,958
Net (loss) / income attributable to common and ordinary shares	$ (42,439)	$ 544	$ -	$ -	$ -	$ (36,404)
Denominator for (loss) / income per share						
Weighted average shares:						
Basic outstanding per Class	83,722,547	444,594	19,540	5,110	-	81,538,112
Effect of stock options and other share-based awards	-	-	891	271	-	178,664
Diluted per Class	83,722,547	444,594	20,431	5,381	-	81,716,776
Basic (loss) / income per share per Class	$ (0.51)	$ 1.22	$ -	$ -	$ -	$ (0.45)
Diluted (loss) / income per share per Class	$ (0.51)	$ 1.22	$ -	$ -	$ -	$ (0.45)

	Six months ended June 30, 2018	For the six months ended June 30, 2017				
		Four months ended April 30, 2017				Two months ended June 30, 2017
	Common Shares	Class A	Class B	Class C	Class D	Common Shares
Numerator for loss per share						
Net (loss) / income	$ (75,901)	$ 458	$ -	$ -	$ -	$ (33,446)
Less: Preferred shares dividend	9,550	5,255	-	-	-	2,958
Net loss attributable to common and ordinary shares	$ (85,451)	$ (4,797)	$ -	$ -	$ -	$ (36,404)
Denominator for loss per share						
Weighted average shares:						
Basic outstanding per Class	$ 82,687,056	444,594	20,630	5,110	-	81,538,112
Effect of stock options and other share-based awards	-	-	1,825	262	-	178,664
Diluted per Class	82,687,056	444,594	22,455	5,372	-	81,716,776
Basic loss per share per Class	$ (1.03)	$ (10.79)	$ -	$ -	$ -	$ (0.45)
Diluted loss per share per Class	$ (1.03)	$ (10.79)	$ -	$ -	$ -	$ (0.45)

For the three and six months ended June 30, 2018, there were 13,640 and 72,148 dilutive common shares, respectively, and for the three and six months ended June 30, 2017 there were 178,664 and 90,669 dilutive class B shares, class C shares and common shares, respectively, which were not included in the computation of diluted (loss) / income per share as the effect of including these shares in the calculation would have been anti-dilutive.

Note 19 — Segment and Related Information

The Company has one reportable segment, contract drilling services, which reflects how the Company manages its business, and the fact that all the drilling fleet is dependent upon the worldwide oil industry. The Company evaluates the performance of the operating segment based on revenues from external customers.

Total revenues by country based on the location of the service provided were as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Saudi Arabia	$ 38,203	$ 41,870	$ 82,978	$ 86,079
Thailand	29,444	19,358	58,578	32,901
India	25,795	26,127	51,131	70,294
Nigeria	23,564	25,661	38,867	42,894
United Arab Emirates	21,725	12,061	41,938	23,958
Other countries	13,784	17,762	26,533	32,966
As Reported Revenue	$ 152,515	$ 142,839	$ 300,025	$ 289,092

Although the Company is incorporated under the laws of the Cayman Islands, the Company does not conduct any operations and does not have any operating revenues in the Cayman Islands.

Total long-lived assets, net of any impairment, by location based on the country in which the assets were located at the balance sheet date were as follows (in thousands):

	June 30, 2018	December 31, 2017
Thailand	$ 436,424	$ 443,090
United Arab Emirates	251,500	244,882
Saudi Arabia	200,171	207,125
Nigeria	184,508	183,959
India	91,957	110,752
Other countries	199,443	216,086
Total long-lived assets	$ 1,364,003	$ 1,405,894

The total long-lived assets are comprised of property and equipment and short-term and long-term deferred costs. A substantial portion of the Company's assets are mobile. Asset locations at the end of the period are not necessarily indicative of the geographic distribution of the revenue generated by such assets during the period.

Note 20 — Related Parties

In connection with the Company's operations of a foreign subsidiary, a related party provided goods and services to drilling rigs owned by one of the Company's foreign subsidiaries. These goods and services totaled $1.0 million and $2.0 million during the three and six months ended June 30, 2018, respectively, and $0.9 million and $1.7 million for the three and six months ended June 30, 2017, respectively. The total liability recorded under accounts payable for such transactions was $0.5 million and $0.6 million as of June 30, 2018 and December 31, 2017, respectively.

The Company recorded $1.4 million and $2.8 million for the three and six months ended June 30, 2018 and $1.3 million and $2.7 million for the three and six months ended June 30, 2017, respectively, of Sponsors' costs related to the $0.4 million monthly fee, directors' fees and reimbursement of costs incurred by Sponsors and directors for attendance at meetings relating to the management and governance of the Company. The total liability recorded under accounts payable for such transactions was $139 thousand and $52 thousand as of June 30, 2018 and December 31, 2017, respectively.

Note 21 — Subsequent Events

The Company has evaluated subsequent events through August 14, 2018, the date of issuance of the condensed consolidated interim financial statements.

The Company fully repaid and terminated the obligations under the Sale and Leaseback Transactions on July 9, 2018.

On July 26, 2018 the Company completed the purchase of a premium jackup drilling rig from a third party for $68.5 million.

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

The following discussion and analysis should be read in conjunction with the accompanying unaudited condensed consolidated interim financial statements contained in this Quarterly Report on Form 10-Q ("Interim Report") equivalent and the audited consolidated financial statements included in our Annual Report for the year ended December 31, 2017. Unless otherwise indicated, references to "we", "us", "our" and the "Company" refer collectively to the Company.

All statements other than statements of historical facts included in this report regarding any of the matters in the list immediately below are forward-looking statements. Forward-looking statements in this report include, but are not limited to, statements about the following subjects:

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

This Interim Report should be read in its entirety as it pertains to Shelf Drilling, Ltd. ("SDL") except where indicated, the Condensed Consolidated Interim Financial Statements and the Notes to the Condensed Consolidated Interim Financial Statements are combined. References in this report to "Shelf,", "SDL", the "Company," "Group," "we," "us," "our" and words of similar meaning refer collectively to Shelf Drilling Ltd. and its consolidated subsidiaries, unless the context requires otherwise. When used in this Interim Report, the words "could," "believe," "anticipate," "intend," "estimate," "expect," "project" and similar expressions are intended to identify forward-looking statements, although not all forward-looking statements contain such identifying words. These forward-looking statements are based on the Company's current expectations and assumptions about future events and are based on currently available information as to the outcome and timing of future events.

