OFFERING MEMORANDUM STRICTLY CONFIDENTIAL

Shelf Drilling Holdings, Ltd.
$310,000,000 8.875% Senior Secured First Lien Notes due 2024
Interest payable May 15 and November 15
Issue price: 98.082%

Shelf Drilling Holdings, Ltd. (the ''Issuer''), a Cayman Islands exempted company and indirect wholly-owned subsidiary of Shelf Drilling, Ltd., a Cayman Islands exempted company (the ''Parent'' or ''SDL''), is offering $310 million aggregate principal amount of 8.875% Senior Secured First Lien Notes due 2024 (the ''notes''). The notes will mature on November 15, 2024. Interest will accrue from March 26, 2021, and the Issuer will pay interest on the notes semi-annually in cash in arrears on May 15 and November 15 of each year, commencing on November 15, 2021.

The notes will be senior secured obligations of the Issuer, and will rank equal in right of payment with all of the Issuer's existing and future senior indebtedness and senior in right of payment to all of the Issuer's existing and future subordinated indebtedness. On the issuance date of the notes, each of the Issuer's restricted subsidiaries that are guarantors of the Issuer's 8.25% Senior Unsecured Notes (as defined herein) on the issue date (which will on the issue date include Shelf Drilling RigCo II, Ltd., a subsidiary that is not currently a guarantor of the Issuer's 8.25% Senior Unsecured Notes, recently sold the Shelf Drilling Journey rig and currently holds the net sale proceeds therefrom) will, jointly and severally, fully and unconditionally guarantee the notes on a senior secured basis, except that the Egyptian Subsidiaries (as defined herein) are expected to guarantee the notes after the offering. The notes will be fully and unconditionally guaranteed, jointly and severally, on a senior secured basis by each of the Issuer's future direct and indirect restricted subsidiaries, other than any Excluded Subsidiaries (as defined herein). Each of the note guarantees will be a senior secured obligation of the guarantor and will rank equal in right of payment with all existing and future senior indebtedness and senior in right of payment to all existing and future subordinated indebtedness of such guarantors. The Parent will also be a guarantor of payment of the notes on an unsecured basis. The notes and note guarantees by our subsidiaries will be effectively senior to all senior unsecured indebtedness of the Issuer and such guarantors, to the extent of the value of the collateral. The notes and the note guarantees will be structurally subordinated to all of the existing and future indebtedness and other liabilities, including preferred stock and trade payables, of any of the Issuer's subsidiaries that do not guarantee the notes.

The notes and the note guarantees will be secured by a perfected first-priority lien on substantially all assets of the Issuer and the guarantors that are subsidiaries of the Issuer, in each case other than the Excluded Assets (as defined herein) and subject to certain other exceptions and Permitted Liens (as defined herein). See ''Description of notes—Security for the Notes'' and ''Description of notes—Certain Definitions—Permitted Liens.'' At any time prior to March 15, 2022, the Issuer may redeem some or all of the notes at a price equal to 100% of the principal amount of the notes redeemed, plus accrued and unpaid interest, if any, to, but not including, the redemption date, plus a ''make-whole'' premium, as described in this offering memorandum. On or after March 15, 2022, the Issuer may redeem some or all of the notes at the applicable redemption prices set forth in this offering memorandum, plus accrued and unpaid interest, if any, to, but not including, the redemption date. At any time prior to March 15 , 2022, the Issuer may also redeem up to 35% of the aggregate principal amount of the notes using an amount not to exceed the net cash proceeds from certain equity offerings, including those of the Parent, the cash proceeds of which are contributed to common equity of the Issuer, at the redemption price set forth in this offering memorandum, plus accrued and unpaid interest, if any, to, but not including, the redemption date. See ''Description of notes—Optional Redemption''.

Upon the occurrence of a Change of Control (as defined herein), we may be required to make an offer to repurchase all of the notes then outstanding at a price equal to 101% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but not including, the repurchase date. See ''Description of notes—Change of Control Offer.'' If the Issuer or its subsidiaries sell certain assets, under certain circumstances we may be required to offer to purchase the notes at 100% of their aggregate principal amount, plus accrued and unpaid interest thereon to, but not including, the date of purchase. See ''Description of notes—Certain Covenants—Limitation on sales of assets and subsidiary stock.''

See "Risk factors" beginning on page 17 for a discussion of certain risks that you should consider in connection with an investment in the notes.

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

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

We expect that delivery of the notes to investors will be made on or about March 26, 2021 in book-entry form through the facilities of The Depository Trust Company (''DTC'') for the account of its participants, including Euroclear Bank, SA/NV and Clearstream Banking, *societe anonyme.* See ''Book entry, delivery and form.''

Sole Bookrunning Manager

Credit Suisse

Co-Manager

DNB Markets

The date of this offering memorandum is March 12, 2021

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In making your investment decision, you must rely on your own examination of the Company and the terms of this offering, including, without limitation, the merits and risks involved. We and the initial purchasers have not authorized anyone to provide you with any other information. If you receive any other information, you should not rely on it as having been authorized by us or the initial purchasers.

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

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

Shelf Drilling Holdings, Ltd. is a Cayman Islands exempted company. Our registered address is Centralis Cayman Limited, One Capital Place, 3rd Floor, Cayman Islands KY1-1110. Our principal executive offices are located in Dubai, United Arab Emirates at One JLT, Floor 12, Jumeirah Lakes Towers, P.O. Box 212201, and our main telephone number is +971 4 567 3400. SDL shares are listed on the Oslo Stock Exchange (''OSE'') under the ticker symbol SHLF. Our primary website is located at *www.shelfdrilling.com*. We are subject to information requirements, pursuant to our existing indentures, and in accordance therewith, we include reports and other information on our website. Our website and the information contained on our website are not part of this offering memorandum.

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

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

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

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

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

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

Neither we nor the initial purchasers are providing you with any legal, business, tax or other advice in this offering memorandum. You should consult with your own advisors as needed to assist you in making your investment decision and to advise you whether you are legally permitted to purchase notes.

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

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

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

Market and industry data

Information contained in this offering memorandum regarding our industry and the markets in which we operate is based on our own internal estimates and research and from third-party sources. Any such information is based on or sourced from third-party sources which we believe to be reliable. Although we believe these third-party sources are reliable as of their respective dates, we have not independently verified the accuracy or completeness of this information. In addition, assumptions and estimates of our and our industry's future performance are necessarily subject to a high degree of uncertainty and risk due to a variety of factors, including those described in "Risk factors." These and other factors could cause future performance to differ materially from our assumptions and estimates. See "Disclosure regarding forward-looking statements."

Trademarks and trade names

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

No review by the Securities and Exchange Commission

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

Presentation of financial information

In this offering memorandum, we present the consolidated financial information of the Parent, which has no material assets other than the stock of its subsidiaries, and other than in connection with various financing transactions and intercompany accounts, no material liabilities other than those of the Issuer and its subsidiaries. The Parent conducts all of its operations through the Issuer and its subsidiaries. Although the Parent is not an issuer of the notes, it will guarantee the notes, and its consolidated revenues and results of operations substantially reflect the consolidated revenues and results of operations of the Issuer and its subsidiaries.

Non-GAAP financial measures

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

EBITDA, Adjusted EBITDA, Adjusted EBITDA Margin, Total Capitalization and Unlevered Discretionary Free Cash Flow are supplemental measures of our performance that are not required by or presented in accordance with

GAAP. They are not measurements of our financial performance under GAAP and should not be considered substitutes for revenue, net earnings (loss) or any other performance measures derived in accordance with GAAP. We define EBITDA as earnings before interest expense and financing charges, interest income, income taxes, depreciation, amortization, loss on impairment of assets and gain (loss) on disposal of assets. Adjusted EBITDA excludes certain items included in net income (loss). For definitions of these measures and a reconciliation of Adjusted EBITDA to our net income (loss), see ''Management's discussion and analysis of financial condition and results of operations—Financial measures.'' Adjusted EBITDA Margin is defined as Adjusted EBITDA divided by revenue. 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 the excluded items, 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 the 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.

The Company defines Total Capitalization as the sum of total debt and total equity.

The Company defines Unlevered Discretionary Free Cash Flow as Adjusted EBITDA less regulatory and capital maintenance, contract preparation, fleet spares, income tax expense and other. Regulatory and capital maintenance includes major overhauls, regulatory costs, general upgrades and sustaining capital expenditures on rigs in operation. Contract preparation includes specific upgrade, mobilization and preparation costs associated with a customer contract; it excludes contract preparation costs associated with reactivation projects. Fleet spares and other include 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 would result in an expenditure charge to that rig and a credit to fleet spares.

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

Extended Settlement

It is expected that the delivery of the notes will be made on or about the closing date specified on the cover page of this offering memorandum, which will be the tenth business day following the date of the pricing of the notes (this settlement cycle being referred to as ''T+10''). Under Rule 15c6-1 under the Securities Exchange Act of 1934 (the ''Exchange Act''), trades in the secondary market generally are required to settle in two business days, unless the parties to such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the notes on the date hereof or the next seven succeeding business days will be required, by virtue of the fact that the notes initially will settle in T+10, to specify alternate settlement arrangements at the time of any such trade to prevent a failed settlement and should consult their own advisor.

Disclosure regarding forward-looking statements

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

- the novel coronavirus (''COVID-19'') pandemic and its effect on demand for our services, global demand for oil and natural gas, the U.S. and world financial markets, our financial condition, results of operations and cash flows;
- our ability to renew or extend contracts, enter into new contracts when such contracts expire or are terminated, 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, share repurchases and debt service;
- our levels of indebtedness, covenant compliance and access to future capital;
- the level of reserves for accounts receivable and other financial assets, as appropriate;
- 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 rig 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;
- 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;
- future regulatory requirements or customer expectations to reduce carbon emissions;
- the decline in demand as oil and gas fossil fuels are replaced by sustainable/clean energy;
- 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;

- the use of proceeds of this offering and the termination and repayment of all of the outstanding borrowings under our revolver (as defined herein) and the redemption or repurchase of all of the outstanding 8.75% Senior Secured Notes (as defined herein);
- 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 Company specific, industry specific or market factors;
- the market value of our rigs and of any rigs we acquire in the future may decrease;
- effects of customer interest or inquiries;
- our ability to attract and retain skilled personnel on commercially reasonable terms, whether due to labor regulations, unionization or otherwise;
- the security and reliability of our technology systems and service providers;
- adverse changes in foreign currency exchange rates;
- changes in general economic, fiscal and business conditions in jurisdictions in which we operate and elsewhere;
- our ability to obtain financing and pursue other business opportunities may be limited by our debt levels, debt agreement restrictions and the credit ratings assigned to our debt by independent credit rating agencies;
- our incorporation under the laws of the Cayman Islands and the limited rights to relief that may be available compared to U.S. laws; and
- the other factors listed under ''Risk factors'' and elsewhere in this offering memorandum.

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

SUMMARY

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

Our company

We are a leading international shallow water offshore drilling contractor providing equipment and services for the drilling, completion, maintenance and decommissioning of oil and natural gas wells. We are solely focused on shallow water operations in depths of up to 375 feet, and, as of December 31, 2020, our drilling fleet consists of 31 independent-leg cantilever (''ILC'') jack-up rigs, excluding stacked and/or held for sale rigs, which we believe makes us one of the world's largest owners and operators of jack-up rigs by number of active shallow water rigs.

Our exclusive focus on jack-up rig operations allows us to deliver outstanding performance in our core operating regions of the Middle East, North Africa and the Mediterranean (together, ''MENAM''), South East Asia, India and West Africa. We have a significant presence in the Middle East, Thailand, India and West Africa, where we believe development activities are generally characterized by relatively low production costs and short cycle times and therefore have relatively favorable rig supply and demand fundamentals due to more stable levels of offshore development across commodity price cycles. Combined with the relatively lower emissions from jack-up rigs (as compared to deep water rigs) and also from the areas where we operate, we believe our markets are well positioned to be a stable source of oil and gas production in the near term.

We have well-established customer relationships, primarily with national oil companies (''NOCs'') and large international oil companies (''IOCs''), including Saudi Arabian Oil Company (''Saudi Aramco''), Chevron Corporation (''Chevron''), Oil and Natural Gas Corporation Limited (''ONGC''), Abu Dhabi National Oil Company (''ADNOC''), Ente Nazionale Idrocarburi S.p.A (''ENI'') and TOTAL S.A. (''TOTAL''). We believe that our customers prefer to work with well-established drilling contractors that have a strong track record of safety and operating results, and since our inception in 2012, our safety track record has consistently exceeded industry averages with our operating uptime being at least 98.5% per year. The NOCs that make up the majority of our customer base tend to evaluate long-term merits of development projects through commodity price cycles, and their spending remains relatively consistent in face of short-term uncertainties. Together, we believe these factors contributed to the success of our marketing activities, including total secured contracts and extensions with an aggregate value of more than $7.0 billion since our inception.

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

We have streamlined our systems and processes to the specific needs of our business and fleet, keeping our organization lean and effective and resulting in an industry leading low-cost structure. We focus on financial returns when evaluating our growth initiatives and capital investment strategy. We believe that our approach has enabled us to preserve valuable client relationships and generate sufficient cash flow to operate the business into an improving commodity price environment and to deliver greater returns on invested capital relative to our U.S. public company competitors.

Our revenues, net loss, Adjusted EBITDA and Adjusted EBITDA Margin for the year ended December 31, 2020 were $585.2 million, $274.9 million, $200.3 million and 34.2%, respectively. For definitions of Adjusted EBITDA and Adjusted EBITDA Margin and a reconciliation of Adjusted EBITDA to our most directly comparable measurement of net income (loss) under GAAP, see ''Management's discussion and analysis of financial condition and results of operations—Financial measures.'' As of December 31, 2020, we had a total contract backlog of $1.4 billion across 29 contracted rigs, for an average of 706 days per contracted rig, 97% of which was with NOCs and IOCs.

Management of our fleet

Our drilling fleet consists of 31 ILC jack-up rigs, excluding five stacked and/or held for sale rigs, as of December 31, 2020. The ILC design allows each leg to be independently raised or lowered and permits the drilling platform to be extended out from the hull to perform operations over certain types of pre-existing platforms or structures. We believe these design features provide greater operational flexibility, safety and efficiency than alternative designs. Many of our jack-up rigs further feature proven, reliable technology and processes, utilizing mechanical features with generally lower operating costs or custom upgrades and/or equipment depending on the type of operations or customer requirements. Within their given water depth capabilities, we believe our jack-up rigs are well-suited for our customers' typical shallow water drilling operations in regions where we operate.

We have taken steps in recent years to enhance our fleet, including our construction of newbuild rigs and acquisition of premium jack-up rigs. From 2016 through 2020 we added nine premium jack-up rigs to our fleet at prices significantly less than the historic cost of construction for comparable newbuild rigs.

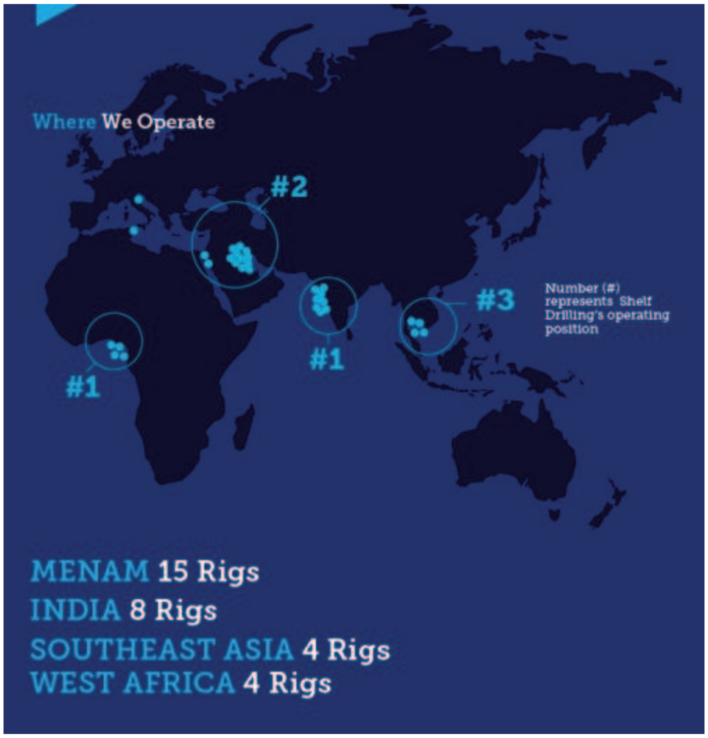
Our most recent acquisition of the Shelf Drilling Enterprise in 2020 was supported by a long-term firm contract with Chevron Thailand, which commenced in January 2021, and concurrent debt financing. The rig has been heavily customized to deliver highly efficient plug and abandonment (''P&A'') operations for Chevron's program in the Gulf of Thailand. The Shelf Drilling Scepter, a similarly acquired and customized premium jack-up rig in 2018, has likewise delivered exceptional P&A performance since commencing operations in late 2019.