Forward-looking statements involve known and unknown risks, uncertainties and other factors that may cause the Company's actual results, performance or achievements to be materially different from the anticipated future results, performance or achievements expressed or implied by the forward-looking statements. The statements under Item 1A. Risk Factors included in our Annual Report for the year ended December 31, 2017 should be read carefully in addition to the above uncertainties and assumptions. These risks and uncertainties are beyond the Company's ability to control, and in many cases, the Company cannot predict such risks and uncertainties which could cause its actual results to differ materially from those indicated by the forward-looking statements. Should one or more of these risks or uncertainties materialize, or should underlying assumptions prove incorrect, actual results may vary materially from those indicated.

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

Business

The Company provides shallow water drilling services to the oil and natural gas industry. We are a leading international offshore drilling contractor providing equipment and services for the drilling, completion and well maintenance of shallow water offshore oil and natural gas wells. We are solely focused on shallow water operations in depths of up to 400 feet and own 38 independent-leg cantilever ("ILC") jack-up rigs, three of which are stacked, and one stacked swamp barge, making us the world's largest owner and operator of jack-up rigs by number of active rigs. All operations are conducted through Shelf Drilling Holdings, Ltd. ("SDHL"), an indirect wholly owned subsidiary of SDL.

The Company's corporate offices are in Dubai, United Arab Emirates ("UAE"), geographically close to its operations in the Middle East (we include Egypt and the Mediterranean in the Middle East), South East Asia, India and West Africa. Since June 25, 2018, SDL shares are listed on the Oslo Stock Exchange under the ticker symbol SHLF. Our website address is www.shelfdrilling.com.

Recent events

In February 2018, SDHL completed the issuance of $600.0 million of new 8.25% Senior Unsecured Notes due 2025 (the "8.25% Senior Unsecured Notes") issued at par. The net proceeds were used to purchase and cancel or redeem $502.8 million of 9.5% Senior Secured Notes due November 2020 (the "9.5% Senior Secured Notes") and $30.4 million of 8.625% Senior Secured Notes due November 2018 (the "8.625% Senior Secured Notes"), or such notes redemption provision, with the remaining cash retained for general corporate purposes. See *Note 8 – Debt* in "Item 1. Financial Statements" of "Part I. Financial Information".

In June 2018, the Company successfully completed two financing transactions, including the (1) issuance of an additional $300.0 million of 8.25% Senior Unsecured Notes due 2025 (the "8.25% Senior Unsecured Notes") at an issue price of 101%; and (2) increased the SDHL Revolver facility from $160 million to $225 million and extended its maturity date from April 30, 2020 to April 30, 2023 with certain other terms of this agreement amended. The net proceeds were used to repay in full and terminate the Senior Secured Credit Facility, due March 2020 (the "SDA Facility") on June 19, 2018 and facilitate the full repayment of the Sale and Leaseback obligations due December 2021 and June 2022, respectively, on July 9, 2018. See *Note 8 – Debt*, *Note 9 – Sale and Leaseback* and *Note 21 – Subsequent Events* in "Item 1. Financial Statements" of "Part I. Financial Information".

In June 2018, the Company also completed an initial public offering of 28,125,000 common shares at approximately $8 per share for total net proceeds of $216.2 million, which was net of $10.7 million of placement costs (the "Offering"). As a result, these 28,125,000 Offering shares began trading on the Oslo Stock Exchange on June 25, 2018. Also, the Private Placement shares were migrated to Oslo Stock Exchange and are no longer traded on the Norwegian OTC as of June 25, 2018. See *Note 14 – Shareholders' Equity* in "Item 1. Financial Statements" of "Part I. Financial Information".

The proceeds from the Offering were used to redeem all outstanding preferred shares with the remainder to be used to assist in the acquisition of one premium jack-up drilling rig from a third party. See *Note 13 – Mezzanine Equity* in "Item 1. Financial Statements" of "Part I. Financial Information". On June 25, 2018, the Company paid $174.0 million to redeem all outstanding preferred shares, including accrued but unpaid dividend of $7.4 million.

On June 30, 2018, the Company entered into an asset purchase agreement to acquire one premium jack-up drilling rig from a third party for $68.5 million. This rig was delivered during the third quarter of 2018.

Drilling fleet

The following table summarizes the Company's offshore drilling rigs as of June 30, 2018 and 2017:

	As of June 30,	
	2018	2017
Jackups (1)	38	38
Swamp barge	1	1
Under construction	-	-
Total	39	39

(1) Included in the 38 jackups are two rigs which are reported as Assets Held for Sale in the June 30, 2018 condensed consolidated interim balance sheets.

Outlook

Following a severe, multi-year downturn in the offshore drilling industry, there are indications across our markets of improving demand for jack-up rig services. Brent crude oil prices, a key driver of exploration, development and production activity by our customers, have significantly increased from a low of $27.88 per barrel on January 20, 2016 to $74.16 per barrel on July 31, 2018. Additionally, Brent crude oil has remained above $70 per barrel for most of 2018. We believe this stabilization at the current levels, coupled with the lack of investment in new development projects in recent years, will stimulate an increase in offshore activity. Due to the relatively low breakeven prices and short cycle times for many workover and development programs in shallow water basins, dayrates and utilization typically recover more quickly for jack-up rigs than deepwater rigs.

While price competition among jack-up rig contractors continues to be intense and market dayrates remain at historically low levels, the global number of contracted jack-up rigs has begun to gradually increase, growing by 8% from 311 rigs in January 2017 to 335 rigs in June 2018. Further, there has been a rise in tendering activity in 2018 compared to 2017 and 2016, which has the potential to result in a continued increase in the global number of contracted rigs. We experienced an increase in market and tender inquiries from our customers in 2018, particularly in the Middle East, West Africa and other key markets. Oil and gas companies have expressed an interest in increasing their activity in 2019 in our core operating regions. We believe that we are positioned to benefit from a potential increase in demand for jack-up rig services due to our operating track record and competitive low-cost structure.

We remain focused on delivering safe and efficient operations, as well as realizing cost savings and efficiency gains across all levels of the organization.

Operational measures

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

Contract backlog was $1.0 billion across 28 contracted rigs with a weighted average backlog dayrate of $80.2 thousand per day and average contracted days of 466 per rig as of June 30, 2018, compared with $1.4 billion across 23 contracted rigs with a weighted average dayrate of $98.2 thousand per day and average contracted days of 620 per rig as of June 30, 2017.

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

As of June 30, 2018, 34 rigs were marketable (of which 27 were under contract and 7 were actively being marketed), one rig was under non-drilling contract and four rigs were stacked compared to 34 marketable rigs, one rig under non-drilling contract and four stacked rigs as of June 30, 2017.