P&A is a growing market within our areas of operations, especially in Thailand where we have a leading position with four contracted rigs (two of which are contracted specifically for decommissioning work). According to Rystad Energy, decommissioning in Southeast Asia is estimated to be a $15 billion market. We believe that our investment and extensive experience in P&A operations position us well for future work in this growing market.

The Shelf Drilling Journey was opportunistically sold in February 2021 to ADNOC Drilling. The timing and proceeds of $77.6 million from this sale significantly enhance the Company's liquidity profile and financial flexibility. See ''Note 7—Assets Held for Sale'' to our consolidated financial statements for the year ended December 31, 2020 and ''Capitalization'' for additional information.

We operate in four of the top five markets for jack-up rigs as of 2020 in terms of the percentage market share of jack-up rigs relative to floating rigs, according to Rystad Energy. The graphic below sets out the number of our jack-up rigs we currently operate in each of our core operating regions and our operating position relative to other companies that are not state-owned:

Number of Shelf Drilling-operated jack-up rigs by region (excluding stacked rigs and/or rigs held for sale) as of March 4, 2021



Value of Our fleet

The carrying value of the rigs (other than rigs that are held for sale) as of December 31, 2020 was $1,112 million. To comply with our revolver, we received appraisals as of December 31, 2020 from various third-party appraisers for eleven of our rigs, valuing them at $613 million (2.0x asset coverage) in the aggregate. Our management estimated the fair market value of the remaining twenty rigs (which exclude rigs that are held for sale) to be $360 million (additional 1.2x asset coverage, or 3.1x asset coverage in total) based on the appraised values for similar rigs and the carrying value of the remaining rigs. These are only estimates made by our management based on the information available to us as of December 31, 2020, and do not reflect any subsequent changes in the market for rigs and may not be representative of the value of any rig if actually sold. See "Risk factors—Risks related to the notes and this offering—The value of the Collateral may be limited," and "Risk factors—Risks related to the notes and this offering—Appraisals and estimates should not be relied upon as a measure of realizable value of the Collateral."

Our commitment to sustainability

Since our inception, we have placed sustainability at the core of everything we do. We define sustainability as achieving commercial profitability in a way that is consistent with our fundamental ethical values and with respect for individuals, the environment and society. Our commitment to sustainability is also expressed through our core values:

- "Protect" yourself, your team, your asset and our environment
- "Lead" by conducting business ethically, with responsibility and accountability
- "Execute" business by delivering outstanding performance for all our stakeholders

We are committed to protecting the environment, establishing health and safety standards, respecting human rights and upholding ethical business conduct. We strive to actively engage with our stakeholders and operate in strict accordance with applicable regulatory frameworks and good business practice. This will ensure that we deliver success in the right way and win the trust and confidence of our customers and all stakeholders including the governments and the communities in which we operate.

We further improved the quality and visibility of our sustainability-related reporting in 2020, including publication of our first sustainability report and launch of a sustainability page on our company website. We also launched a formal materiality assessment in 2020 to identify the sustainability topics that are important for our customers, investors and key stakeholders, which will be the focus of our future sustainability strategy, initiatives and reporting. We regularly update our policies, procedures and controls to ensure compliant management of sustainability related activities. Based on the feedback we have received from our stakeholders, we have developed and adopted several new policies of such regard in 2020, such as an overarching Sustainability Policy and a Rig Recycling Policy describing our procedures relating to the recycling of our rigs.

We have also completed a review of our risks and opportunities associated with climate change, in accordance with the recommendations of the Task Force on Climate-related Financial Disclosures. We were encouraged to see that our efforts in strengthening our sustainability commitments and providing more transparent reporting have resulted in improved ratings from key parties such as the ESG100 (comparing environment, social and governance (''ESG'') reporting of the 100 largest companies on the Oslo Stock Exchange) as well as the Carbon Disclosure Project.

Our competitive strengths

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

- One of the largest pure-play jack-up fleet contractors globally, with geographic concentration in MENAM, India, West Africa and Southeast Asia;
- Successful track record of delivering safe, efficient and reliable operational performance;
- Industry leading low-cost structure, coupled with high national content;
- High-quality, well-maintained ''fit-for-purpose'' fleet;
- Well-established customer relationships with large national and international oil and gas companies; and
- Experienced management team.

One of the largest pure-play jack-up fleet contractors globally, with geographic concentration in MENAM, India, West Africa and Southeast Asia

We believe we are a leading international jack-up rig contractor by number of marketed rigs and have critical mass and significant market share in all our core operating regions. We believe our sole focus on shallow water drilling allows for optimal size, scale, and management of our organization, in order to concentrate our fleet of rigs in the most promising markets. We have a significant presence in the Middle East, Thailand, India and West Africa, where we believe development activities are generally characterized by low production costs and breakeven prices and short cycle times, and will therefore have relatively favorable rig supply and demand fundamentals in the coming years.

Successful track record of delivering safe, efficient and reliable operational performance

Since our inception, our track record for safety operating uptime has consistently exceeded industry averages, with Total Recordable Incident Rate (''TRIR'') safety metrics being consistently below the International Association of Drilling Contractors (''IADC'') averages, and our operating uptime being at least 98.5% per year. We work with our customers to improve drilling efficiencies, which frequently results in rig operations being completed ahead of plan and ultimately lowering the cost per well for our customers.

Industry leading low-cost structure, coupled with high national content

We believe that our sole focus on shallow water drilling in our core operating regions allows us to optimize our size and scale. In addition, we believe this focus allows us to concentrate our rigs in stable and growing geographic markets, promoting operational efficiency and contributing to our low-cost structure. Our strategically positioned headquarters in Dubai is in close proximity to our core operating regions and eliminates the need for additional regional offices. In addition, since our inception, we have focused on building high national content through hiring and developing nationals from the countries in which we operate, a value increasingly adopted and appreciated by governments and communities across the regions in which we operate. These efforts served to enhance our relationships with local stakeholders, allowed for a more stable workforce, including our leadership teams, and helped facilitate offshore crew changes during a period of severe travel restrictions related to COVID-19. Our high national content in both our workforce and management, local supply chain networks across our geographies, standardized equipment across our fleet, and centralized management of our supply chain and key maintenance activities are all key drivers of our industry leading low-cost structure.

High-quality, well-maintained "fit-for-purpose" fleet

We believe our fleet is comprised of well-maintained jack-up rigs with proven technologies and operating capabilities. Since our inception, we have implemented a strategic fleet upgrade and renewal program. We have continuously evaluated and enhanced our existing fleet with "smart upgrades" where appropriate to meet specifications for the markets in which we intend them to operate, in accordance with our "fit-for-purpose" strategy. For example, we have standardized equipment across a significant number of our rigs, which facilitates our delivery of consistent and predictable performance in the environments in which we operate. In addition, we have added eight modern, premium jack-ups through a series of newbuild construction projects and asset acquisitions. These rigs typically also feature specific technical innovations that allow further improvements to what is already considered best-in-class performance, exceeding our customers' expectations in their respective categories. We believe we are one of the largest jack-up rig operators in the world by number of active rigs, and that the size of our fleet, coupled with the balance of premium, shallow draft and standard jack-ups, is well-suited to the various customer requirements across our regions.

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

Our large and high-quality fleet, high national content, strong operational performance and close alignment with our customers' interests provide us a competitive advantage and contribute to our contracting success and high fleet utilization. We have well-established relationships with our customers, which are primarily NOCs and IOCs, including Saudi Aramco, Chevron, ONGC, ADNOC, ENI and TOTAL S.A. We believe that our customers prefer to work with drilling contractors who are well-established and have a strong track record of safety and operating uptime. We are responsive and flexible in addressing our customers' specific needs and seek collaborative solutions to achieve customer objectives.

Experienced management team

The members of our executive management team are knowledgeable operations and finance executives with extensive experience in the global oil and gas industry. Our four executive officers have more than 130 years of collective industry and financial experience and have held leadership positions at highly regarded offshore drilling and oilfield services companies, including Schlumberger Ltd., Transocean Ltd., Noble Drilling plc and Wellstream Holdings plc. All four members of our executive management team have been involved with us since our inception and have been responsible for the design and implementation of our "fit-for-purpose" strategy.

Our business strategies

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

- Maintain a proactive approach to fleet and organizational management that focuses on positive cash flow;
- Capitalize on a potential recovery in demand for shallow water drilling activity in our core operating regions;
- Focus exclusively on jack-up operations in our core operating regions;
- Continue to deliver safe, efficient and reliable operations;
- Develop long-term mutually beneficial relationships with customers, suppliers and the communities in which we operate; and
- Apply "fit-for-purpose" strategy to maximize profitability and leverage our proven ability to bring technical innovations and unique solutions to address our customers' needs.

Maintain a proactive approach to fleet and organizational management that focuses on positive cash flows

In recent years, our approach to fleet management involves opportunistic acquisition of premium jack-up rigs complementary to our fleet at attractive prices, through either cash on hand or equity or debt financing. From 2016 through 2020, we acquired nine premium jack-up rigs at significantly lower prices than the historic cost of construction for comparable newbuild rigs. Two of such rigs were financed exclusively through an equity offering to affiliates of China Merchants & Great Wall Ocean Strategy & Technology Fund (''China Merchants''), which, as a result of such offering, became our largest shareholder. Additionally, we have selectively divested rigs to buyers that place high cash values on our rigs and/or intend to place them in markets in which we do not compete. These efforts improve the Company's financial flexibility, but not at the expense of our competitiveness, and reduce the costs associated with certain non-operated assets and assets near the end of their useful lives. We believe these selective acquisitions and divestitures of rigs in our fleet allow us to deploy a competitive fleet that can meet the needs of our customers in the shallow water drilling market. We anticipate that the current dislocation and distress in the broader offshore drilling industry may create compelling opportunities in the years ahead.

We regularly explore opportunities to reduce our total cost of debt, ensure adequate liquidity and improve flexibility to operate our business and pursue growth projects. We focus on financial returns when evaluating our growth initiatives and our expansion strategy. We believe that our approach has delivered superior cash flows relative to our public company competitors and facilitated maintaining adequate liquidity in the business. We intend to continue pursuing contracts that offer an attractive combination of duration and dayrates, with an emphasis on duration, to drive higher backlog and greater cash flow.

During 2020, the global impact of the COVID-19 pandemic and the resulting effects on the world economy have caused an increase in contract terminations, suspensions and dayrate renegotiations as our customers curtailed their activities and reduced operating costs. In response to this situation, we acted to focus in the near term on ensuring continuity of operations, reducing costs and preserving liquidity. The approach has included headcount and compensation reductions and operating and general and administrative expense reductions. Given our low-cost structure and long-standing customer relationships in our core operating regions, we believe that we are positioned to withstand the ongoing impacts of COVID-19 that are affecting the drilling industry.

Capitalize on a potential recovery in demand for shallow water drilling activity in our core operating regions

Given our strong market positions, industry leading low-cost structure and long-standing customer relationships in our core operating regions, we believe that we are well-positioned to benefit from a recovery in shallow water drilling activity. Although 2020 was a difficult year due to a decline in jack-up rig demand associated with the economic effects of COVID-19, we have begun to experience an increase in market and tender inquiries from certain customers, particularly in West Africa and other key markets, and believe that we will have opportunities to redeploy uncontracted rigs in the near term. This uptick in shallow water activity coincides with the positive trajectory of Brent crude prices, which rose from below $20 per barrel in April 2020 to $69 per barrel as of March 5, 2021, as well as recovering demand for oil as economic activities resume gradually around the world. The growth in jack-up rig demand in our core operating regions is primarily driven by infill drilling and workover activities, which have historically provided upstream operators with lower-risk, short-cycle returns relative to exploration and development drilling, as well as an increase in P&A activities for mature fields. In addition, shallow-water drilling projects offer relatively low breakeven prices and short cycle times as compared to other oil supply sources. As such, we believe jack-up rig demand, especially in our core regions, will tend to recover more quickly than demand for deep water rigs, as seen in past cycles.

Focus exclusively on jack-up operations in our core operating regions

As a newly formed company in 2012, we were not burdened with legacy systems, structures or management personnel. As a result, we believe that we were able to design and build efficient systems and operating procedures from the outset with a high degree of centralization and a dedicated focus on shallow water operations. We believe our exclusive focus on jack-up rig operations allows us to deliver outstanding performance in our core operating regions of MENAM, South East Asia, India and West Africa. We have streamlined our systems and processes to the specific needs of our business and fleet, keeping our organization lean and effective, resulting in an industry leading low-cost structure. We focus on financial returns when evaluating our growth initiatives and capital investment strategy. We believe that our approach has enabled us to preserve valuable client relationships and generate sufficient cash flow to operate the business into an improving commodity price environment.

Continue to deliver safe, efficient and reliable operations

We believe that our centralized structure and focus on jack-up rig operations has significantly contributed to the safety, efficiency and reliability of our operations. We had a TRIR of 0.19 for the year ended December 31, 2020, 60% below the average of the IADC, and our safety track record has consistently exceeded the industry benchmark since inception. In addition, we have consistently maintained an average fleet uptime of at least 98.5% since our inception in 2012 and achieved the highest annual level in our history in 2020 at 99.4%. Through ongoing training, appropriate incentive structures at all levels and management oversight, we intend to continue improving our safety and operational performance as we strive to continue to reduce workplace incidents.

Develop long-term mutually beneficial relationships with customers, suppliers and the communities in which we operate

Our customers include NOCs, IOCs and a small number of independent oil and gas companies. For the 12 months ended December 31, 2020, our top three customers, which were Saudi Aramco, Chevron and ONGC, collectively accounted for 90% of our contract backlog and 66% of our revenues. We are able to maintain our strong long-term customer relationships through outstanding service, low-cost structure, and high national content. We believe our ability to maintain relationships with, and to win repeat business from, our existing customers is critical to our stability and growth of cash flows.

Apply ''fit-for-purpose'' strategy to maximize profitability, and utilize innovations and unique solutions to customize rig operations to the customer's technical specifications and needs

We plan to continue to apply our ''fit-for-purpose'' strategy to maximize profitability, including strategically deploying rigs well-suited for specific markets. Additionally, we have a proven ability to customize our rig equipment and operations to meet the specific technical needs of our customers, including for example the unique specifications for plugging and abandonment of mature wells and factory-style drilling operations in the Gulf of Thailand. We expect this strategy will allow us to continue to leverage our strong operational track record and leading market position to maintain our comparatively high utilization rates and low-cost structure. We believe this strategy has been critical in enabling us to consistently maintain our Adjusted EBITDA Margin above 30% for the years ended December 31, 2013 to 2020.

Recent developments

COVID-19 Pandemic and Market Conditions: One of the largest impacts of the COVID-19 pandemic has been a significant decrease of general economic activity and a corresponding decrease in global energy demand impacting commodity pricing. This situation has led to supply and demand imbalances and may continue to play a significant role in global economic contraction generally and in our industry in particular. For additional discussion regarding risks associated with the COVID-19 pandemic, see ''Risk factors''.

Like many other energy companies, our business, financial condition, results of operations and cash flows have been adversely affected by current industry conditions and the COVID-19 pandemic. While it is difficult to predict when the pandemic will regress and when the market will rebalance, we have taken a number of actions to protect our employees, ensure continuity of operations, reduce costs and preserve liquidity. In March 2020, we requested as many shore-based employees and contractors as possible to work from home. These work from home operations are continuing on a jurisdiction-by-jurisdiction basis as determined by local laws and circumstances. For all other personnel working offshore or directly supporting the rig operations or shipyard activities and not able to work from home, new and specific procedures were put in place in each jurisdiction to help protect the health of all employees from COVID-19. Specific measures were also decided in order to preserve liquidity in this period with the suspension of our share repurchase activities, completion of the fifth amendment of our revolver and the implementation in April 2020 of a range of additional cost cutting and restructuring measures at our headquarters, involving headcount reductions, compensation reductions at the executive and board levels and targeted savings across all other cost categories. Management took these necessary steps in an effort to reduce general and administrative expenses beginning in the second quarter of 2020 and partially offset expected revenue reductions in future quarters.

Brent crude oil prices, a key driver of exploration, development and production activity, rebounded from a low price point of approximately $20 per barrel during the second quarter of 2020 to over $60 per barrel in February 2021. We are seeing signs of an improvement in the market with contract opportunities across our areas of operation. While this improvement remains fragile, we are confident that we will be able to recontract a portion of the 12 rigs that roll off in 2021.

Acquisition of Shelf Drilling Enterprise: In January 2020, the Company acquired the Shelf Drilling Enterprise jack-up rig supported by a long-term contract with Chevron. The rig has been heavily customized to deliver highly efficient P&A operations in Thailand, and the contract commenced in January 2021.

Sales of Rigs: As of December 31, 2020, five of our rigs—the Randolph Yost, Trident 15, Key Hawaii, Galveston Key and Shelf Drilling Journey—were recorded as assets held for sale. During the financial year ended December 31, 2020, the Company executed agreements to sell these five rigs for total proceeds of $80.9 million. The opportunistic sale of the Shelf Drilling Journey rig was completed in February 2021, for total proceeds of $77.6 million, and the sales of the other four rigs are expected to close during 2021. The Company also sold the Trident XIV rig and the Hibiscus swamp barge in 2020, receiving total proceeds of $7.5 million.

Contemplated transactions

Repayment and termination of our revolver and redemption or repurchase of our 8.75% Senior Secured Notes: Concurrently with the closing of this offering, we intend to use the proceeds of the notes to repay all outstanding borrowings (and accrued interest and fees) under our revolver, to cash collateralize all outstanding bank guarantees issued under our revolver, and to terminate all of the commitments under our revolver. In addition, we intend to use the proceeds of the notes to redeem, repurchase or otherwise satisfy and discharge all outstanding 8.75% Senior Secured Notes (as defined in ''Description of other indebtedness''). See ''Description of other indebtedness—Our revolver,'' ''Description of other indebtedness—8.75% Senior Secured Notes, due November 2024'' and ''Use of proceeds.''

The statements of intent in this offering memorandum with respect to the redemption of the 8.75% Senior Secured Notes do not constitute a notice of redemption under the indenture governing the 8.75% Senior Secured Notes or an offer to purchase any 8.75% Senior Secured Notes due 2024.

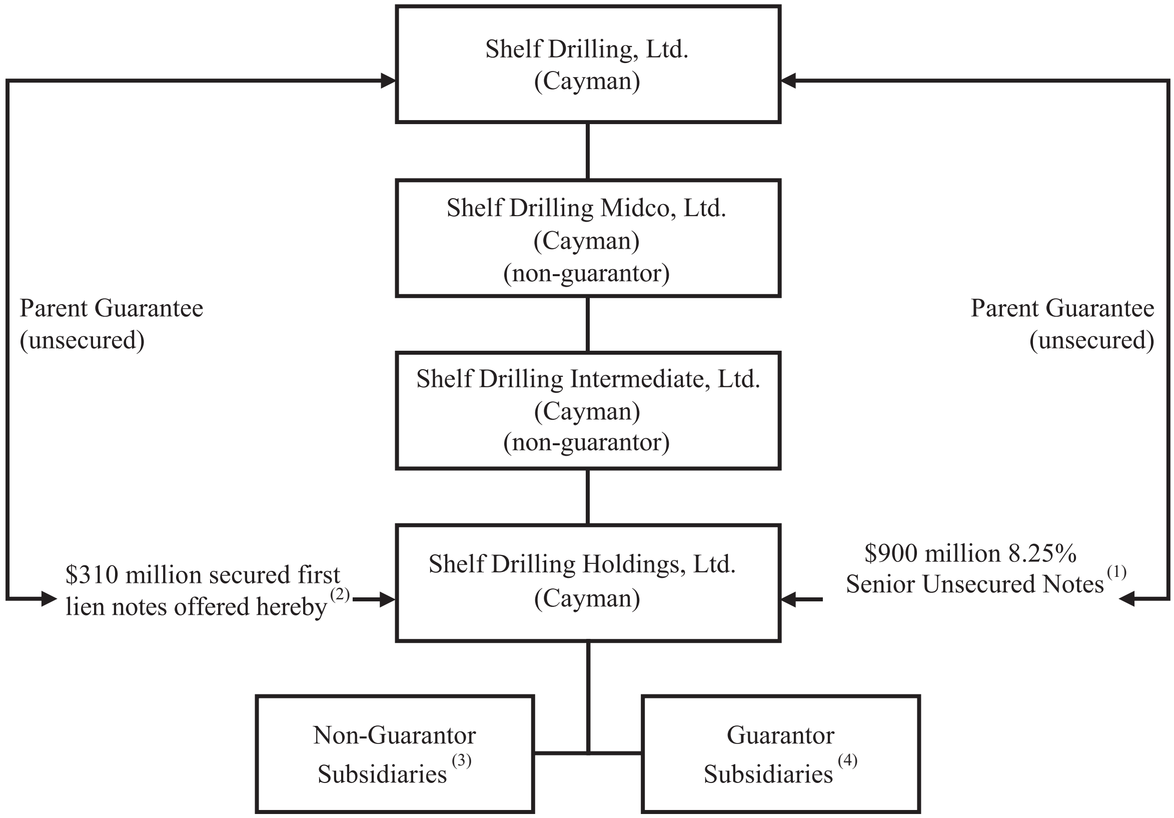
Company information

SDL is a holding company with no significant operations or assets other than interests in its direct and indirect subsidiaries. All operations are conducted through SDHL, an indirect wholly owned subsidiary of SDL. SDHL is an exempted company, limited by shares and incorporated under the laws of the Cayman Islands with registration number 271054. SDHL's registered address is: One Capital Place, 3rd Floor, Shedden Road, George Town, P.O. Box 1564, Grand Cayman, KY1-1110, Cayman Islands with corporate headquarters in Dubai, United Arab Emirates at One JLT, Floor 12, Jumeirah Lakes Towers, P.O. Box 212201 and telephone number +971 4 567 3400. SDL shares are listed on the OSE under the ticker symbol SHLF. Our website address is www.shelfdrilling.com. The information on SDL's website does not constitute part of this offering memorandum.

Exempted companies are Cayman Islands companies wishing to conduct business outside the Cayman Islands and, as such, are exempted from complying with certain provisions of the Companies Act (as amended) of the Cayman Islands. As an exempted company, SDHL has applied for and received an undertaking from the Financial Secretary that, in accordance with Section 6 of the Tax Concessions Act (as amended) of the Cayman Islands, for a period of 20 years from the date of the undertaking (being September 18, 2012), no law which is enacted in the Cayman Islands after the date of the undertaking imposing any tax to be levied on profits, income, gains or appreciations shall apply to SDHL or its operations and, in addition, that no tax to be levied on profits, income, gains or appreciations or which is in the nature of estate duty or inheritance tax shall be payable (i) on or in respect of SDHL's shares, debentures or other obligations or (ii) by way of the withholding in whole or in part of a payment of dividend or other distribution of income or capital SDHL to its shareholders or a payment of principal or interest or other sums due under a debenture or other obligation of us.

Ownership structure and organizational chart

The following chart illustrates our expected organizational structure and principal indebtedness for borrowed money immediately after, on an as adjusted basis as of December 31, 2020, giving effect to this offering and the use of proceeds therefrom.



Amounts are in U.S. Dollars

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(1) As of December 31, 2020, we had an aggregate principal amount of $900.0 million of 8.25% Senior Unsecured Notes (as defined in ''Description of other indebtedness'') outstanding. See Note 11—''Debt'' to our consolidated financial statements for the year ended December 31, 2020 for additional information.

(2) Represents the aggregate principal amount of the notes offered hereby. SDHL intends to use the net proceeds from this offering to repay all of the outstanding borrowings under our revolver, cash collateralize all of the outstanding bank guarantees issued thereunder and redeem, repurchase or otherwise satisfy and discharge all of the 8.75% Senior Secured Notes, pay related interest, fees and expenses, and for general corporate purposes. See ''Use of proceeds.''

(3) Our non-Guarantor Subsidiaries as of the issue date will be the Egyptian Subsidiaries (as defined in ''The Offering''), Shelf Drilling Offshore Services (India) Private Limited, which is an Excluded Subsidiary incorporated in India, and certain Immaterial Subsidiaries and dormant Unrestricted Subsidiaries (each as defined in ''Description of notes''). For the year ended December 31, 2020, our non-Guarantor Subsidiaries (excluding the Egyptian Subsidiaries, which are expected to guarantee the notes after the offering) accounted for none of our Adjusted EBITDA. As of December 31, 2020, such non-Guarantor Subsidiaries held approximately 1% of our consolidated assets.

(4) The notes offered hereby will be guaranteed by each of SDHL's direct and indirect restricted subsidiaries that are guarantors of our 8.25% Senior Unsecured Notes on the issue date (which will on the issue date include Shelf Drilling RigCo II, Ltd., a subsidiary that is not currently a guarantor of the Issuer's 8.25% Senior Unsecured Notes, that recently sold the Shelf Drilling Journey rig and that currently holds the net sale proceeds therefrom), except that the Egyptian Subsidiaries (as defined herein) are expected to guarantee the notes after the offering, and will be secured by a first-priority lien on the Collateral (as defined herein), in each case other than the Excluded Assets (as defined herein) and subject to certain exceptions and Permitted Liens (as defined herein). See ''Description of notes—Security for the Notes'' and ''Description of notes—Certain Definitions—Excluded Assets and Permitted Liens.''

THE OFFERING

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

Issuer	Shelf Drilling Holdings, Ltd.
Parent	Shelf Drilling, Ltd.
Notes offered	$310 million aggregate principal amount of 8.875% Senior Secured First Lien Notes due 2024.
Maturity date	November 15, 2024
Interest	Interest on the notes will accrue at a rate of 8.875% per annum, payable semi-annually in cash in arrears on May 15 and November 15 of each year, commencing on November 15, 2021. Interest will accrue from March 26, 2021.
Parent Guarantee	SDL, the Issuer's indirect parent company, will, upon closing of this offering, provide an unconditional guarantee of payment on a senior unsecured basis.
Subsidiary Guarantees	On the date we issue the notes in this offering, the notes will be fully and unconditionally guaranteed, jointly and severally, on a senior secured basis by each of the Issuer's direct and indirect restricted subsidiaries that is a guarantor of our 8.25% Senior Unsecured Notes on the issue date (which will on the issue date include Shelf Drilling RigCo II, Ltd., a subsidiary that is not currently a guarantor of the 8.25% Senior Unsecured Notes, that recently sold the Shelf Drilling Journey rig and that currently holds the net sale proceeds therefrom), except, in the case of our subsidiaries organized in Egypt (the "Egyptian Subsidiaries"), to the extent that required governmental approvals have not been obtained; *provided*, that the Egyptian Subsidiaries shall use commercially reasonable efforts to obtain such governmental approvals and shall guarantee the notes as promptly as practicable after obtaining such approvals. The issuer will also cause each restricted subsidiary that provides a guarantee or otherwise becomes an obligor under (1) the 8.25% Senior Unsecured Notes, (2) any additional first lien indebtedness, (3) any second lien obligations or (4) any other senior indebtedness owed to a third party with a principal amount in excess of $25 million (when combined with the aggregate principal amount of all other such indebtedness) incurred by a restricted subsidiary that is not a guarantor to guarantee the notes. The notes will be fully and unconditionally guaranteed, jointly and severally, on a senior secured basis by each of the Issuer's future direct and indirect restricted subsidiaries other than (A) any restricted subsidiary that is prohibited by the laws or rules (including licensing and notarial requirements) of its jurisdiction of organization from guaranteeing the notes or such laws or rules render such a guarantee impracticable, so long as the Issuer is using commercially reasonable efforts

	to obtain any consent or approval that would remove such prohibitions or otherwise to resolve such impracticalities, (B) any future restricted subsidiary that is organized in India (together with Shelf Drilling Offshore Services (India) Private Limited, the ''Indian Subsidiaries'') and (C) any Immaterial Subsidiary (as defined herein), subject to a cap on the sum of (x) aggregate average closing balances of cash and cash equivalents held in accounts of excluded subsidiaries for any 30 consecutive day period and (y) the aggregate carrying value of rigs (other than excluded rigs) held by excluded subsidiaries of $25 million. See ''Description of notes—Future Guarantors,'' ''Description of notes—Guarantees'' and ''Description of notes—Certain Definitions—Immaterial Subsidiary.''
Collateral	The notes and the related guarantees will be secured by a perfected first-priority lien on substantially all assets of the Issuer and the guarantors that are subsidiaries of the Issuer (the ''Subsidiary Guarantors''), in each case other than the Excluded Assets (as defined herein) and subject to certain exceptions and Permitted Liens (as defined herein) (''Collateral''). See ''Description of notes—Security for the Notes'' and ''Description of notes—Certain Definitions—Excluded Assets and Permitted Liens.''
Ranking	The notes and the note guarantees by the Subsidiary Guarantors will be the Issuer's and the Subsidiary Guarantors' senior secured obligations. They will be: • secured by perfected first-priority liens on the Collateral of the Issuer and the Subsidiary Guarantors, equally and ratably with all obligations of the Issuer and the Subsidiary Guarantors under any other indebtedness secured on a *pari passu* basis by the Collateral, subject to certain exceptions and Permitted Liens (as defined herein); • effectively senior to the Issuer's and the Subsidiary Guarantors' obligations under any future indebtedness secured on a second-priority basis by the Collateral, to the extent of the value of the Collateral that secures the notes and any other first lien obligations on a first-priority basis; • effectively senior to all of the Issuer's and the Subsidiary Guarantors' unsecured obligations to the extent of the value of the Collateral securing the notes and any other first lien obligations; • effectively subordinated to any of the Issuer's and the Subsidiary Guarantors' indebtedness that is secured by assets that do not constitute Collateral for the notes to the extent of the value of the collateral securing such indebtedness; • *pari passu* in right of payment with all existing and future senior indebtedness of the Issuer and the Subsidiary Guarantors;

- senior in right of payment to any future subordinated indebtedness of the Issuer and the Subsidiary Guarantors; and
- structurally subordinated in right of payment to all existing and future indebtedness and other liabilities of our subsidiaries that are not guaranteeing the notes, to the extent of the assets of those subsidiaries.

The note guarantee by SDL will be SDL's senior unsecured obligations and will:

- rank senior in right of payment to any of SDL's existing and future subordinated indebtedness, if any;
- rank *pari passu* in right of payment with all existing and future senior unsecured indebtedness of SDL, including its note guarantee of the 8.25% Senior Unsecured Notes; and
- be effectively subordinated to all existing and future secured indebtedness of SDL to the extent of the value of the assets securing such indebtedness.

Our restricted subsidiaries accounted for 100% of our Adjusted EBITDA for the year ended December 31, 2020 and 100% of our consolidated assets as of December 31, 2020. For the year ended December 31, 2020, our non-Guarantor Subsidiaries (excluding the Egyptian Subsidiaries, which are expected to guarantee the notes after the offering) accounted for none of our Adjusted EBITDA. As of December 31, 2020, such non-Guarantor Subsidiaries held approximately 1% of our consolidated assets.

Optional redemption . . . .

The Issuer may redeem some or all of the notes at any time prior to March 15, 2022 at a redemption price equal to 100% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but not including, the redemption date, plus a ''make-whole premium,'' as described under ''Description of notes—Optional Redemption.'' At any time on or after March 15, 2022, we may redeem some or all of the notes at the applicable redemption prices described under ''Description of notes—Optional Redemption,'' plus accrued and unpaid interest, if any, to, but not including, the redemption date.

Additionally, from time to time prior to March 15, 2022, the Issuer may redeem up to 35% of the aggregate principal amount of the notes with an amount equal to or less than the net cash proceeds that we raise in certain equity offerings, including those of the Parent, the cash proceeds of which are contributed to common equity of the Issuer at a redemption price equal to 108.875% of the principal amount thereof, plus accrued and unpaid interest, if any, to, but not including, the redemption date.