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

The average dayrate realized for the three and six months ended June 30, 2018 was $67.5 thousand and $68.8 thousand, respectively, a decrease of 1.5% and an increase of 0.4%, respectively, from the average dayrate of $68.5 thousand realized for both the three and six months ended June 30, 2017.

Effective Utilization: Effective utilization measures the dayrate revenue efficiency of our marketable rigs. This is the actual number of calendar days during which marketable rigs generate dayrate revenues divided by the maximum number of calendar days during which those rigs could have generated dayrate revenues. Effective utilization varies due to changes in operational uptime, planned downtime for periodic surveys, timing of underwater inspections, contract preparation and upgrades, time between contracts and the use of alternative dayrates for waiting-on-weather periods, repairs, standby, force majeure, mobilization or other rates that apply under certain circumstances. We exclude all other types of revenue from effective utilization.

Effective utilization in Q2 2018 of 67% was higher than the effective utilization in Q2 2017 of 64%. The increase was primarily driven by the effective utilization of our three acquired rigs. There were seven rigs idle awaiting marketing opportunities at the end of Q2 2018 compared to twelve rigs at the end of Q2 2017.

Financial measures

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

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

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

Our financial measures for the three and six months ended June 30, 2018 and 2017 were as follows (in thousands):

	Three months ended June 30,		Six months ended June 30,	
	2018	2017	2018	2017
Net loss	$ (37,384)	$ (31,452)	$ (75,901)	$ (32,988)
Add back:				
Interest expense and financing charges, net of interest income (1)	26,627	15,975	65,404	46,188
Income tax expense / (benefit)	4,339	(809)	8,996	3,741
Depreciation	21,809	19,740	43,677	38,110
Amortization of deferred costs	21,428	16,484	40,435	33,328
Loss on impairment of assets	1,137	34,802	1,137	34,802
Loss on disposal of assets	361	454	241	316
EBITDA	$ 38,317	$ 55,194	$ 83,989	$ 123,497
Sponsors' fee (2)	1,125	1,125	2,250	2,250
Share-based compensation expense, net of forfeitures	11,121	205	11,323	425
Acquired rig reactivation costs (3)	88	-	2,058	-
One-time corporate transaction costs (4)	3,929	-	3,929	-
Other	400	-	400	-
Adjusted EBITDA	$ 54,980	$ 56,524	$ 103,949	$ 126,172
Adjusted EBITDA margin	36.0%	39.6%	34.6%	43.6%

(1) Represents interest expenses incurred and accrued on our debt and the amortization of debt issuance fees and costs over the term of the debt net of capitalized interest and interest income. This also includes the losses on debt extinguishments in relation to our debt refinancing in Q1 2017, Q1 2018 and Q2 2018.

(2) Represents the fee to the sponsors in respect of their role as advisors to us.

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

(4) Represents certain one-time third party professional services incurred at SDL level.

As a result of the termination of the SDA Facility in June 2018, Shelf Drilling Asset III, Ltd. ("SDAIII"), which holds two rigs acquired in 2017, became a restricted subsidiary and guarantor of the 8.25% Senior Unsecured Notes on June 19, 2018. Additionally, as a result of the $300 million tack-on issuance of 8.25% Senior Unsecured Notes in June 2018 and subsequent payoff and termination of the sale and leaseback obligations, all subsidiaries related to the Newbuild rigs ("Newbuild Subsidiaries") also became restricted subsidiaries and guarantors of the 8.25% Senior Unsecured Notes as of July 9, 2018. Inclusive of SDAIII and the Newbuild Subsidiaries, the Company's restricted subsidiaries accounted for 100% of the Company's Adjusted EBITDA for the three and six months ended June 30, 2018 and 2017. Exclusive of SDAIII and the Newbuild Subsidiaries, the Company's restricted subsidiaries accounted for $37.7 million (69%) and $71.5 million (69%) for the three and six months ended June 30, 2018, respectively, of the Company's Adjusted EBITDA and $45.9 million (81%) and $107.9 million (85%) for the three and six months ended June 30, 2017, respectively, of the Company's Adjusted EBITDA.

Inclusive of SDAIII and the Newbuild Subsidiaries, the Company's restricted subsidiaries accounted for 100% of the Company's assets as of June 30, 2018 and December 31, 2017. Exclusive of SDAIII and the Newbuild Subsidiaries, the Company's restricted subsidiaries accounted for 68% and 61% of the Company's assets as of June 30, 2018 and December 31, 2017, respectively.

Operating Results

Three months ended June 30, 2018 ("Q2 2018") compared to three months ended June 30, 2017 ("Q2 2017")

Revenues

Total revenue for Q2 2018 was $152.5 million compared to $142.8 million for Q2 2017. Revenue for Q2 2018 consisted of $149.0 million (97.7%) of operating revenue and $3.5 million (2.3%) of other revenue. In Q2 2017, these same revenues were $137.5 million (96.3%) and $5.3 million (3.7%), respectively.

Revenue in Q2 2018 increased by $9.7 million compared to Q2 2017 primarily due to $23.6 million of higher operating revenue related to the operations of the two newbuilds and the three premium jack-up rigs acquired in 2017. This was partially offset by $5.1 million related to lower average earned dayrates excluding the two newbuilds and the three acquired rigs, $3.6 million related to lower effective utilization excluding newbuilds and acquired rigs, $3.1 million of lower other revenue in Q2 2018 and $2.1 million lower revenue related to non-drilling activities in Q2 2018.

Operating and maintenance expenses

Total operating and maintenance expenses for Q2 2018 were $87.2 million, or 57.2% of total revenue, compared to $73.1 million, or 51.2% of total revenue, for Q2 2017. Operating and maintenance expenses in Q2 2018 consisted of $78.8 million rig-related expenses and $8.4 million shore-based expenses. In Q2 2017, these same expenses were $65.0 million and $8.1 million, respectively.

In Q2 2018, rig-related expenses included $46.1 million for personnel expenses, $23.0 million for maintenance expenses and $9.7 million for other rig-related expenses. This compares to $39.7 million, $17.7 million and $7.6 million for those respective categories during Q2 2017. Compared to Q2 2017, the increase in rig-related expenses of $13.8 million was primarily due to $9.0 million of costs for the three premium jack-up drilling rigs acquired, $6.1 million of contract preparation and operating expenses for rigs that were idle in Q2 2017 but operating or preparing for new contracts in Q2 2018, $1.4 million of increased costs related to the full quarter of operations for the two newbuild rigs in Q2 2018 and $0.8 million of other maintenance costs. This was partly offset by $3.8 million lower expenses for stacked and idle rigs awaiting marketing opportunities.

There were $0.3 million of higher shore-based expenses (a 4% increase from Q2 2017), primarily attributable to the new shore-based office supporting the operations of the two acquired premium jack-up rigs in the United Arab Emirates.

Depreciation expense

Depreciation expense in Q2 2018 was $21.8 million compared to $19.7 million in Q2 2017. The increase of $2.1 million primarily related to $2.1 million of depreciation for the three recently acquired premium jack-up rigs and $1.1 million depreciation for the second newbuild which was placed into service in June 2017, partially offset by $1.0 million of lower depreciation on rigs and equipment which were impaired in June 2017.

Amortization of deferred costs

The amortization of deferred costs in Q2 2018 was $21.4 million compared to $16.5 million in Q2 2017. The $4.9 million increase primarily related to the amortization of contract preparation costs of the three acquired premium jack-up rigs which all started their respective contract in Q1 2018.

General and administrative expenses

General and administrative expenses in Q2 2018 were $26.8 million compared to $14.1 million in Q2 2017. The $12.7 million increase resulted from $10.9 million of higher share-based compensation, due to the accelerated vesting of all unvested shares as a result of the Offering in June 2018, and $4.0 million of higher costs related to a one-time corporate transaction, partially offset by $2.2 million of lower other costs.

Loss on impairment of assets

Loss on impairment of assets was $1.1 million for Q2 2018 and $34.8 million for Q2 2017. The non-cash impairment loss in Q2 2018 represented an impairment loss on one of the Company's rigs that was classified as asset held for sale. The impairment loss was based on the carrying value of the rig being higher than the fair value less costs to sell, which led to the rig being impaired down to the fair value, less costs to sell. The non-cash impairment loss in Q2 2017 represented an impairment loss on four of the Company's rigs, out of which one rig was impaired to salvage value. The impairment loss was recorded as a result of further decline in crude oil prices, continued pressure on market dayrates and an increase in the number of idle rigs.

Loss on disposal of assets

Loss on disposal of assets was $0.4 million and $0.5 million in Q2 2018 and Q2 2017, respectively.

Other (expense) / income, net

Other (expense) / income, net was an expense of $26.8 million in Q2 2018 and $16.4 million in Q2 2017. Other expense consisted primarily of interest expense and financing charges of $27.1 million and $16.2 million during Q2 2018 and Q2 2017, respectively. Interest expense and financing charges in Q2 2018 were $10.9 million higher compared to Q2 2017 primarily due to the $5.9 million call premium related to the full payment of the obligations under the sale and leaseback financing facility, $2.1 million of capitalized interest on the sale and leaseback financing facility in Q2 2017, $1.0 million of debt extinguishment costs related to the termination of the SDA Facility and $0.7 million of higher interest expense on the sale and leaseback financing facility.

Also included in the Other (expense) / income, net is Other, net which was an expense of $0.1 million in Q2 2018 compared to an expense of $0.5 million in Q2 2017. The difference of $0.4 million was primarily due to a gain recognized on interest rate swap termination of $0.3 million in Q2 2018. The interest income of $0.5 million in Q2 2018 was also higher by $0.2 million compared to the corresponding period in 2017 primarily due to an increase in interest rates and higher cash balances.

Income tax expense

Income tax expense in Q2 2018 was $4.3 million compared to a $0.8 million benefit in Q2 2017. While we are exempt from all income taxation in the Cayman Islands, a provision for income taxes is recorded based on the tax laws and rates applicable in the jurisdictions in which we operate and earn income or are considered a resident for income tax purposes. The relationship between the provision for or benefit from income taxes and the income or loss before income taxes can vary significantly from period to period considering, among other factors, (a) the overall level of income before income taxes, (b) changes in the blend of income that is taxed based on gross revenues rather than income before taxes, (c) rig movements between taxing jurisdictions and (d) changes in the Company's rig operating structures which may alter the basis on which the Company is taxed in a particular jurisdiction.

Income tax expense in Q2 2018 is higher than in Q2 2017 primarily due to tax benefits during Q2 2017 which resulted from a reduction in deferred tax liabilities during the period related to the future income tax cost of repatriating the unremitted earnings of a certain subsidiary, due to a decrease during the period in the amount of unremitted earnings which the Company believed would be repatriated in the foreseeable future, as well as certain tax benefits during Q2 2017 related to an increase in the amount of income tax refunds the Company believed it would recover in certain jurisdictions primarily due to a favorable court order received during the period.

Six months ended June 30, 2018 compared to six months ended June 30, 2017

Revenue

Revenue for the six months ended June 30, 2018 was $300.0 million compared to $289.1 million for the same period in 2017. The revenue for the six months ended June 30, 2018 consisted of $293.6 million (97.9%) of operating revenue and $6.4 million (2.1%) of other revenue. In 2017, these corresponding figures were $279.9 million (96.8%) and $9.2 million (3.2%), respectively.

Revenue for the six months ended June 30, 2018 increased by $10.9 million compared to the same period in 2017 primarily due to $48.6 million higher revenue related to the operations of the two newbuilds and the three premium jack-up rigs acquired in 2017. This was partly offset by $8.7 million lower revenue due to the lower average earned dayrates excluding the two newbuilds and the three acquired rigs, $23.0 million related to lower effective utilization (65% in 2018 compared to 67% in 2017), $4.0 million lower revenue related to non-drilling activities in 2018 and $2.0 million of lower other revenue in 2018.

Operating and maintenance expenses

Total operating and maintenance expenses for the six months ended June 30, 2018 were $177.5 million, or 59.2% of total revenue compared to $141.6 million or 49.0% of total revenue for the same period in 2017. Operating and maintenance expenses for the six months ended June 30, 2018 consisted of $160.5 million rig-related expenses and $17.0 million shore-based expenses. These same expenses were $125.3 million and $16.3 million, respectively, in 2017.

In the first half of 2018, rig-related expenses included $93.6 million for personnel expenses, $44.7 million for maintenance expenses and $22.2 million for other rig-related expenses. This compares to $78.6 million, $30.9 million and $15.8 million for those respective categories during the same period in 2017. Compared to the six months ended June 30, 2017, the increase in rig-related expenses of $35.2 million was mainly due to **$**17.8 million of costs for the three premium jack-up rigs acquired in 2017, $14.1 million of contract preparation and operating expenses for rigs that were idle in Q2 2017 but operating or preparing for new contracts in Q2 2018, $5.3 million of higher rig mobilization costs, $4.5 million of increased costs related to the two newbuild rigs and $2.2 million higher maintenance and shipyard expenses. This was partly offset by $6.4 million lower expenses for stacked and idle rigs awaiting marketing opportunities and $2.4 million of cost savings across rigs, primarily due to lower personnel related expenditures and insurance.