Change of control offer	If a Change of Control Repurchase Event (as defined in "Description of notes") occurs, the Issuer must offer to repurchase the notes then outstanding at a price equal to 101% of the principal amount thereof plus any accrued and unpaid interest to, but not including, the repurchase date. See "Description of notes—Change of Control Offer," and "Risk factors—Risks related to the notes and this offering—We may not be able to finance a change of control offer as required by the indenture governing the notes offered hereby."
Asset sales	If the Issuer or its subsidiaries sell certain assets under certain circumstances, we may be required to offer to purchase the notes at 100% of their aggregate principal amount, plus accrued and unpaid interest thereon to, but not including, the date of purchase. See "Description of notes—Certain Covenants—Limitation on sales of assets and subsidiary stock."
Certain covenants	The indenture governing the notes will contain covenants that, among other things, limit the Issuer's ability and the ability of its restricted subsidiaries to: • incur additional debt or issue certain preferred shares; • incur liens or use assets as security in other transactions; • make certain dividends, distributions, investments and other restricted payments; • transfer or sell assets; • engage in certain transactions with affiliates; • merge or consolidate or sell, transfer, lease or otherwise dispose of all or substantially all of the Issuer's or any guarantor's assets; and • transfer certain rigs (or the net cash proceeds from the sale of such rigs) to a subsidiary of the Issuer that is not a guarantor of the notes. These covenants are subject to important exceptions and qualifications as described under "Description of notes—Certain covenants." In addition, many of these covenants will cease to apply with respect to the notes during any time that the notes have investment grade ratings from Moody's Investors Service, Inc. or its successors ("Moody's") and S&P Global Ratings or its successors ("S&P"). See "Description of notes—Certain Covenants—Effectiveness of covenants."
Transfer restrictions; No registration rights	The notes and the note guarantees have not been registered under the Securities Act or any state or other securities laws, and we are under no obligation to register the notes. The notes are subject to restrictions on transfer and may not be offered or sold except pursuant to an exemption from, or in a transaction not subject to, the

	registration requirements of the Securities Act. See ''Transfer restrictions.'' The Issuer does not intend to list the notes on any securities exchange. The Issuer does not intend to issue registered notes and note guarantees in exchange for the notes and the note guarantees to be placed in this offering, and the absence of registration rights may adversely impact the transferability of the notes. See ''Transfer restrictions'' and ''Risk factors—Risks related to the notes and this offering—There are restrictions on your ability to transfer or resell the notes. In addition, holders of the notes will not be entitled to registration rights, and we do not currently intend to register the notes under applicable securities laws.''
Use of proceeds	We intend to use the net proceeds from this offering (i) to repay all of the outstanding borrowings under, and to terminate, our revolver, (ii) to cash collateralize all of the outstanding bank guarantees issued under our revolver, (iii) to redeem, repurchase or otherwise satisfy and discharge all of the outstanding 8.75% Senior Secured Notes, (iv) to pay related fees and expenses, including any applicable premium or discounts in connection with any such redemption or repurchase, as applicable, and (v) for general corporate purposes. See ''Use of proceeds.''
OID	If the ''stated redemption price at maturity'' of the notes exceeds their ''issue price'' by more than the statutory de minimis threshold, the notes will be treated as being issued with original issue discount for United States federal income tax purposes. A holder of a note who is subject to United States federal income tax would generally then be required to pay United States federal income tax on accrual of original issue discount on the notes. See ''Certain tax considerations—U.S. Federal Income Tax Considerations'' for more detail.
Trustee	Wilmington Trust, National Association
First Lien Collateral Agent	Wilmington Trust, National Association
Governing law	The notes and the indenture will be governed by New York law.
Absence of Established Market for the Notes	The notes are new securities and will not be listed on any securities exchange or included in any automated quotation system, and there is currently no established market for the notes. The initial purchasers have advised us that they intend to make a market in the notes. The initial purchasers are not obligated, however, to make a market in the notes, and any such market may be discontinued by the initial purchasers in their discretion at any time without notice. See ''Plan of distribution.''
Risk factors	Investing in the notes involves risks. You should consider carefully the information set forth in ''Risk factors'' and all other information contained in this offering memorandum before deciding to invest in the notes.

SUMMARY CONSOLIDATED FINANCIAL DATA

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

We derived the summary consolidated statements of operations data and consolidated statements of cash flows data for the years ended December 31, 2020, December 31, 2019 and December 2018 and the summary consolidated balance sheet data as of December 31, 2020 and December 31, 2019 set forth below, from our audited consolidated financial statements as of and for the year ended December 31, 2020, which are included elsewhere in this offering memorandum.

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

	Years ended December 31,		
	2020	**2019**	**2018**
	(in thousands, except per share data)		
Consolidated statements of operations data:			
Revenues			
Operating revenues	$ 570,343	$ 561,295	$ 599,043
Other revenues	14,833	14,858	14,276
	585,176	576,153	613,319
Operating costs and expenses			
Operating and maintenance	341,426	366,715	358,030
Depreciation	69,895	82,503	86,796
Amortization of deferred costs	47,148	75,305	82,953
General and administrative	45,849	50,773	61,030
Loss on impairment of assets	249,156	57,986	40,071
(Gain) / loss on disposal of assets	(3,601)	(905)	1,682
	749,873	632,377	630,562
Operating loss	(164,697)	(56,224)	(17,243)
Other (expense) / income, net			
Interest income	175	1,138	1,454
Interest expense and financing charges	(89,703)	(80,708)	(106,772)
Other, net	(939)	(763)	354
	(90,467)	(80,333)	(104,964)
Loss before income taxes	(255,164)	(136,557)	(122,207)
Income tax expense	19,695	12,979	14,036
Net loss	$(274,859)	$(149,536)	$(136,243)
Less: Preferred shares dividend	—	—	9,550
Net loss attributable to common shares	$(274,859)	$(149,536)	$(145,793)
Loss per share:			
Basic and Diluted - Common shares	$ (2.02)	$ (1.16)	$ (1.50)

	Years ended December 31,		
	2020	2019	2018
	(in thousands, except per share data)		
Weighted average shares outstanding:			
Basic and Diluted - Common shares.	136,157	128,389	97,084
Consolidated statements of cash flows data:			
Net cash provided by / (used in) operating activities	$ 54,218	$ (12,868)	$ 37,705
Net cash used in investing activities	(88,675)	(83,032)	(95,763)
Net cash provided by financing activities	95,121	31,364	51,068
Other financial data (unaudited):			
Adjusted EBITDA[1]	$200,261	$177,514	$217,672
Adjusted EBITDA Margin[1]	34.2%	30.8%	35.5%

	Years ended December 31,	
	2020	2019
Consolidated balance sheets data:		
Cash and cash equivalents	$ 73,408	$ 26,055
Total assets	1,516,353	1,700,045
Long-term debt.	1,023,963	924,540
Total liabilities	1,227,390	1,138,595
Common shares of $0.01 par value	1,362	1,366
Total equity	288,963	561,450

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

RISK FACTORS

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

Risks related to the notes and this offering

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

We have, and after the completion of the offering will continue to have, a significant amount of indebtedness. As of December 31, 2020, on an as further adjusted basis after giving effect to (i) the sale of the Shelf Drilling Journey in February 2021 and the receipt of $77.6 million of proceeds therefrom, (ii) the payment of $37.1 million of interest on our 8.25% Senior Unsecured Notes on February 16, 2021 and (iii) this offering and the use of proceeds therefrom, we would have at least $240 million of cash on hand, and our total indebtedness would have been $1.187 billion.

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

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

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

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

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

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

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

Our non-Guarantor Subsidiaries as of the issue date will be the Egyptian Subsidiaries, Shelf Drilling Offshore Services (India) Private Limited, which is an Excluded Subsidiary incorporated in India, and certain Immaterial Subsidiaries and dormant Unrestricted Subsidiaries. For the year ended December 31, 2020, our non-Guarantor Subsidiaries (excluding the Egyptian Subsidiaries, which are expected to guarantee the notes after the offering) accounted for none of our Adjusted EBITDA. As of December 31, 2020, such non-Guarantor Subsidiaries held approximately 1% of our consolidated assets.

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

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

We may be able to incur substantial additional indebtedness in the future, including other first priority pari passu secured indebtedness and second priority secured indebtedness. Although our current indebtedness limits, and the indenture governing the notes will limit, our ability to incur additional indebtedness, these restrictions are subject to a number of qualifications and exceptions and do not apply uniformly to our subsidiaries, and under certain circumstances, debt incurred in compliance with these restrictions could be substantial. To the extent that we incur additional indebtedness, the risks described above associated with our substantial leverage, including the possible inability to service our debt, would increase.

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

As of December 31, 2020, we had an aggregate principal amount of $900.0 million of 8.25% Senior Unsecured Notes due February 15, 2025 outstanding, $80.0 million in aggregate principal of 8.75% Senior Secured Notes due November 15, 2024 outstanding, and $55.0 million of outstanding borrowings and $23.6 million of bank guarantees issued under our revolver, resulting in availability of $146.4 million under our revolver. Our indebtedness as of December 31, 2020 as adjusted for the offering of the notes and the use of proceeds therefrom would result in total principal amount of indebtedness of $1.21 billion, consisting of $900.0 million in aggregate principal of 8.25% Senior Unsecured Notes due February 15, 2025 and $310.0 million in aggregate principal of the notes. The level of our indebtedness and the terms of the agreements governing our existing indebtedness may contain covenants that restrict our ability to take various actions, such as to:

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

Our ability to comply with these covenants may be affected by many factors, both within and beyond our control, including but not limited to our future performance, falling oil and gas prices, prolonged periods of low dayrates, the possible termination or loss of contracts, and reduced values of our drilling rigs. We may not satisfy these or other covenants in our existing indebtedness. Our failure to comply with the obligations under the agreements governing our existing indebtedness could result in an event of default under such agreements, which could result in the acceleration of our indebtedness, in whole or in part. In addition, our existing debt agreements contain cross-default provisions whereby acceleration or payment default by us under one of our debt agreements, could allow creditors to declare us in default of our other existing debt or financing agreements. This could lead to an acceleration and enforcement of such agreements by all or substantially all of our creditors.

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

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

The notes will be guaranteed at closing by each of the Issuer's existing direct and indirect restricted subsidiaries that are guarantors of the Issuer's 8.25% Senior Unsecured Notes on the issue date (which will on the issue date include Shelf Drilling RigCo II, Ltd., a subsidiary that is not currently a guarantor of the Issuer's 8.25% Senior Unsecured Notes, that recently sold the Shelf Drilling Journey rig and that currently holds the net sale proceeds therefrom), except, in the case of the Egyptian Subsidiaries, to the extent that required governmental approvals have not been obtained by the closing of the offering; *provided,* that the Egyptian Subsidiaries are required to use commercially reasonable efforts to obtain such governmental approvals and shall guarantee the notes as promptly as practicable after obtaining such approvals. The notes will be guaranteed by any of the Issuer's restricted subsidiaries that guarantees or otherwise becomes an obligor with respect to certain indebtedness, and by each of the Issuer's future direct and indirect restricted subsidiaries, other than (A) any restricted subsidiary that is prohibited by the laws or rules (including licensing and notarial requirements) of its jurisdiction of organization from guaranteeing the notes or such laws or rules render such a guarantee impracticable, so long as the Issuer and such restricted subsidiary are using commercially reasonable efforts to obtain any consent or approval that would remove such prohibitions or otherwise to resolve such impracticalities, (B) any future Indian Subsidiary and (C) any Immaterial Subsidiary (as defined herein), subject to a cap on the cash and carrying value of rigs (other than excluded rigs) held by such subsidiaries. See "Description of notes—Certain Definitions—Immaterial Subsidiary." Except for such subsidiary guarantors of the notes, the Issuer's subsidiaries will have no obligation, contingent or otherwise, to pay amounts due under the notes or to make any funds available to pay those amounts, whether by dividend, distribution, loan or other payment. The notes and guarantees will be structurally subordinated to all indebtedness and other obligations of any non-guarantor subsidiary such that in the event of insolvency, liquidation, reorganization, dissolution or other winding up of any subsidiary that is not a guarantor, all of that subsidiary's creditors (including trade creditors) would be entitled to payment in full out of that subsidiary's assets before we would be entitled to any payment. The indenture governing the notes will not restrict the Issuer's unrestricted subsidiaries' incurrence of additional indebtedness or other liabilities and, subject to some limitations, permits other non-guarantor subsidiaries to incur additional indebtedness without limiting the amount of other liabilities, such as trade payables, that may be incurred by these subsidiaries.

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

- the designation of that subsidiary guarantor as an unrestricted subsidiary;
- if a guarantor is dissolved or liquidated; or
- the sale or other disposition, including the sale of substantially all the assets, of that subsidiary guarantor,

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

For the year ended December 31, 2020, our non-Guarantor Subsidiaries (excluding the Egyptian Subsidiaries, which are expected to guarantee the notes after the offering) accounted for none of our Adjusted EBITDA. As of December 31, 2020, such non-Guarantor Subsidiaries held approximately 1% of our consolidated assets.

The Parent is a holding company that has no material assets other than the stock of its subsidiaries, and the Parent conducts all of its operations through the Issuer and its subsidiaries. The Parent's ability to perform the guarantee of the notes will be limited.

The Parent is guaranteeing the notes (i) solely as to payment and (ii) in order to facilitate the financial statement presentation included in this offering memorandum and the financial reporting presentation the Issuer intends to use in satisfaction of the reporting covenant under the indenture. However, the Parent's ability to perform the guarantee will be limited as it is a holding company that has no material assets other than the stock of its subsidiaries, and it conducts all of its operations through the Issuer and its subsidiaries. Accordingly, holders of notes may be unable to recover under the Parent's guarantee in the event we do not perform our obligations under the notes and may have limited or no recourse against the Parent.

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

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

The unrestricted subsidiaries under the indenture governing the notes will not be subject to any of the covenants in the indenture governing the notes and will not guarantee the notes or provide collateral for the notes, and the issuer of the notes may not be able to rely on the cash flow or assets of those unrestricted subsidiaries to pay its indebtedness.

Certain subsidiaries will be unrestricted subsidiaries under the indenture governing the notes at the issuance date. In addition, subject to compliance with the restrictive covenants contained in the indenture governing the notes, the Issuer will be permitted to designate certain of its subsidiaries as unrestricted subsidiaries. If a guarantor is designated as an unrestricted subsidiary in accordance with the indenture governing the notes, any guarantees and liens by such subsidiary or any of its subsidiaries will be released under such indenture. As a result, the creditors of the unrestricted subsidiary and its subsidiaries will have a senior claim, ahead of the notes and the related guarantees, on the assets of such unrestricted subsidiary and its subsidiaries.

Unrestricted subsidiaries under the indenture governing the notes will not be subject to the covenants under such indenture and will not guarantee or extend liens in connection with the notes. This means that these entities would be able to engage in many of the activities that we and our restricted subsidiaries are prohibited or limited from doing under the terms of the indenture governing the notes, such as incurring additional debt, securing assets in priority to the claims of the holders of the notes, paying dividends, making investments, selling assets and entering into mergers or other business combinations. These actions could be detrimental to our ability to make payments of principal and interest when due and to comply with our other obligations under the notes, and could reduce the amount of our assets that would be available to satisfy your claims should we default on the notes. Unrestricted subsidiaries may also enter into financing agreements that limit their ability to make loans or other distributions to the Issuer or the Subsidiary Guarantors. Accordingly, the Issuer may not able to rely on the cash flow or assets of unrestricted subsidiaries to pay any of their indebtedness, including the notes.

Our restricted subsidiaries accounted for 100% of our Adjusted EBITDA for the year ended December 31, 2020 and 100% of our consolidated assets as of December 31, 2020.

The value of the Collateral may be limited.

Although third-party appraisals have been obtained for certain rigs as required by our revolver, no appraisals of the value of the Collateral have been made in connection with this transaction, and the fair market value of the Collateral is subject to fluctuations based on factors that include, among others, general economic conditions and similar factors. The amount to be received upon a sale of the Collateral would be dependent on numerous factors, including, but not limited to, the actual fair market value of the Collateral at such time, the timing and the manner of the sale and the availability of buyers. By its nature, portions of the Collateral may be illiquid and may have no readily ascertainable market value.