There were $0.7 million of higher shore-based expenses (a 4% increase from 2017), primarily attributable to the new shore-based office supporting the operations of the two acquired premium jack-up rigs in the United Arab Emirates.

Depreciation expense

Depreciation expense for the six months ended June 30, 2018 was $43.7 million compared to $38.1 million for the same period in 2017. The increase of $5.6 million primarily related to $4.9 million of depreciation for the three recently acquired premium jack-up rigs and $2.9 million depreciation for the second newbuild which was placed into service in June 2017, partially offset by $2.0 million of lower depreciation on rigs and equipment which were impaired in June 2017.

Amortization of deferred costs

The amortization of deferred costs for the six months ended June 30, 2018 was $40.4 million compared to $33.3 million for the six months ended June 30, 2017. The $7.1 million increase primarily related to the amortization of contract preparation costs for the three acquired premium jack-up rigs which all started their respective contracts in Q1 2018.

General and administrative expenses

General and administrative expenses for the six months ended June 30, 2018 were $39.4 million compared to $23.2 million for the same period in 2017. The $16.2 million increase in general and administrative expenses primarily resulted from $10.9 million of higher share-based compensation, due to the accelerated vesting of all unvested shares as a result of the Offering in June 2018, $4.0 million of higher costs related to a one-time corporate transaction and $1.3 million of higher other costs.

Loss on impairment of assets

Loss on impairment of assets was $1.1 million and $34.8 million for the six months ended June 30, 2018 and 2017. The non-cash impairment loss during the six months ended June 30, 2018 represented an impairment loss on one of the Company's rigs that was classified as asset held for sale. The impairment loss was based on the carrying value of the rig being higher than the fair value less costs to sell, which led to the rig being impaired down to the fair value less costs to sell. The non-cash impairment loss during the six months ended June 30, 2017 represented an impairment loss on four of the Company's rigs, out of which one rig was impaired to salvage value. The impairment loss was recorded as a result of further decline in crude oil prices, continued pressure on market dayrates and an increase in the number of idle rigs.

Loss on disposal of assets

Loss on disposal of assets was $0.2 million and $0.3 million for the six months ended June 30, 2018 and 2017, respectively.

Other income / (expense), net

Other income / (expense), net was an expense of $64.5 million for the six months ended June 30, 2018 and $47.0 million for the same period in 2017. Other expense consisted primarily of interest expense and financing charges of $66.1 million and $46.6 million during the six months ended June 30, 2018 and 2017, respectively. Interest expense and financing charges in 2018 period were $19.5 million higher compared with the same period in 2017, primarily due to the $5.9 million call premium related to the full repayment of the obligations under the sale and leaseback financing facility, $5.4 million of debt extinguishment costs, $4.9 million of capitalized interest on the sale and leaseback financing facility and $2.2 million of higher interest expense on the sale and leaseback financing facility.

Also included in the Other income / (expense), net is Other, net which was an income of $0.9 million during the six months ended June 30, 2018 compared to expense of $0.8 million in the six months ended June 30, 2017. The difference of $1.7 million is mainly due to increased foreign currency exchange gains and a gain recognized on interest rate swap termination of $0.3 million. The interest income of $0.7 million for the six months ended June 30, 2018 was also higher by $0.3 million compared to the corresponding period in 2017 primarily due to an increase in interest rates and higher cash balances.

Income tax expense

Income tax expense for the six months ended June 30, 2018 was $9.0 million compared to income tax expense for the same period of 2017 of $3.7 million. While the Company is exempt from all income taxation in the Cayman Islands, a provision for income taxes is recorded based on the tax laws and rates applicable in the jurisdictions in which the Company operates and earns income or is considered resident for income tax purposes. The relationship between the provision for or benefit from income taxes and the income or loss before income taxes can vary significantly from period to period considering, among other factors, (a) the overall level of income before income taxes, (b) changes in the blend of income that is taxed based on gross revenues rather than income before taxes, (c) rig movements between taxing jurisdictions and (d) changes in the Company's rig operating structures which may alter the basis on which the Company is taxed in a particular jurisdiction.

Income tax expense for the six months ended June 30, 2018 is higher than for the same period in 2017 primarily due to tax benefits during Q2 2017 which resulted from a reduction in deferred tax liabilities related to the future income tax cost of repatriating the unremitted earnings of a certain subsidiary, due to a decrease during the period in the amount of unremitted earnings which the Company believed would be repatriated in the foreseeable future, as well as certain tax benefits during Q2 2017 related to an increase in the amount of income tax refunds the Company believed it would recover in certain jurisdictions primarily due to a favorable court order received during the period.

Liquidity and Capital Resources

Sources and uses of liquidity

Historically, we have met our liquidity needs principally from cash balances in banks, cash generated from operations, availability under our revolver and the sale and leaseback financing of the Newbuild rigs. We periodically rely on the issuance of debt and/or equity securities to facilitate our liquidity needs. Our primary uses of cash were capital expenditures and deferred costs payments, repayment of long term debt, debt issuance and extinguishment costs payments, and interest and income tax payments.

We had $143.4 million and $84.6 million in cash and cash equivalents as of June 30, 2018 and December 31, 2017, respectively. Our restricted cash balance as of June 30, 2018 increased by $272.2 million, to $287.5 million, compared to $15.3 million as of December 31, 2017, primarily related to the $272.9 million of cash in escrow account to assist in the full repayment of the Obligations under Sale and leaseback.

In June 2018, the SDHL Revolver was amended to extend the maturity date from April 30, 2020 to April 30, 2023 and to permanently increase the facility from $160 million to $225 million. Under the SDHL Revolver, we had $9.5 million and $12.3 million of surety bonds issued as of June 30, 2018 and December 31, 2017, respectively. In addition, there were no cash borrowings under the SDHL Revolver during the same periods. There are certain limitations which restrict the Company's ability to draw down the available balance of the SDHL Revolver.

As of June 30, 2018 the Company had terminated the SDA Facility. As of December 31, 2017 the Company had no borrowings and no outstanding bank guarantees under this facility.

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

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

Detailed explanations of our liquidity and capital resources for the six months ended June 30, 2018 and 2017 are given below.