There also can be no assurance that the Collateral will be saleable and, even if saleable, the timing of its liquidation would be uncertain, and there may be substantial delays in its liquidation. There can be no assurance that the Collateral can be sold in a short period of time (or at all) or in an orderly manner. Consequently, such delays in timing could have a material adverse effect on the value of the Collateral, and liquidating the Collateral may not produce proceeds in an amount sufficient to pay any amounts due under the notes.

To the extent that liens, rights or easements permitted under the indenture governing the notes and granted to third parties encumber our assets, such third parties have or may exercise rights and remedies with respect to the assets subject to such liens that could adversely affect the value of the Collateral and the ability of the first lien collateral agent to foreclose on the Collateral.

Holders of the notes will share Collateral on a pari passu basis with any pari passu indebtedness permitted under the indenture governing the notes to be incurred in the future, and if there is a default, the value of that Collateral may not be sufficient to repay the holders of the notes and the holders of such other indebtedness.

If the Issuer in the future incurs *pari passu* indebtedness permitted under the indenture governing the notes that shares Collateral on a *pari passu* basis with the notes, then subject to the terms of the intercreditor agreement to be entered into on the issuance date, the notes will be secured by first-priority liens on the Collateral that will also secure the obligations on a *pari passu* basis under such *pari passu* indebtedness.

In the event that a bankruptcy case is commenced by or against us, if the value of the Collateral is less than the amount of outstanding principal and accrued but unpaid interest on the notes and all other senior secured obligations secured by *pari passu* liens, interest, fees and expenses may cease to accrue on the notes from the date the bankruptcy petition is filed. See ''—Rights of noteholders in the Collateral may be adversely affected by bankruptcy proceedings and noteholders may not be entitled to post-petition interest, fees or expenses in any bankruptcy proceeding.'' In the event of a foreclosure, liquidation, bankruptcy or similar proceeding, the Collateral may not be sold in a timely or orderly manner. See ''—The value of the Collateral may be limited.''

Further, the proceeds from any sale or liquidation of the Collateral will generally be used to repay all senior secured indebtedness secured by such Collateral, including any *pari passu* secured indebtedness that we may incur in the future, on a pro rata basis, and may not be sufficient to pay our obligations under the notes. Your rights to the Collateral would be diluted by any increase in the indebtedness secured by the Collateral or portions thereof.

If the proceeds of any sale of the Collateral are not sufficient to repay all amounts due on the notes (after taking into account *pari passu* indebtedness also secured by that Collateral), the holders of the notes (to the extent not repaid from the proceeds of the sale of the Collateral) would have only a senior unsecured claim, *pari passu* with the claims of other unsecured creditors and, to the extent not repaid from proceeds of their collateral, other secured creditors, against our remaining assets.

With respect to some of the Collateral, the security interest of the first lien collateral agent with respect to the notes, and its ability to foreclose will also be limited by the need to meet certain requirements, such as obtaining third-party consents and making additional filings. If we are unable to obtain these consents or make these filings, the security interests may be invalid and the holders of the notes will not be entitled to the collateral or any recovery with respect thereto. Any such required consents may not be obtained on a timely basis or at all.

These requirements may limit the number of potential bidders for certain Collateral in any foreclosure or other auction and may delay any sale, either of which events may have an adverse effect on the sale price of the Collateral. Therefore, the practical value of realizing on the Collateral may, without the appropriate consents and filings, be limited.

There are certain assets that are excluded from the Collateral.

Certain categories of assets will be, and in the case of the rigs (up to eight, in addition to four rigs currently held for sale), may be in certain circumstances, excluded from the collateral securing the notes and the related guarantees, and the liens on certain categories of assets are not required to be perfected. See ''Description of notes—Security for the Notes.'' If an event of default occurs and the notes are accelerated, the notes and the related guarantees will rank equally with the holders of other unsubordinated and unsecured indebtedness of the relevant entity with respect to such excluded property and will be effectively subordinated to holders of obligations secured by a lien perfected on such excluded property.

There may be restrictions or limitations on the first lien collateral agent's ability to foreclose on the Collateral.

The obligations under the notes are secured only by the Collateral described in this offering memorandum. The security interest of the first lien collateral agent in the Collateral will be subject to practical problems generally associated with the realization of security interests in such Collateral. In addition to state and foreign law requirements and limitations, the first lien collateral agent's ability to foreclose on the Collateral may be subject to perfection and priority issues and practical problems associated with the realization of the first lien collateral agent's security interest or lien in the Collateral, including cure rights, foreclosing on the Collateral within the time periods permitted by third parties or prescribed by laws, obtaining third-party consents, making additional filings, statutory rights of redemption and the effect of the order of foreclosure. Consents of any third parties and approvals by governmental entities may not be given when required to facilitate a foreclosure on the Collateral. In addition, to the extent that other permitted liens encumber any of the Collateral, those parties may have or exercise rights and remedies with respect to the Collateral that could adversely affect the value of the Collateral and the ability of the first lien collateral agent to realize or foreclose on the Collateral. Liquidating the Collateral may not result in proceeds in an amount sufficient to pay any amounts due under the notes and *pari passu* secured indebtedness after also satisfying the obligations to pay any creditors with prior liens.

The Collateral is subject to casualty risks.

We intend to maintain insurance or otherwise insure against certain hazards. However, certain losses, including some losses resulting from terrorist acts, may be either uninsurable or not economically insurable, in whole or in part, and our insurance policies will not cover all the events that may conceivably result in damage to the Collateral. As a result, any insurance proceeds may not compensate us fully for our losses. If there is a total or partial loss of any of the Collateral, the proceeds received by us in respect thereof may not be sufficient to satisfy the notes and *pari passu* secured indebtedness. In the event of a total or partial loss to any of the Collateral, certain items of equipment and inventory may not be easily replaced. Accordingly, even though there may be insurance coverage, the extended period needed to manufacture replacement products and inventory could cause significant delays.

Rights of holders of the notes in the Collateral may be adversely affected by the failure to perfect liens on certain Collateral.

Applicable law requires that a security interest in certain tangible and intangible assets can only be properly perfected and its priority retained through the taking of certain actions. The liens on the Collateral from time to time owned by us securing obligations under the notes may not be perfected if we or the first lien collateral agent has not taken the actions necessary to perfect any of those liens. The inability or failure of us or the first lien collateral agent to take promptly all actions necessary to create properly perfected security interests in the Collateral may result in the loss of the priority, or a defect in the perfection of the security interest for the benefit of the noteholders to which they would have been otherwise entitled. In addition, applicable law requires that certain property and rights acquired after the grant of a general security interest can only be perfected at the time such property and rights are acquired and identified. The first lien collateral agent may not monitor, or, even if it is a requirement by the terms of the indenture governing the notes or the related security documents, we may not inform the trustee or the first lien collateral agent of, the future acquisition of property and rights that constitute Collateral, and necessary action may not be taken to properly perfect the security interest in such after-acquired Collateral. The first lien collateral agent for the notes has no obligation to monitor the acquisition of additional property or rights that constitute Collateral or monitor the perfection of or make any filings to perfect or maintain the perfection of any security interest in favor of the notes against third parties. Circumstances also may exist or events may occur that cause liens to lose perfection or priority, such as, among other things, the passage of time, movement of collateral or changes in name or entity type. Such failure, circumstances or events may result in the loss of the security interest therein or the priority of the security interest in favor of the notes against third parties. In addition, as described further herein, even if the first lien collateral agent does properly perfect liens on Collateral acquired in the future, such liens may potentially be avoidable as a preference in any bankruptcy proceeding under certain circumstances. See ''—Any future pledge of Collateral or guarantee provided after the notes are issued might be avoided by a trustee in bankruptcy.''

In addition, we may not have liens perfected on all of the Collateral securing the notes prior to the closing of this offering. No assurance can be given that such liens will be perfected on a timely basis. Further, the indenture governing the notes and the security documents entered into in connection with the notes will not require us to take a number of actions that might improve the perfection or priority of the liens of the first lien collateral agent for the benefit of the noteholders.

Accordingly, there may not be sufficient proceeds of Collateral to pay all or any of our obligations under the notes. Any claim for the difference between the amount, if any, realized by the holders of the notes from the sale of the Collateral securing the notes and the applicable obligations under the notes will be *pari passu* in right of payment with all of our other unsecured unsubordinated indebtedness and other obligations, including trade payables.

Lien searches may not reveal all liens on the Collateral and may not be available in all jurisdictions in which the Collateral is located by the closing date of the offering of the notes or at all.

We have not completed lien searches on the Collateral in all jurisdictions in which the Collateral is located. Lien searches could reveal a prior lien or multiple prior liens on the Collateral and such liens may prevent or inhibit the first lien collateral agent from foreclosing on the liens on that secured the notes. We cannot guarantee that the lien searches we completed on the Collateral will reveal any or all existing liens on such Collateral. Any such undiscovered liens could be significant, could be prior in ranking to the liens securing the notes and the guarantees and could have an adverse effect on the ability of the first lien collateral agent for the notes to realize or foreclose upon the Collateral securing the notes and the note guarantees.

Security over certain Collateral will not be in place by the issue date or will not be perfected on the issue date.

Security interests over certain Collateral, including mortgages on certain of our drilling rigs, will not be in place on the issue date or may not be perfected on the issue date. To the extent any security interest in the Collateral cannot be perfected on or prior to the issue date, we will be required to have all such security interests perfected within the time periods specified in the indenture and the security documents, unless a third-party consent is required, in which case we will be required to use commercially reasonable efforts to obtain such consent. We cannot assure you that we will be able to perfect any such security interests, which would reduce the amount of Collateral that will secure the notes. To the extent a security interest in certain Collateral is perfected following the issue date, that security interest would remain at risk of having been granted within 90 days of a bankruptcy filing (in which case it might be voided as a preferential transfer by a trustee in bankruptcy) even after the security interests perfected on the issue date were no longer subject to such risk.

We will, in most cases, have control over the Collateral, and the sale of particular assets by us could reduce the pool of assets securing the notes and the note guarantees.

The security documents allow us to remain in possession of, retain exclusive control over, freely operate, and collect, invest and dispose of any income from the Collateral securing the notes and the related guarantees. For example, so long as no default or event of default under the indenture governing the notes would result therefrom, we may, among other things, without any release from or consent by the trustee or first lien collateral agent, conduct ordinary course activities with respect to Collateral, such as selling, abandoning or otherwise disposing of Collateral and making ordinary course cash payments (including repayments of indebtedness).

There are circumstances other than repayment, defeasance or discharge of the notes under which the Collateral that will secure the notes and guarantees will be released automatically, without the consent of the trustee, the first lien collateral agent or the holders of the notes.

There are circumstances other than repayment or discharge of the notes under which the Collateral securing the notes and guarantees will be released automatically, without your consent or the consent of the Trustee, as described in the "Description of notes—Release of Liens," including:

- a sale, transfer or other disposal of such Collateral in a transaction not prohibited under the indenture governing the notes;
- with respect to Collateral held by a guarantor, upon the release of such guarantor from its guarantee of the notes;
- with respect to Collateral that becomes an Excluded Asset (as defined in "Description of notes"); and
- if required or permitted in accordance with the terms of the intercreditor agreement.

Pursuant to the terms of the intercreditor agreement, the holders of the notes may not be able to control actions with respect to the Collateral, whether or not the holders of the notes agree or disagree with those actions.

In addition, the indenture governing the notes will permit us to designate one or more of our restricted subsidiaries that is a Subsidiary Guarantor of the notes as an unrestricted subsidiary. If we designate a Subsidiary Guarantor as an unrestricted subsidiary in accordance with the indenture governing the notes, all of the liens on any Collateral owned by such subsidiary or any of its subsidiaries and any guarantees of the notes by such subsidiary or any of its subsidiaries will be released under the indenture governing the notes.

The value of the Collateral securing the notes may be diluted under certain circumstances.

The Collateral that will secure the notes is subject to permitted liens under the indenture governing the notes, and the Collateral may secure on a *pari passu* basis additional parity indebtedness that the Issuer or one or more of the Subsidiary Guarantors incur in the future, subject to restrictions on our ability to incur debt and liens under the indenture governing the notes. Your rights to the Collateral would be diluted by any increase in the indebtedness secured on a parity basis by the Collateral.

Appraisals and estimates should not be relied upon as a measure of realizable value of the Collateral.

The aggregate appraised values of certain of our rigs presented in this offering memorandum are based on third-party appraisals provided by various appraisers. We were required to obtain such appraisals in connection with our credit agreement for our revolver, and we did not obtain any appraisals in connection with this transaction. Appraisals of the applicable rigs are subject to a number of significant assumptions and methodologies (which differ among the appraisers) and are typically prepared without a physical inspection of the rig. The appraisals were as of a date prior to the date of this offering memorandum and may not accurately reflect the current market value of a rig that serves as Collateral. Appraisals that are based on other assumptions and methodologies (or a physical inspection of a rig) may result in valuations that are materially different from those contained in such appraisals. An appraisal is only an estimate of value. It does not necessarily indicate the price at which a rig may be purchased or sold in the market. In particular, the appraisals of the certain rigs described in this offering memorandum are estimates of the values of rigs assuming such rigs are in a certain condition, which may not be the case when the Collateral will be subjected to the lien of the security documents.

In addition, this offering memorandum presents an aggregated total of our management's estimates of the fair market value for those rigs that were not appraised by a third party in connection with our credit agreement for our revolver. These estimates are based upon various methodologies, including evaluating technical specifications and capabilities of comparable rigs, evaluating comparable sale transactions, carrying value, or carrying value adjusted for recent material upgrades to the rig, any of which may turn out to be inaccurate. Any significant variance could materially affect the estimated market value of our rigs.

Neither an appraisal nor our management's estimates should be relied upon as a measure of realizable value. The fair market value of our rigs is subject to fluctuations based on factors that include, among others, general economic conditions and similar factors. The amount to be received upon a sale of a rig would be dependent on numerous factors, including, but not limited to, the actual fair market value of the rig at such time, the timing and the manner of the sale and the availability of buyers. There can be no assurance that any rig can be sold in a short period of time (or at all) or in an orderly manner. See "—The value of the Collateral may be limited."

Any future pledge of Collateral or guarantee provided after the notes are issued might be avoided by a trustee in bankruptcy.

The indenture governing the notes and the security documents may require us to grant liens on certain assets that the Issuer or any Subsidiary Guarantor acquires after the notes are issued. Any future guarantee or additional lien in favor of the first lien collateral agent for the benefit of the noteholders might be avoidable by the grantor (as debtor-in-possession) or by its trustee in bankruptcy or other third parties (including potentially certain of our other creditors) if certain events or circumstances exist or occur. For instance, if the entity granting the future guarantee or additional lien was insolvent at the time of the grant and if such grant was made within 90 days before that entity commenced a bankruptcy proceeding (or one year before commencement of a bankruptcy proceeding if the creditor that benefited from the guarantee or lien is an "insider" of the grantor under the U.S. Bankruptcy Code), and the granting of the future guarantee or additional lien enabled the noteholders to receive more than they would if the grantor were liquidated under Chapter 7 of the U.S. Bankruptcy Code, then such guarantee or lien could be avoided as a preferential transfer. In addition, as discussed above, certain of the assets securing the notes will not be subject to a valid and perfected security interest upon the closing of this offering. See "—Security over certain Collateral will not be in place by the issue date or will not be perfected on the issue date." Liens recorded or perfected after the issue date may be treated under bankruptcy law as if they were delivered to secure previously existing indebtedness. In bankruptcy proceedings commenced within 90 days of lien perfection, a lien given to secure previously existing indebtedness is materially more likely to be avoided as a preference by the bankruptcy court than if delivered and promptly recorded on the issue date. Accordingly, if the Issuer or any Subsidiary Guarantor were to file for bankruptcy protection after the issue date of the notes and the liens had been perfected or guarantees granted less than 90 days before the commencement of such bankruptcy proceeding, such liens securing, or guarantees guaranteeing, the notes may be particularly subject to challenge as a result of having been delivered after the issue date. To the extent that such challenge succeeded, the holders of the notes would lose the benefit of the security that the Collateral was intended to provide if the liens are avoided as well as the benefit of such guarantee.

Rights of noteholders in the Collateral may be adversely affected by bankruptcy proceedings and noteholders may not be entitled to post-petition interest, fees or expenses in any bankruptcy proceeding.