Discussion of Cash flows

The following table sets out certain information regarding our cash flow statements for the six months ended June 30, 2018 and 2017 (in thousands):

	Six months ended June 30,	
	2018	**2017**
Net cash (used in) / provided by operating activities	$ (15,607)	$ 44,004
Net cash used in investing activities	(13,737)	(153,803)
Net cash provided by financing activities	360,391	75,631
Net increase / (decrease) in cash, cash equivalents and restricted cash	$ 331,047	$ (34,168)

Net cash (used in) / provided by operating activities

Net cash (used in) / provided by operating activities totaled $(15.6) million during the six months ended June 30, 2018 compared to $44.0 million during the six months ended June 30, 2017. The decrease of $59.6 million was primarily due to an increase in contract preparation costs and lower margins. See discussion of operating and maintenance expenses in "Operating results."

During the six months ended June 30, 2018 and 2017, the Company made cash payments of $29.0 million and $42.4 million in interest and financing charges, respectively, net of interest amounts capitalized of nil and $2.5 million in relation to our Newbuilds rig construction, respectively.

The Company also made cash payments of $9.3 million and $7.9 million in income taxes during the six months ended June 30, 2018 and 2017, respectively.

Net cash used in investing activities

Net cash used in investing activities totaled $13.7 million during the six months ended June 30, 2018 compared to $153.8 million during the six months ended June 30, 2017.

Cash used for capital expenditures, including capitalized interest, totaled $14.1 million and $169.8 million during the six months ended June 30, 2018 and 2017, respectively. The decrease of $155.7 million is primarily attributable to the $150.8 million paid for the purchase of the two premium jack-up drilling rigs in 2017. Also, the Company paid $1.5 million in advance for the purchase of the third premium jack-up drilling rig which was delivered in Q3 2017.

During the six months ended June 30, 2017, we received $16.9 million paid to us by the lessor under the sale and leaseback transactions for costs incurred on a newbuild rig

As part of the sale and leaseback agreements for the Newbuild rigs, contractual commitment payments totaling $74.1 million were made by the third party financial institutions directly to the shipyard constructing the rigs during the six months ended June 30, 2017, and $3.0 million of interest in kind was recorded as capitalized interest and obligation under sale and leaseback during the six months ended June 30, 2017. These non-cash transactions are not reflected on the condensed consolidated interim statement of cash flows for the six months ended June 30, 2017.

See Section – *Capital expenditures and deferred costs* below for further information.

Net cash provided by financing activities

Net cash provided by financing activities totaled $360.4 million in the six months ended June 30, 2018 compared to $75.6 million in same period of 2017.

The increase of $284.8 million is primarily due to the issuance of debt of $928.0 million (resulting from the issuance of a total of $900 million of 8.25% Senior Unsecured Notes and $25.0 million of draws on the SDA Facility), partially offset by the increase in retirement of long-term debt of $454.5 million, the redemption of preferred shares of $166.7 million, increased payment of preferred shares dividends of $15.3 million and increased payment of debt financing and extinguishment costs of $10.2 million in the 2018 period. The increase in retirement of long-term debt of $440.0 million is primarily due to the retirement in the 2018 period of $502.8 million of 9.5% Senior Secured Notes, $30.4 million of 8.625% Senior secured Notes and $25.0 million of the SDA Facility, partially offset by $86.8 million of partial settlement of the $350 Midco Term Loan in the 2017 period.

Capital expenditures and deferred costs

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

The table below sets out our capital expenditures and deferred costs for the six months ended June 30, 2018 and 2017 (in thousands):

	Six months ended June 30,	
	2018	**2017**
Regulatory and capital maintenance (1)	$ 21,139	$ 11,176
Contract preparation (2)	12,360	4,769
Fleet spares and other (3)	4,036	475
	$ 37,535	$ 16,420
Rig acquisitions (4)	8,573	150,823
Newbuilds construction (5)	-	91,887
Total capital expenditures and deferred costs	$ 46,108	$ 259,130

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

(2) Includes specific upgrade, mobilization and preparation costs associated with a customer contract

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

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

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

Capital expenditures and deferred costs were $46.1 million in the first half of 2018 compared to $259.1 million in the first half of 2017. The decrease of $213.0 million was due to $150.8 million related to the acquisition of two premium jack-up rigs and $91.9 million attributable to the two Newbuild rigs under construction in 2017. This was partly offset by a $13.4 million increase in regulatory and capital maintenance and fleet spares, $8.6 million reactivation of the three recently acquired premium jack-up rigs and a $7.7 million increase in contract preparation expenditure.

The following table reconciles the cash payments related to additions to property and equipment and changes in deferred costs, net to the total capital expenditures and deferred costs for the six months ended June 30, 2018 and 2017 (in thousands):

	Six months ended June 30, 2018	2017
Cash payments for additions to property and equipment	$ 14,126	$ 169,788
Net change in accrued but unpaid additions to property and equipment	(4,047)	(1,024)
	$ 10,079	$ 168,764
Asset addition related to sale and leaseback transactions	-	76,282
Total capital expenditures	$ 10,079	$ 245,046
Changes in deferred costs, net	$ (4,406)	$ (19,244)
Amortization of deferred costs	40,435	33,328
Total deferred costs	$ 36,029	$ 14,084
Total capital expenditures and deferred costs	$ 46,108	$ 259,130

Certain financial information of SDL and SDHL

The following tables present certain financial information for SDL and SDHL for the six months period ended June 30, 2018 and certain adjustments to show the differences in this financial information between SDL and SDHL for these periods. These adjustments primarily reflect the existence of preferred shares at SDL and general and administrative costs relating to certain professional expenses that are recorded at SDL and not at SDHL.

June 30, 2018

Condensed Consolidated Interim Statements of Operations for the three and six months ended June 30, 2018

	Six months ended June 30, 2018		
	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.
Revenues			
Operating revenues	$ 293,653	$ -	$ 293,653
Other revenue	6,372	-	6,372
	300,025	**-**	**300,025**
Operating costs and expenses			
Operating and maintenance	177,503	-	177,503
Depreciation	43,677	-	43,677
Amortization of deferred costs	40,435	-	40,435
General and administrative(1)	39,434	(4,075)	35,359
Loss on impairment of assets	1,137	-	1,137
Loss on disposal of assets	241		241
	302,427	**(4,075)**	**298,352**
Operating (loss) / income	**(2,402)**	**4,075**	**1,673**
Other (expense) / income, net			
Interest income	680	-	680
Interest expense and financing charges	(66,084)	-	(66,084)
Other, net	901	-	901
	(64,503)	**-**	**(64,503)**
Loss before income taxes	**(66,905)**	**4,075**	**(62,830)**
Income tax expense	8,996	-	8,996
Net loss	$ (75,901)	$ 4,075	$ (71,826)
Preferred dividend (2)	(9,550)	9,550	-
Net loss attributable to common shares	$ (85,451)	$ 13,625	$ (71,826)

(1) This adjustment primarily relates to third party professional services for one-time corporate transaction costs recorded at SDL level.