The right of the first lien collateral agent for the notes to repossess and dispose or otherwise exercise remedies in respect of the Collateral upon the occurrence of an event of default is likely to be significantly impaired (or at a minimum delayed) by applicable bankruptcy law if bankruptcy proceedings are commenced by or against the Issuer or a Subsidiary Guarantor prior to or possibly even after such first lien collateral agent has repossessed and disposed of the Collateral or otherwise completed the exercise of its remedies with respect to the Collateral. Under the U.S. Bankruptcy Code, pursuant to the automatic stay imposed upon a bankruptcy filing, a secured creditor, such as the first lien collateral agent, is prohibited from repossessing its security from a debtor in a bankruptcy case, or from disposing of security repossessed from a debtor, without prior bankruptcy court approval (which may not be given depending upon the circumstances). Moreover, bankruptcy law permits the debtor to continue to retain and to use cash and other collateral, as well as the proceeds, products, rents, or profits of the collateral, even though the debtor is in default under the applicable debt instruments, provided that the secured creditor is given ''adequate protection.'' The meaning of the term ''adequate protection'' may vary according to circumstances, but it is intended in general to protect the value of the secured creditor's interest in the collateral and may, at the discretion of the court, include cash payments or the granting of additional or replacement security for any diminution (as determined by the court) in the value of the collateral as a result of the stay of repossession or disposition or any use of the collateral by the debtor during the pendency of the bankruptcy case. A bankruptcy court may determine that a secured creditor may not require compensation for a diminution in the value of its collateral if the value of the collateral exceeds the amount of debt it secures. In view of the broad discretionary powers of a bankruptcy court as well as the lack of a precise definition of the term ''adequate protection,'' it is impossible to predict whether or when payments under the notes could be made following the commencement of a bankruptcy case or the length of any delay in making any such payments, whether or when the first lien collateral agent would or could repossess or dispose of the Collateral, the value of the Collateral at the time of any bankruptcy filing or whether or to what extent noteholders would be compensated for any delay in payment or loss of value of the Collateral through the requirements of ''adequate protection'' or otherwise.

Furthermore, in the event the bankruptcy court determines that the value of the Collateral is not sufficient to repay all amounts due on the notes and the other secured obligations secured by a *pari passu* or senior ranking lien on the Collateral, the holders of the notes would be ''undersecured'' and have an unsecured claim as to the difference and may not be paid in full. Federal bankruptcy laws do not permit the payment or accrual of post-petition interest, costs, expenses and applicable fees for ''undersecured claims'' during the debtor's bankruptcy case. Other consequences of a finding of under-collateralization would include, among other things, a lack of entitlement to receive ''adequate protection'' under federal bankruptcy laws with respect to the unsecured portion of the notes. In addition, if any payments of post-petition interest had been made at the time of such a finding of under-collateralization, those payments could be recharacterized by the bankruptcy court as a reduction of the principal amount of the notes.

As a result, bankruptcy laws may act to limit the ability of the holders of the notes to realize upon the Collateral and to receive post-bankruptcy interest, fees or expenses or ''adequate protection'' with respect to any unsecured portion of the notes.

Foreclosing on the collateral located outside the United States may be difficult due to the laws of certain jurisdictions.

Most of the Collateral is located outside of the United States, and all of the rigs, which comprise a large portion of the Collateral, are registered under flags outside of the United States and will operate in international waters. If we default under the notes, the holders of the notes may direct the trustee, subject to the intercreditor agreement, to instruct the first lien collateral agent to bring a foreclosure action against us. We cannot assure you that these assets will be located in a jurisdiction having effective or favorable foreclosure procedures and lien priorities. Any foreclosure proceedings could be subject to lengthy delays and procedural hurdles resulting in increased custodial costs, deterioration in the condition of such assets and substantial reduction of the value of such collateral. In addition, some jurisdictions may not provide a legal remedy for the enforcement of a security interest in or lien on these assets.

Foreclosing on the rigs may be difficult because they are not easily transported.

The rigs are mobile and may be located and/or operated in international waters outside the jurisdiction of any court. This may make it difficult for the first lien collateral agent to bring a successful foreclosure action because it may be difficult for the first lien collateral agent or officials of the applicable government or agency to physically seize the rigs and engage in a foreclosure sale. Moreover, the respective laws of each jurisdiction where a rig is actually located at the time that the first lien collateral agent may seek to enforce the mortgage will govern the foreclosure proceedings and distribution of proceeds. Such laws may vary significantly from jurisdiction to jurisdiction. Furthermore, all or some of those laws and procedures may be less favorable to mortgagees than those in other jurisdictions and may be less favorable than those applicable in the United States. The costs of enforcement in foreign jurisdictions, particularly if proceedings are ongoing simultaneously against drilling rigs in different jurisdictions, can be high and can include fees based on the face amount of the mortgages being enforced. Foreign court proceedings can also be slow and have unexpected procedural hurdles. In addition, some jurisdictions may not provide a legal remedy for the enforcement of mortgages on the rigs, and in certain circumstances, the rigs may be located in international waters outside the jurisdiction of any country. Consequently, there are no assurances that the first lien collateral agent will be able to enforce any one or more of the mortgages covering the rigs that are located outside the United States.

Maritime liens may arise and take priority over the liens securing the notes.

The laws of certain jurisdictions in which we may operate may give rise to the existence of maritime liens which may take priority over the rig mortgage and other liens securing the notes and the guarantees. Such liens may arise in support of, among other things, claims by unpaid ship builders or ship repairers remaining in possession of the rigs, claims for salvage, claims for damage caused by a collision, claims for seamen's wages and other employment benefits and claims for pilotage, claims for personal injury related to the operation of the rig, as well as potentially claims for necessary goods and services supplied to the rigs. This list should not be regarded as definitive or exhaustive, as the categories of claims giving rise to maritime liens, and the ranking of such liens, vary from one jurisdiction to another. Maritime liens can attach without any court action, notice, registration or documentation and accordingly their existence cannot necessarily be identified.

We operate in countries that may expose the collateral to risk of loss or damage due to war, local economic instabilities, corruption, political disruption and civil disturbance.

A primary component of our business strategy is to operate in global oil and natural gas producing areas. The collateral could be damaged or lost due to a number of risks inherent in any business that operates globally, including:

- war, piracy and acts of terrorism;
- potential seizure, expropriation or nationalization of assets;
- damage to our equipment or violence directed at our employees; and
- limitations on insurance coverage, such as war risk and named windstorm coverage in certain areas.

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

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

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

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

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

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

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

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

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

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

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

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

- the sum of its debts (including contingent liabilities) were greater than its assets, at fair valuation;
- the present fair saleable value of its assets were less than the amount required to pay the probable liability on its total existing debts and liabilities (including contingent liabilities) as they became absolute and matured; or

- it could not pay its debts as they became due.

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

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

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

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

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

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

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

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

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

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

The Cayman Islands courts are also unlikely:

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

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

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

- is final and conclusive;
- is one in respect of which the foreign court had jurisdiction over the defendant according to Cayman Islands conflict of law rules;
- is either for a liquidated sum not in respect of penalties or taxes or a fine or similar fiscal or revenue obligations or, in certain circumstances, for in persona non-monetary relief (following Bandone Sdn Bhd v Sol Properties Inc. [2008] CILR 301); and
- was neither obtained in a manner nor is of a kind enforcement of which is contrary to natural justice or the public policy of the Cayman Islands.

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

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

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

We will not be subject to the Sarbanes-Oxley Act of 2002 and will not be required to file periodic reports with the SEC.

Since we will not register the notes under the Securities Act after the offering, we will not be subject to the Sarbanes-Oxley Act of 2002. That law also requires public companies in the United States to have and maintain effective internal controls over financial reporting to provide reasonable assurance regarding the reliability of financial reporting and preparation of financial statements, and have management review the effectiveness of those controls on an annual basis (and have the independent auditor attest to the effectiveness of such internal controls). We are required to publish material information pursuant to Norwegian law, but such rules, including in relation to disclosure controls and procedures to ensure timely disclosure of material information, are not necessarily comparable with what is required under the Sarbanes-Oxley Act of 2002.

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

This offering memorandum does not include all of the information that would be required if we were registering the offering of the notes with the SEC. We urge you to consider this factor in connection with your evaluation of your investment in the notes.

We may fail to maintain an effective system of internal controls, which may result in material misstatements of our financial statements or fail to prevent fraud and which could harm our business and could negatively impact the value of the notes.

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

We cannot be certain that our efforts to develop and maintain our internal controls will be successful, nor that we will be able to maintain adequate controls over our financial processes and reporting in the future. Any failure in the effectiveness of our internal control over financial reporting could have a material effect on our financial reporting, which could negatively impair our ability to execute our business strategy and our ability to deliver accurate and timely financial information.

Holders of notes may be required to bear the risk of their investment in the notes for an indefinite period of time.

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

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

An active trading market for the notes may not develop.

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

The notes will initially be held in book-entry form and, therefore, holders must rely on the procedures of the relevant clearing systems to exercise their rights and remedies.

Unless and until certificated notes are issued in exchange for book-entry interests in the notes, owners of the book-entry interests will not be considered owners or holders of the notes. Instead, DTC, or its nominee, will be the sole holder of the notes. Payments of principal, interest and other amounts owing on or in respect of the notes in global form will be made to the paying agent, which will make payments to DTC. Thereafter, such payments will be credited to DTC participants' accounts that hold book-entry interests in the notes in global form and credited by such participants to indirect participants. Unlike holders of the notes themselves, owners of book-entry interests will not have the direct right to act upon our solicitations for consents or requests for waivers or other actions from holders of the notes. Instead, if a holder owns a book-entry interest, such holder will be permitted to act only to the extent such holder has received appropriate proxies to do so from DTC or, if applicable, a participant. We cannot assure holders that the procedures implemented for the granting of such proxies will be sufficient to enable holders to vote on any requested actions on a timely basis.

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

We currently expect that, upon issuance, the notes will be rated B2 by Moody's and will be rated by S&P. Such ratings will be limited in scope, and will not address all material risks relating to an investment in the notes, but rather will reflect only the view of each rating agency at the time it issues the rating. An explanation of the significance of such rating may be obtained from such rating agency. There is no assurance that such credit ratings will be issued or remain in effect for any given period of time or that such ratings will not be lowered, suspended or withdrawn entirely by the rating agencies, if, in each rating agency's judgment, circumstances so warrant. It is also possible that such ratings may be lowered in connection with the application of the proceeds of this offering or in connection with future events, such as future acquisitions. Holders of the notes will have no recourse against us or any other parties in the event of a change in or suspension or withdrawal of such ratings. Any lowering, suspension or withdrawal of such ratings may have an adverse effect on the market price or marketability of the notes. In addition, the condition of the financial markets and other factors may affect the market price or marketability of the notes.

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

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

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

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

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

Note guarantees by our Egyptian Subsidiaries that are required or intended to guarantee the notes will not be in place by the closing of this offering to the extent that required governmental approvals have not been obtained by such closing. One of our Egyptian Subsidiaries owns one rig with a carrying value of $10.0 million as of December 31, 2020. We cannot assure you that we will be able to obtain governmental approvals to the extent required for our Egyptian Subsidiaries to grant such guarantees. To the extent a guarantee is granted following the closing of this offering, that guarantee would remain at risk of having been granted within 90 days of a bankruptcy filing (in which case it might be voided as a preferential transfer by a trustee in bankruptcy) even after the guarantees granted on the closing of this offering were no longer subject to such risk.

The Sponsors and China Merchants own a significant proportion of our common shares, and their interests may conflict with those of noteholders.

Castle Harlan, Inc. and Lime Rock Partners (together, the ‘‘Sponsors’’) beneficially own, collectively, a significant proportion of our common shares. In addition, the Sponsors’ appointees constitute a large portion of the Directors on the board of directors as a result of contractual provisions and our organizational documents. Accordingly, the Sponsors can exercise significant influence over our affairs. As of December 31, 2020, China Merchants was our largest shareholder, and has representation on the board of directors.

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

Holders may be required to pay United States federal income tax on accrual of original issue discount on the notes.

If the ‘‘stated redemption price at maturity’’ of the notes exceeds their ‘‘issue price’’ by more than the statutory de minimis threshold, the notes will be treated as being issued with original issue discount for United States federal income tax purposes. A holder of a note who is subject to United States federal income tax would generally then be required to include any original issue discount in gross income (as ordinary income) as it accrues, in advance of the receipt of cash attributable to that income and regardless of such holder’s regular method of accounting for United States federal income tax purposes. See ‘‘Certain tax considerations—U.S. Federal Income Tax Considerations.’’

If a bankruptcy petition were filed by or against the Issuer, holders of the notes may receive a lesser amount for their claim than they would have been entitled to receive under the indenture governing the notes.

If a bankruptcy petition were filed by or against the Issuer under the U.S. Bankruptcy Code after the issuance of the notes, the claim by any holder of the notes for the principal amount of the notes may be limited to an amount equal to the sum of: (i) the original issue price for the notes; and (ii) that portion of the original issue discount that does not constitute ‘‘unmatured interest’’ for purposes of the U.S. Bankruptcy Code.

Any original issue discount that was not amortized as of the date of the bankruptcy filing would constitute unmatured interest. Accordingly, holders of the notes under these circumstances may receive a lesser amount than they would be entitled to receive under the terms of the indenture governing the notes, even if sufficient funds are available.

Risks related to our business

The COVID-19 pandemic has significantly reduced demand for our services, and has had, and may continue to have, a material adverse impact on our financial condition, results of operations and cash flows. Other epidemic or pandemic diseases or viruses could have a negative impact on our business in future periods.

The existence of COVID-19 was confirmed in early 2020 and has spread to countries worldwide, causing disruptions to businesses and economic activity globally. The collapse in the demand for oil caused by this unprecedented global health and economic crisis, coupled with oil oversupply, has had, and is reasonably likely to continue to have, a material adverse impact on the demand for our services. These effects have included, and may continue to include, adverse effects on revenues and net income; disruptions to our operations, including restrictions on crew change travel; customer shutdowns of oil and gas exploration, development and production; supply chain and vendor activity disruptions; employee impacts from illness, school closures and other community response measures, which may cause prolonged absences of personnel who may be difficult or impossible to replace; and temporary closures of our facilities or the facilities of our customers and suppliers. Several of our contracts have been early terminated, suspended, shortened or renegotiated which will adversely impact our business in future periods.

The extent to which our operating and financial results are affected by COVID-19 will depend on various factors and consequences beyond our control, such as the duration and scope of the pandemic and additional actions by businesses and governments in response to the pandemic, particularly within the geographic locations where we operate, as well as the speed and effectiveness of these responses to combat the virus, including the effectiveness and the timeliness of vaccinations, all of which are highly uncertain at this time. COVID-19, and the volatile global economic conditions stemming from the pandemic, has aggravated and could continue to aggravate certain other risk factors included in this section. COVID-19 may also materially adversely affect our operating and financial results in a manner that is not currently known to us or that we do not currently expect to present significant risks to our operations.

Additionally, these market and industry conditions could place significant pressure on the liquidity and solvency of many offshore drilling contractors, leading them to pursue restructuring transactions or reorganizations under bankruptcy laws. Any such transactions, if and when completed, could have a material impact on the capital structure and competitive dynamics among offshore drilling companies, which could negatively impact our ability to compete in the industry.

This situation is fluid and rapidly evolving, however, we currently have adequate cash reserves, and we are continuously managing our actual cash flows and cash forecasts to maintain our liquidity. In addition, the sale of the Shelf Drilling Journey in February 2021 has provided, and we expect a portion of the proceeds of the offering of the notes will provide, additional liquidity support. See ‘‘Use of Proceeds.’’ We believe that we have adequate liquidity to fund our operations for at least the next twelve months, and, therefore, our financial statements have been prepared under the going concern assumption. We may seek to reduce the overall principal amount of the 8.25% Senior Unsecured Notes due February 15, 2025 through liability management transactions, which may include exchange offers and/or recapitalizations in the future if the current market situation continues and/or worsens.

Other emerging or resurgent epidemic or pandemic diseases or viruses could have a material adverse impact on our financial position, results of operations and cash flows and our ability to service our indebtedness, including the notes.

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

The level of activity of the offshore oil and natural gas industry is cyclical, volatile and impacted by oil and natural gas prices. Sustained periods of low oil and natural gas prices typically result in reduced exploration and drilling, because oil and natural gas companies' capital expenditure budgets are dependent on cash flows from such activities and are therefore sensitive to changes in energy prices. The significant decline in global oil prices that began in the fourth quarter of 2014 has caused a reduction in the exploration, development and production activities of most of our customers and their spending on our services. These cuts in spending curtailed drilling programs, reducing the demand for our services, the rates we can charge and the utilization of our drilling rigs. Although the market price recovered in 2019, the COVID-19 outbreak which started in early 2020 coupled with the oil market oversupply resulted in sharp decline in oil prices and has caused a significant drop in the drilling activity, which has had and is expected to continue to have a material adverse effect on our business, financial condition, results of operations and cash flows. There is no guarantee that prices, and the corresponding demand for our services and dayrates we can charge, will improve, remain at the current levels or not decline in the future. A further decline in the activity levels of the shallow water oil and natural gas industry would have a material adverse effect on our business, financial condition, results of operations and cash flows and our ability to service our indebtedness, including the notes.

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

- worldwide production and demand for oil and natural gas, which are impacted, among other factors, by changes in the rate of economic growth in the global economy;
- technical advances affecting energy sources and consumption, and the development and exploitation of alternative fuels;
- worldwide financial instability or recessions;
- the cost of exploring for, developing, producing and delivering oil and natural gas;
- expectations regarding future energy prices;
- advances in exploration, development and production technologies;
- the discovery rate of new oil and gas reserves;
- increased supply of oil and gas resulting from growing onshore hydraulic fracturing activity and shale development;
- available pipeline and other oil and gas transportation capacity;
- technical advances affecting energy consumption and the development and exploitation of alternative fuels;
- the diversification of IOCs and the shifting of budget allocations away from traditional oil and gas exploration and development projects into renewable energy and other non-core business projects;
- the policies and regulations of various governments regarding exploration and development of their oil and natural gas reserves or speculation regarding future laws or regulations;
- the ability of the Organization of Petroleum Exporting Countries (''OPEC'') to set and maintain production levels and pricing, including whether it meets or extends the reduced output targets it has previously announced or may announce in future;
- the level of production in non-OPEC countries;
- local and international political, economic and weather conditions, including natural disasters;
- tax laws, regulations and policies;
- merger and divestiture activity among oil and gas producers;
- the availability of, and access to, suitable locations from which our customers can explore and produce hydrocarbons;
- the occurrence or threat of epidemic or pandemic diseases and any government response to such occurrence or threat;
- activities by non-governmental organizations to restrict the exploration, development and production of oil and gas so as to reduce the potential harm to the environment from such activities, including emission of carbon dioxide, a greenhouse gas; and
- the worldwide political and military environment, including uncertainty or instability resulting from an escalation or additional outbreak of armed hostilities or other crises in the Middle East or other geographic areas or further acts of terrorism in the regions in which we operate, or elsewhere.

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

The shallow-water drilling industry in which we operate is extremely competitive with numerous industry participants, and contracts have traditionally been awarded on a competitive bid basis. We believe that price competition is frequently a major factor in determining a contract award. Customers may also consider rig availability and location, operational and safety performance records and age, condition and suitability of equipment. In addition, if our competitors enter into joint venture agreements with some of our largest customers, this could make it more difficult for us to obtain additional contracts from these customers. Competition for offshore rigs is frequently on a global basis, as drilling rigs are mobile and may be moved from areas of low utilization and dayrates to areas of greater activity and corresponding higher dayrates. Costs connected with relocating drilling rigs for these purposes are sometimes substantial and are generally borne by the contractor. In addition, we may enter into lower dayrate drilling contracts in response to market conditions which reduces the revenues we earn from such contracts. If we are not able to compete successfully with our competitors, our revenues and profitability may suffer, which could in turn have a material adverse effect on our ability to service our indebtedness, including the notes.

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

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

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

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

The contract backlog relating to our drilling rigs was approximately $1.4 billion as of December 31, 2020. The amount of contract backlog does not necessarily indicate future earnings, and the contract backlog may be adjusted up or down depending on the award of new contracts or extensions or the exercise by the customer of extension options, early cancellation of existing contracts (for which we may not be entitled to compensation), renegotiation of contract dayrates, failure by customers to complete existing contracts or to pay amounts owed or the unavailability of equipment to fulfill a contract due to repairs, maintenance or inspections. In addition, certain of our existing contracts provide for, and we may enter into contracts in the future that provide for, quarterly or yearly adjustments of contract dayrates, including those linked to the price of Brent crude oil or natural gas. Such adjustments may result in downward revisions to our contract backlog each year.

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

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

Our customer base includes NOCs and IOCs, together with a small number of independent oil and gas companies. We, like others in the drilling industry, are subject to risks associated with having a limited number of customers. Our top three customers accounted for 90% of contract backlog and 66% of revenues for the year ended December 31, 2020. Our business, financial condition, results of operations and cash flows could be materially adversely affected if any of these customers were to reduce its contractual commitments to us or suspend or withdraw its approval for us to provide services for them.

Our growth is also closely connected to the growth in activity of our customers and our results may be impacted if certain key customers were to significantly reduce their growth strategy. Furthermore, if any of our major customers failed to compensate us for our services, terminated contracts, failed to renew existing contracts or refuse to enter into new contracts with us, or if a customer were unable to perform due to liquidity or solvency issues, and similar contracts with new customers were not forthcoming, our business, financial condition, results of operations and cash flows would be materially adversely affected.

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

We could be required to make termination payments if contracts are terminated due to downtime, operational problems, safety related issues, failure to deliver or sustained periods of downtime due to force majeure events. Our customers' ability to perform their obligations under their drilling contracts with us may also be negatively impacted by continuing global economic uncertainty. If our customers terminate some of our contracts, and we are unable to secure new contracts on a timely basis and on substantially similar terms, or if payments due under our contracts are suspended for an extended period of time or if a number of our contracts are renegotiated, our financial condition, results of operations or cash flows, could be materially adversely affected.

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

Our ability to win tenders for new contracts, as well as contract renewals where we are the incumbent rig provider, is affected by a number of factors beyond our control, such as market conditions, rig specifications, safety record requirements, competition and governmental approvals required by customers. Further, any increased customer interest and inquiries may not continue in future periods and may not result in an increase in drilling activity, the same level of prospect capture by us or drilling contracts for our rigs. If we are not selected or if the contracts we enter into are delayed, workflow may be interrupted and our business, financial condition or results of operations may be materially adversely affected. If an existing customer decides not to renew its contract, we must then secure a new contract for that rig. Based on 29 customer contracts in place as of December 31, 2020, 12 are scheduled to expire before December 31, 2021, 11 are scheduled to expire during 2022, with a further 6 contracts scheduled to expire at times subsequent to December 31, 2022. While we actively market our rigs prior to the expiry of their existing contracts, there can be no assurance that we will be able to renew or extend existing contracts or secure new arrangements before the original contract lapses. Re-contracting a rig may involve participation in either a direct renegotiation with the customer or in a new tender process, the length and complexity of which could lead to a rig being stacked and/or having to enter into a new contract at lower dayrates, shorter terms or in other geographical areas and could materially adversely affect our financial condition, results of operations and cash flows and our ability to service our indebtedness, including the notes.

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

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

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

During periods of depressed market conditions, including the current market, we are subject to an increased risk of our customers seeking to renegotiate or terminate their contracts, including through claims of non-performance. Our customers may have the right to terminate, or may seek to renegotiate, existing contracts if we experience downtime, operational problems above the contractual limit or safety-related issues, if the drilling rig is a total loss, if the drilling rig is not delivered to the customer within the period specified in the contract or in other specified circumstances, which include events beyond our control. In the past, some of our customers have renegotiated the terms of their existing drilling contracts during periods of depressed market conditions, which has resulted in reduced profitability.

Additionally, during depressed market conditions, a customer may no longer need a rig that is currently under contract or may be able to obtain a comparable rig at a lower dayrate. As a result, customers may seek to renegotiate the terms of their existing drilling contracts or repudiate, suspend or otherwise avoid their obligations under those contracts.

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

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

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

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

We have entered, and may in the future enter, into long-term contracts that allow customers to terminate those contracts without cause, with limited prior notice and without penalty or early termination payments. We have experienced termination without cause under some of our long-term contracts in the past. In addition, under our existing long-term contracts and those that we may enter into in the future, we could be required to pay penalties, which could be material, if such contracts are terminated due to downtime, operational problems or failure to deliver. In addition, certain of our existing contracts provide for, and we may enter into contracts in the future that provide for, cancellation at the option of the customer upon payment of a penalty, which may not fully compensate us for the loss of the contract. Early termination of a contract may result in a drilling rig being idle for an extended period of time. The likelihood that a customer may seek to terminate a contract is increased during periods of market weakness. Any such termination of our long-term contracts could have a material adverse effect on our business, results of operations or cash flows and our ability to service our indebtedness, including the notes.

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

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

Our purchase of existing jack-up rigs carries risks associated with the condition and quality of those rigs.

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

We may be unable to successfully obtain and integrate additional rigs on economically acceptable terms, or at all, which may adversely affect the Issuer and our future growth.

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

Further, obtaining and integrating additional rigs could expose us to a number of risks, including:

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

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

Certain of our competitors in the shallow water drilling industry may have more diverse fleets and greater financial and other resources and assets than we do. Similarly, some of these competitors may be significantly better capitalized than we are, which may make them more able to keep pace with technological developments and make more substantial improvements in the functions and performance of rigs and equipment than we can. In addition, such competitors may be a preferable alternative for customers concerned about counterparty credit risks, including a partner's ability to cover potentially significant liabilities. Further, competitors with more diversified fleets or who have successfully acquired or upgraded their existing rigs or equipment in a more timely and cost-effective manner than us, may be better positioned to withstand unfavorable market conditions. Additionally, we may be at a competitive disadvantage to those competitors that are better capitalized to withstand the effects of a commodity price down-cycle. As a result, our competitors may have competitive advantages that may adversely affect our ability to compete with them in our efforts to contract our drilling rigs on favorable terms, if at all, and correspondingly have a material adverse impact on our business, financial condition, results of operations and cash flows and our ability to service our indebtedness, including the notes.

We depend heavily upon the security and reliability of our technology systems and those of our service and equipment vendors, and such systems are subject to cyber-security risks and threats.

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

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

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

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

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

Newbuild rig projects and reactivation of stacked rigs, as well as upgrade, refurbishment and repair projects are subject to various risks, which could cause delays or cost overruns.

We have in the past and could in the future increase the size of our fleet through the purchase, lease or construction of newbuild rigs. In addition, we may choose to reactivate any of the rigs which are currently stacked or any other rigs which may be stacked in the future.

We incur upgrade, refurbishment and repair expenditures for our fleet from time to time, including when upgrades are required by industry standards and/or by law. Such expenditures are also necessary in response to requests by customers, inspections, regulatory or certifying authorities or when a rig is damaged. We also regularly make certain upgrades or modifications to our drilling rigs to meet customer or contract specific requirements.

The construction or outfitting of purchased newbuild rigs or reactivation of stacked rigs and upgrade, refurbishment and repair projects are subject to project management execution risks of delay and cost overruns inherent in any large construction project from numerous factors, including:

- project management and execution risk;
- unexpectedly long delivery times for, unexpected costs of or shortages of, key equipment, parts and materials;
- unforeseen increases in the cost of equipment, labor and raw materials, particularly steel;
- unforeseen design and engineering problems leading to delays;
- shortages of skilled labor and other shipyard personnel necessary to perform the work;
- labor disputes and work stoppages at the shipyard;
- latent damages to or deterioration of hull, equipment and machinery in excess of engineering estimates and assumptions;
- unanticipated actual or purported change orders (scope creep);
- health, safety, and environmental (‘‘HSE’’) accidents/incidents or other safety hazards;
- failure or delay of third-party service providers;
- disputes with the constructing shipyard or other suppliers;
- last minute changes to a customer’s specifications;
- failure or delay in obtaining acceptance of the rig by a customer;
- financial or other difficulties at shipyards;
- adverse weather conditions or any other force majeure events;
- inability or delay in obtaining flag-state, classification society, certificate of inspection, or other regulatory approvals or permits; and
- mobilization between the shipyard and the contract operating site, including any restrictions on the movement of personnel.

Failure to complete a newbuild, reactivation, upgrade, refurbishment or repair project on time may result in the delay, renegotiation or cancellation of an existing drilling contract and could put at risk planned arrangements to commence operations on schedule. Further, significant delays could have a negative impact on our reputation and customer relationships. We also could be exposed to contractual penalties for failure to complete a project and commence operations in a timely manner. In addition, our rigs undergoing upgrade, refurbishment or repair generally do not earn a dayrate during the period they are out of service. Significant cost overruns or delays, loss of reputation, penalties, and failure to minimize lost dayrates could all have a material adverse effect on our business, financial condition, results of operations and cash flows and our ability to service our indebtedness, including the notes.

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

The shallow water drilling industry historically has been highly cyclical, and it is not unusual for rigs to be unutilized or underutilized for significant periods of time and subsequently resume full or near full utilization when business cycles change. Likewise, during periods of supply and demand imbalance, rigs are frequently contracted at or near cash break-even rates for extended periods of time until dayrates increase when the supply/demand balance is restored. The significant decline in global oil and gas prices that began in the fourth quarter of 2014 has impacted the overall industry activity level and rig supply and demand. The reduction in spending by our customers together with the over-supply of drilling rigs in markets in which we operate may continue to adversely impact our ability to acquire contracts at current dayrates in those areas. During periods of weak demand and reduced dayrates, such as what we have experienced during the COVID-19 pandemic, we have historically entered into contracts at lower dayrates in order to keep our rigs working. Prolonged periods of low utilization and dayrates may result in the recognition of impairment charges on certain of our drilling rigs if estimates of future cash flows, based upon information available to management at the time, indicate that the carrying value of these rigs may not be recoverable.

We evaluate our property and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss on property and equipment exists when the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. Utilization rates and dayrates in the markets in which we operate continue to be lower than rates in prior years. As a result, we recorded a loss on impairment of assets of $249.2 million for the year ended December 31, 2020. If there is a reduction in the number of new contract opportunities, dayrates, or utilization rates, or an increase in global supply of jack-up rigs, we may be required to recognize additional impairment losses in future periods.

For a description of non-cash impairment losses previously recorded, see "Note 9—Loss on Impairment of Assets" to our consolidated financial statements for the year ended December 31, 2020.

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

We are subject to risks of loss resulting from non-payment or non-performance by third parties. Although we monitor and manage credit risks, some of our customers and other parties may be highly leveraged and subject to their own operating and regulatory risks. During more challenging market environments, we are subject to an increased risk of customers seeking to repudiate contracts. Our customers' ability to meet their contractual obligations may also be adversely affected by restricted credit markets and economic downturns. As of December 31, 2020, our allowance for credit losses was $2.6 million. If one or more key customers or other parties were to default on their obligations to us, our business, financial condition, results of operations, cash flows and ability to service our indebtedness, including the notes, could be adversely affected.

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

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

Our business involves numerous operating hazards; our insurance and contractual indemnity rights may not be adequate to cover any losses resulting from accidents and other events; and our insurance may become more expensive or may become unavailable in the future.

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

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

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

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

As is customary in the offshore drilling industry, we have undertaken to mitigate the risks of our operations through insurance and contractual indemnities from our customers. However, insurance policies have limits and exclusions and may not provide full coverage for, and, most of our customer contracts do not fully indemnify us from, all losses or liabilities resulting from our operations. If a significant accident or other event resulting in damage to the drilling rigs, including severe weather, terrorist acts, war, civil disturbances, pollution or environmental damage, occurs and is not fully covered by insurance or a recoverable indemnity from a customer, it could adversely affect our business, financial condition and results of operations. Further, we may experience increased costs for available insurance coverage, which may impose higher deductibles and limit maximum aggregated recoveries, including for hurricane, monsoon, or cyclone-related damage or loss. Insurance costs may increase in the event of ongoing patterns of adverse changes in weather or climate. Moreover, we may not be able to maintain adequate insurance or obtain insurance coverage for certain risks in the future at rates we consider reasonable, our customers may not be financially able to indemnify us against all these risks, or we may not be able to enforce contractual indemnities due to legal or judicial factors. Although we believe that our insurance covers many risks common to our industry, we do not have insurance coverage or indemnification for all risks and we may not be adequately covered for certain losses. Because insurers in general also struggle with eliminating risks of events that lead to correlated losses through insurance pooling, such as natural hazards, many insurers refrain from insuring these risks. The severity of correlated risks is also difficult to predict, leading to high-priced and unfavorable insurance premiums and/or deductibles with those insurers who do offer coverage for such loss. These insurance and indemnity related risks could adversely affect our business, financial condition, results of operations and cash flows and our ability to service our indebtedness, including the notes.