(2) In January 2017, we refinanced our long-term debt (the "2017 refinancing"). In connection with the 2017 refinancing, SDL's wholly owned subsidiary, Shelf Drilling Midco, Ltd ("Midco"), fully retired its outstanding $350 million term loan (the "Midco

term loan") for an aggregate consideration of $339.17 million which included the issuance of $166.67 million of SDL preferred shares (the "preferred shares") to certain equity sponsors. This adjustment relates to the dividend on preferred shares recorded at SDL for the six months ended June 30, 2018.

Condensed Consolidated Interim Balance Sheets as of June 30, 2018

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.
		(In thousands)	
Assets			
Cash and cash equivalents [1]	$ 143,379	$ (4,569)	$ 138,810
Accounts and other receivables, net[2]	158,420	540	158,960
Assets held for sale	2,174	-	2,174
Restricted cash	287,472	-	287,472
Other current assets	90,029	-	90,029
Total current assets	681,474	(4,029)	677,445
Property and equipment	1,613,513	-	1,613,513
Less accumulated depreciation	401,007	-	401,007
Property and equipment, net	1,212,506	-	1,212,506
Deferred tax assets	502	-	502
Other assets	98,616	-	98,616
Total assets	**$ 1,993,098**	**$ (4,029)**	**$ 1,989,069**
Liabilities and equity			
Accounts payable[3]	$ 74,112	$ (3,081)	$ 71,031
Interest payable	20,625	-	20,625
Obligations under sale and leaseback	296,517	-	296,517
Current maturities of long-term debt	1,843	-	1,843
Accrued income taxes	5,645	-	5,645
Other current liabilities	34,847	-	34,847
Total current liabilities	433,589	(3,081)	430,508
Long-term debt	886,969	-	886,969
Obligations under sale and leaseback	-	-	-
Deferred tax liabilities	3,759	-	3,759
Other long-term liabilities	18,130	-	18,130
Total long-term liabilities	908,858	-	908,858
Mezzanine equity, net of issuance costs	-	-	-
Commitments and contingencies			
Common shares[4]	1,112	(1,112)	-
Additional paid-in capital[5]	880,763	(91,441)	789,322
Accumulated other comprehensive income	(648)	-	(648)
Accumulated losses[6]	(230,576)	91,605	(138,971)
Total equity	650,651	(948)	649,703
Total liabilities and equity	**$ 1,993,098**	**$ (4,029)**	**$ 1,989,069**

(1) This adjustment primarily relates to cash balances held at SDL level.

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

(3) This adjustment primarily relates to the accrual of third party professional services recorded at the SDL level related to the Offering.

(4) In April 2017, SDL completed an offering of 28,125,000 new common shares at a price of $8.00 per share (the "Private Placement"). In connection with the Private Placement, the classes of A, B, C and D ordinary shares were converted into a single class of new common shares, pursuant to which 55,000,000 new common shares were issued to the existing holders of SDL. In June 2018, SDL successfully completed an initial public offering of 28,125,000 new common shares. This adjustment reflects the total number of outstanding shares of 111,240,394 with a par value of $0.01 per share.

(5) This adjustment primarily reflects a capital contribution from Shelf Drilling Intermediate, Ltd. ("SDIL") to SDHL in 2012 and preferred shares dividends at SDL, partially offset by ordinary shares dividend at SDHL. SDIL is 100% owned by Shelf Drilling Midco, Ltd ("Midco") which is 100% directly owned by SDL.

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

Condensed Consolidated Interim Statements of Cash flows for the six months ended June 30, 2018

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.
		(In thousands)	
Cash flows from operating activities			
Net loss	$ (75,901)	$ 4,075	$ (71,826)
Adjustments to reconcile net loss to net cash used in operating activities			
Depreciation	43,677	-	43,677
Loss on impairment of assets	1,137	-	1,137
Loss on derivative financial instruments, net	50	-	50
Provision for doubtful accounts, net	239	-	239
Amortization of deferred revenue	(7,109)	-	(7,109)
Share-based compensation expense, net of forfeitures / Capital contribution by Parent share-based compensation	11,323	-	11,323
Non-cash portion of loss on debt extinguishment	7,368	-	7,368
Debt extinguishment costs	18,761	-	18,761
Amortization of debt issue costs	1,606	-	1,606
Loss on disposal of assets	241	-	241
Deferred tax expense, net	171	-	171
Payments for settlement of derivative financial instruments, net	(370)	-	(370)
Changes in deferred costs, net	4,406	-	4,406
Changes in operating assets and liabilities			
Intercompany receivables (1)	-	4,847	4,847
Other operating assets and liabilities, net (2)	(21,206)	(3,368)	(24,574)
Net cash used in operating activities	(15,607)	5,554	(10,053)
Cash flows from investing activities			
Additions to property and equipment	(14,126)	-	(14,126)
Proceeds from disposal of property and equipment	389	-	389
Net cash used in investing activities	(13,737)	-	(13,737)
Cash flows from financing activities			
Short-term debt	1,843	-	1,843
Proceeds from issuance of common shares / Proceeds from capital contribution by Parent (3)	226,908	(184,408)	42,500
Payments for common and preferred shares issuance costs (4)	(7,679)	7,679	-
Payments for redemption of preferred shares (5)	(166,667)	166,667	-
Proceeds from issuance of long-term debt	928,000	-	928,000
Payments for obligations under sale and leaseback	(17,413)	-	(17,413)
Payments to retire long-term debt	(558,250)	-	(558,250)
Payments of debt financing costs	(17,710)	-	(17,710)
Payments of debt extinguishment costs	(12,693)	-	(12,693)
Preferred shares dividend paid (6)	(16,268)	16,268	-
Ordinary shares dividend paid (7)	-	(16,275)	(16,275)
Proceeds from settlement of interest rate swaps	320	-	320
Net cash provided by financing activities	360,391	(10,069)	350,322
Net increase in cash, cash equivalents and restricted cash	331,047	(4,515)	326,532
Cash, cash equivalents and restricted cash at beginning of period	99,825	(54)	99,771
Cash, cash equivalents and restricted cash at end of period	**$ 430,872**	$ (4,569)	**$ 426,303**

(1) This adjustment primarily relates to the settlement of intercompany receivable balance between SDL and SDHL during the six months ended June 30, 2018.

(2) This adjustment primarily relates to certain professional service expenses, including accounting fees incurred in connection with the preparation of SDL financial statements.

(3) This adjustment relates to the proceeds received from the issuance of shares in relation to the Offering partly offset by a contribution from SDL to SDHL primarily to support the SDA facility repayment.

(4) This adjustment relates to the issuance of common shares.

(5) This adjustment relates to the redemption of SDL's preferred shares.

(6) This adjustment relates to the payment of SDL's preferred dividends.

(7) This adjustment reflects the ordinary shares dividend paid by SDHL to fund SDL's preferred shares dividend payment.

Contractual Obligations

In the normal course of business, we enter into various contractual obligations that impact or could impact our liquidity. The table below contains our estimated contractual obligations stated at face value as of June 30,2018 (in thousands):

	Years ended June 30,						
	2019	2020	2021	2022	2023	Thereafter	Total
Debt repayment (1)	$ -	$ -	$ -	$ -	$ -	$ 900,000	$ 900,000
Interest on debt (2)	77,644	77,644	77,644	77,644	77,078	148,500	536,154
Sale and lease back obligations (3)	302,387	-	-	-	-	-	302,387
Operating leases and other commitments	8,195	6,054	4,165	1,421	314	-	20,149
Purchase commitment (4)	68,500	-	-	-	-	-	68,500
Total	$ 456,726	$ 83,698	$ 81,809	$ 79,065	$ 77,392	$1,048,500	$ 1,827,190

(1) Debt includes 8.25% Senior Unsecured Notes.

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

(3) This represents the obligations and associated call premium under the sale and leaseback transactions as at June 30, 2018.

(4) This represents the commitment from the Company to acquire a premium jackup rig from a third party.

Other Commercial Commitments

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

We have surety bond facilities in either U.S. dollars or local currencies of approximately $102.6 million provided by several banks to guarantee various contractual, performance, and customs obligations. We entered into these facilities in India, Egypt, UAE and Nigeria. The outstanding surety bonds were $49.1 million and $53.6 million at June 30, 2018 and December 31, 2017, respectively.

The Company also had a $50.0 million uncommitted guarantee facility included in the SDA facility which has been closed in June 2018. The outstanding bank guarantees under the uncommitted guarantee facility were nil as of December 31, 2017, respectively.

In addition, we had outstanding bank guarantees and performance bonds amounting to $9.5 million and $12.3 million as of June 30, 2018 and December 31, 2017, respectively, against the SDHL Revolver.

Therefore, the total outstanding bank guarantees and surety bonds issued by the Company were $58.6 million and $65.9 million as of June 30, 2018 and December 31, 2017, respectively.

Contingencies

As of June 30, 2018, we are not exposed to any contingent liabilities that will result in a material adverse effect on the current consolidated financial position, results of operations or cash flows. The majority of the contingent liabilities we are exposed to relate to legal and tax cases, which are fully indemnified by Transocean Inc.. See *Note 7 - Income Taxes and Note 11 - Commitments and Contingencies* in "Item 1. Financial Statements" of "Part I. Financial Information".

Critical Accounting Policies and Estimates

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

For a discussion of the critical accounting policies and estimates that we use in the preparation of our Condensed Consolidated Interim Financial Statements, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Policies, Key Judgements and Estimates" in Part II of our Annual Report on Form 10-K Equivalent for the year ended December 31, 2017. During the three and six months ended June 30, 2018, there were no material changes to the judgments, assumptions or policies upon which our critical accounting estimates are based, except for the impact of the adoption of the new accounting standard on revenue from contracts with customers. *See Note 1 – Summary of Significant Accounting Policies in "Item 1. Financial Statements" of "Part I. Financial Information".*

New Accounting Pronouncements

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

Item 3. Quantitative and Qualitative Disclosures About Market Risk

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

Liquidity risk

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

Interest Rate Risk

We are exposed to interest rate risk related to the fixed rate debt under the 8.25% Senior Unsecured Notes and variable rate debts under our revolver and the obligations under sale and leaseback. Fixed rate debt, where the interest rate is fixed over the life of the instrument and the instrument's maturity is greater than one year, expose us to changes in market interest rates if and when maturing debt is refinanced with new debt. The variable rate debt, where the interest rate may be adjusted frequently over the life of the debt, expose us to short-term changes in market interest rates.

As the obligations under our sale and leaseback transactions were fully repaid and terminated on July 9, 2018, the hypothetical one percentage point change in annual interest rates on the outstanding variable debt obligations as of June 30, 2018, that could result in a corresponding change in annual interest expense is not meaningful.

We maintain documented policy and procedures to monitor and control the use of the derivative instruments. We are not engaged in derivative transactions for speculative or trading purposes.

Foreign Currency Risk

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

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

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

Credit Risk

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

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

An allowance for doubtful accounts is established on a case-by-case basis, considering changes in the financial position of a customer, when it is believed that the required payment of specific amounts owed is unlikely to occur. Our allowance for doubtful accounts was $2.9 million and $2.5 million as of June 30, 2018 and December 31, 2017, respectively.

Item 4. Controls and Procedures

We are not required to report this Item.

PART II. OTHER INFORMATION

Item 1. Legal Proceedings

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

See *Note 11 – Commitments and Contingencies* to the condensed consolidated interim financial statements included in "Item 1. Financial Statements".

Item 1A. Risk Factors

The information set forth under the caption "Forward-looking Information" of Management's Discussion and Analysis of Financial Condition and Results of Operations in Item 2 of Part I of this report is incorporated by reference in response to this Item and there have been no material changes from the risk factors previously disclosed in the Company's Annual Report for the year ended December 31, 2017.

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

Not applicable.

Item 3. Defaults upon Senior Securities

Not applicable.

Item 4. Mine Safety Disclosures

Not applicable.

Item 5. Other Information

Not applicable.

Item 6. Exhibits

Material agreements governing indebtedness can be found on our website.

Responsibility statement

We confirm, to the best of our knowledge, that the condensed consolidated interim financial statements for the six months ended June 30, 2018 and 2017 have been prepared in accordance with accounting principles generally accepted in the United States of America, and give a true and fair view of Shelf Drilling, Ltd. and its majority owned subsidiaries' condensed consolidated interim balance sheets as of June 30, 2018 and December 31, 2017 and the related condensed consolidated interim statements of operations, comprehensive income, equity and cashflows for the six months ended June 30, 2018.

We also confirm that, to the best of our knowledge, the interim report includes a true and fair review of important events that have occurred during the first six months of the financial year and their impact on the condensed consolidated interim financial statements, a description of the principal risks and uncertainties for the remaining six months of the financial year and major related party transactions.

14 August 2018

______________________	______________________
David Mullen	Ernie Danner
Director & Chief Executive Officer	*Director & Chairman of the 14 August 2018 Board Meeting*