We may not be able to keep pace with technological developments and make adequate capital expenditures in response to higher specification rigs or more fuel efficient / low-emission rigs being deployed within the industry.

The market for our services is characterized by technological developments which result in improvements in the functionality and performance of rigs and equipment. Customers may demand the services of newer, higher specification drilling rigs, and may in the future impose restrictions on the maximum age of contracted drilling rigs. Additionally, in response to climate change, more fuel efficient or low-emission rigs may be introduced or may become standard in the industry or customers may institute stricter requirements such as specifications for rig design, emissions output or chemical usage.

To the extent that we are unable to negotiate agreements for customer reimbursement for the cost of increasing the specification of our drilling rigs, we could be incurring higher capital expenditures than planned. Customer demand for newer, higher specification rigs might also result in a bifurcation of the drilling fleet for jack-up rigs, with newer rigs operating at higher overall utilization rates and dayrates. As the average age of our rigs, excluding assets held for sale, is approximately 32 years, we may be required to increase capital expenditure to maintain and improve existing rigs and equipment, retire obsolete or outdated equipment earlier than previously anticipated and/or purchase and construct newer, higher specification drilling rigs to meet the increasingly sophisticated needs of customers.

Our future success and profitability will depend, in part, upon our ability to keep pace with these and other technological developments and customer requirements. If, in response to technological developments or changes in standards in the industry, we are not successful in acquiring new equipment or upgrading existing equipment in a timely and cost-effective manner, we could lose business and profits. In addition, current competitors or new market entrants may develop new technologies, services or standards that could render some of our services or equipment obsolete, which could materially adversely affect our business, financial condition, results of operations and cash flows and our ability to service our indebtedness, including the notes.

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

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

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

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

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

Such factors could cause us to record an impairment loss on a rig, which could materially adversely affect our business, financial condition and results of operations. If we sell a drilling rig at a time when prices for drilling rigs have fallen, such a sale may result in a realized loss, and lower than expected proceeds, which could materially adversely affect our business, financial condition, results of operations and cash flows and our ability to service our indebtedness, including the notes.

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

Some of our employees in Egypt and Nigeria are represented by unions and may, from time to time, work under collective bargaining agreements. Employees in other countries have in the past and may in the future be represented by labor unions. In addition, some of our contracted labor works under collective bargaining agreements. As part of the legal obligations in some of these collective bargaining agreements, we are required to contribute certain amounts to retirement funds and are restricted in our ability to dismiss employees. In addition, where our employees are represented by unions, we may be required to negotiate wages with union representatives. Efforts may be made from time to time to unionize additional portions of our workforce. Negotiations with unions relating to collective bargaining agreements and other labor related matters could result in higher personnel costs, other increased costs or increased operating restrictions, or even labor stoppages, strikes or slowdowns.

We may be required to make significant capital expenditures to comply with laws and the applicable regulations and standards of labor laws and regulations in the various jurisdictions in which we operate. Such laws and regulations may change without notice, and the cost of compliance could be higher than anticipated.

Labor costs change due to unions and collective bargaining agreements and the costs of complying with labor laws and regulations could materially adversely affect our business, financial condition, results of operations and cash flows.

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

Our performance is, to a large extent, dependent on highly qualified personnel, including management, other key employees and board members (''Key Personnel''), and our continued ability to compete effectively, implement our strategy and further develop our business depends on our ability to attract new and qualified Key Personnel and to retain and motivate existing Key Personnel. Attracting qualified personnel has proved increasingly important as our industry has developed and become more advanced. An important factor contributing to our leading position and global footprint has been our ability to retain qualified employees throughout our organizational structure.

Further, the competition for Key Personnel is intense from competitors within the oil and gas industry, as well as from businesses outside the ordinary oil and gas industry. We may not be able to retain our Key Personnel or attract and retain replacements for Key Personnel in the future, or the cost to attract and retain Key Personnel may increase. Our competitors may actively seek to recruit management personnel or other key employees and may succeed in such efforts. Financial difficulties and other factors might have further negative impacts on our ability to retain Key Personnel or recruit new talents.

Any loss of the services of management, other key employees, or board members, particularly to competitors, the inability to attract and retain highly skilled Key Personnel and the increased costs to replace such Key Personnel could have a material adverse effect on our business, financial condition, results of operations and cash flows and our ability to service our indebtedness, including the notes.

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

We require highly skilled personnel to operate and provide technical services and support for our operations. Many of our customers require specific minimum levels of experience and technical qualification for certain positions on rigs which they contract. We are also subject to nationalization programs in various countries, whereby we must hire a certain percentage of local personnel within a specified time period. Hiring and retaining qualified employees can be especially difficult during periods of high utilization and demand for drilling services, when there is increasing competition for personnel. Such difficulties and increased costs to recruit and retain qualified employees could have a material adverse effect on our results of operations and cash flows and our ability to service our indebtedness, including the notes.

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

Several countries in which we operate require foreign entities to comply with certain laws and regulations concerning minimum local content requirements. As a result, we may be required to enter into legally binding arrangements with local entities in those jurisdictions in order to conduct operations. In Indonesia, Malaysia, India, Nigeria and the United Arab Emirates (''UAE''), we maintain a series of contractual and legal agreements with local partners and/or agents, whom management believes are an integral part of the successful operation of our business in these markets. In the future, we may enter into similar arrangements in other countries, either due to changing laws or regulations or due to operational requirements in additional markets. If we were to lose the support of these local participants and were unable to find suitable replacements, local regulators may curtail or terminate our operations. In addition, the success of these local relationships depends on the reputation, creditworthiness, stability and continuity of the local partners and/or agents with which we are working. If any of these local partners and/or agents were to become subject to bankruptcy/insolvency proceedings or other adverse regulatory or judicial proceedings, or lose the ability to carry out the operations for any other reason, then our business, financial condition, results of operations, cash flows and our ability to service our indebtedness (including the notes), could be materially adversely affected.

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

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

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

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

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

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

- terrorist acts, armed hostilities, geopolitical events, military actions, war and civil disturbances, including in the Middle East;
- acts of piracy affecting ocean-going rigs, particularly the steep increase in crew kidnappings in 2020 in the Gulf of Guinea in West Africa and in Southeast Asia where the Singapore Straits and the Strait of Malacca have historically been impacted by piracy;
- significant governmental influence over many aspects of local economies;
- repudiation, nullification, modification or renegotiation of contracts;
- limitations on insurance coverage, such as war risk coverage, in certain areas;
- political unrest or revolutions;
- monetary policy and foreign currency fluctuations and devaluations;
- the inability to repatriate income or capital;
- complications associated with repairing and replacing equipment in remote locations;
- import-export quotas, wage and price controls and imposition of trade barriers;
- regulatory or financial requirements to comply with foreign bureaucratic actions;
- changing taxation policies, including confiscatory taxation;
- other forms of government regulation and economic conditions that are beyond our control;
- corruption;
- natural disasters;

- public health threats, including pandemic events; and
- claims by employees, third parties or customers.

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

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

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

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

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

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

We may experience realized currency exchange losses when cash is received or expenses are paid in currencies other than our U.S. dollar functional currency, when we do not hedge our exposure to such foreign currency or when the result of a hedge is a loss. We may also incur losses as a result of an inability to collect revenues due to a shortage of convertible currency available to the country of operation, controls over currency exchange or controls over the repatriation of income or capital.

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

Our operations are subject to numerous stringent HSE laws and regulations in the form of international conventions and treaties, national, state and local laws and regulations in force in the jurisdictions in which our drilling rigs operate or are registered, which can, directly or indirectly, significantly affect the ownership and operation of the rigs. These requirements include, but are not limited to, the International Convention for the Prevention of Pollution from Ships of 1973, as amended (‘‘MARPOL’’), the International Convention on Civil Liability for Oil Pollution Damage of 1969, as amended (‘‘CLC’’), and the International Convention on Civil Liability for Bunker Oil Pollution Damage of 2001, as amended (‘‘BUNKER’’) and various international, national and local laws and regulations that impose compliance obligations and liability related to the use, storage, treatment, disposal and release of petroleum products, asbestos, polychlorinated biphenyls and other hazardous substances that may be present at, or released or emitted from, our operations. Furthermore, the IMO (as defined herein), at the international level, or national or regional legislatures in the jurisdictions in which we operate, including the European Union (‘‘EU’’), may pass or promulgate new environmental laws or regulations. Compliance with such laws, regulations and standards, where applicable, may require installation of costly equipment or operational changes and may affect the resale value or useful life of our drilling rigs. We are required to obtain HSE permits from governmental authorities for our operations, and we may have difficulty in obtaining or maintaining such permits.

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

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

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

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

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

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

Climate change, the regulation of greenhouse gases and increasing development of renewable energy alternatives could have a negative impact on our business and/or our reputation.

The scientific community has concluded that increasing concentrations of greenhouse gases in the Earth's atmosphere are producing climate changes that have significant physical effects, such as increased frequency and severity of storms, floods and other climatic events. Such events could have a materially adverse effect on our operations, especially given that our rigs may need to curtail operations or suffer damage during significant weather events.

Current and future regulations relating to greenhouse gases and climate change also may result in increased compliance costs or additional operating restrictions on our business. The negative impacts of greenhouse gases and climate change have resulted in adverse publicity for the oil and gas industry and could cause damage to our reputation.

In addition, because our business depends on the level of activity in the offshore oil and gas industry, existing or future regulations or other agreements related to greenhouse gases and climate change, including carbon taxes or greenhouse gas fees or incentives to conserve energy or use renewable energy alternatives, could decrease the demand for oil and gas or decrease exploration activity.

Increasing attention to ESG matters may impact our business and financial results.

In recent years, increasing attention has been given to corporate activities related to ESG matters in public discourse and the investment community. A number of advocacy groups, both domestically and internationally, have campaigned for governmental and private action to promote change at public companies related to ESG matters, including through the investment and voting practices of investment advisers, public pension funds, universities and other members of the investing community. These activities include increasing attention and demands for action related to climate change and energy transition matters, such as promoting the use of substitutes to fossil fuel products and encouraging the divestment of fossil fuel equities, as well as pressuring lenders and other financial services companies to limit or curtail activities with fossil fuel companies. If this were to continue, it could have a material adverse effect on our ability to access the capital markets. Members of the investment community have begun to screen companies such as ours for sustainability performance, including practices related to greenhouse gases and climate change. If we are unable to find economically viable, as well as publicly acceptable, solutions that demonstrate our commitment to ESG matters, we could experience additional costs or financial penalties, delayed or cancelled projects, and/or reduced demand for our services, which could have a material adverse effect on our financial condition, results of operations and cash flows and our ability to service our indebtedness, including the notes.

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

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

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

We operate drilling rigs in a number of countries, including in some developing economies, which can involve inherent risks associated with fraud, bribery and corruption and where strict compliance with anti-corruption laws may conflict with local customs and practices. As a result, we may be subject to risks under the U.S. Foreign Corrupt Practices Act, the U.K. Bribery Act 2010 and similar laws in other jurisdictions that generally prohibit companies and their intermediaries from making, offering or authorizing improper payments to government officials for the purpose of obtaining or retaining business. We are required to do business in accordance with applicable anti-corruption laws as well as sanctions and embargo laws and regulations (including U.S. Department of the Treasury-Office of Foreign Assets Control requirements) and we have adopted policies and procedures, including a code of business conduct and ethics, which are designed to promote legal and regulatory compliance with such laws and regulations. However, either due to our acts or omissions or due to the acts or omissions of others, including our employees, agents, joint venture partners, local sponsors or others, we may be determined to be in violation of such applicable laws and regulations or such policies and procedures. Any such violation could result in substantial fines, sanctions, deferred settlement agreements, civil and/or criminal penalties and curtailment of operations in certain jurisdictions and the seizure of our rigs and other assets and might, as a result, materially adversely affect our business, financial condition, results of operations and cash flows and our ability to service our indebtedness, including the notes.

Our customers in relevant jurisdictions could seek to impose penalties or take other actions adverse to our interests. In addition, actual or alleged violations could damage our reputation and ability to do business and could cause investors to view us negatively and adversely affect the market for our common shares. Furthermore, detecting, investigating and resolving actual or alleged violations are expensive and can consume significant time and attention of senior management regardless of the merit of any allegation. We may also be subject to competitive disadvantages to the extent that our competitors are able to secure business, licenses or other preferential treatment by making payments to government officials and others in positions of influence or using other methods that U.S. and other laws and regulations and our own policies prohibit us from using.

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

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

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

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

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

Any relevant change in tax laws, regulations, or treaties, and relevant interpretations thereof, for any country in which we operate, earn income, generate losses or are considered to be a tax resident, and / or the loss of any major tax dispute, or a successful challenge to our intercompany pricing policies or operating structures could have an adverse impact.

Our business is incorporated in the Cayman Islands and operates through our many subsidiaries in various countries throughout the world. Our income tax exposure is based upon the relevant tax laws, regulations, and treaties that apply to the various countries in which we operate or earn income or are deemed to be a tax resident.

Our income tax returns are subject to examination and review. Our effective tax rate may be impacted:

- if there are any significant changes to applicable tax laws, regulations, or tax treaties, and the interpretation thereof in the various countries in which we operate, earn income, generate losses or are deemed to be a tax resident;
- if any tax authority successfully challenges our intercompany pricing policies or operating structures;
- if any tax authority interprets a treaty in a manner that is adverse to our structure or previous tax positions;
- if any tax authority successfully challenges the taxable presence of any of our key subsidiaries in a relevant jurisdiction; or
- if we lose a key tax dispute in a jurisdiction.

Transactions taking place between our companies and related companies must be carried out in accordance with arm's length principles in order to avoid adverse tax consequences. There can be no assurance that the tax authorities will conclude that our transfer pricing policies are calculated using appropriate arm's length prices for intercompany transactions. Any changes by a tax authority to our intercompany pricing could change our taxable income or losses in various jurisdictions, which could change our effective tax rate and tax expense.

Any of the above factors could cause a significant change to our local statutory tax rates and/or our effective tax rate on worldwide earnings. In addition, if a local statutory tax rate changes, we may need to revalue our deferred tax assets and liabilities or recalculate our valuation allowances, liabilities for uncertain tax positions or other tax allowances and reserves relevant to that jurisdiction. Additionally, if we do not generate sufficient income in jurisdictions with tax loss carryforwards or other changes are made regarding their value or utilization, we may be required to reduce the value of these tax assets. Any of these changes could have a material adverse impact on our financial position, results of operations and cash flows and our ability to service our indebtedness, including the notes.

Our rigs (excluding assets held for sale) are on average 32 years old and some customers may prefer newer and/or higher specification rigs or rigs that can operate in deeper water.

A number of our competitors have jack-up rigs that are newer and/or have higher specifications and capabilities than some of those in our fleet. Certain customers may prefer newer or other classes of rigs with different capabilities or higher specification to those in our fleet. Customers may also have drilling needs, such as needs for deeper water operations, that we cannot accommodate with our fleet. Such customer preferences could affect demand for older jack-up rigs, like many of our rigs, which could have a material adverse effect on our business, financial condition, results of operations and cash flows and our ability to service our indebtedness, including the notes.

Our leasing of newbuild or existing jack-up rigs carry associated risks.

We have in the past entered into, and may in the future enter into, bareboat charter agreements to lease jack-up rigs. Outfitting leased rigs may require significant operation readiness projects to make the leased assets suitable for use, which is subject to the same risks as newbuild rigs and reactivation of stacked rigs, as discussed above. We may make significant investments in leased assets, which are owned by the lessor, and which would only benefit us during the term of the leases. As lease terms can be significantly shorter than the life of the leased rigs, any costs would have to be expensed over a shorter period and, as a result, could have a greater impact on our profitability. Additionally, we may be unable to renew such leases, exercise purchase options or negotiate the purchase of leased rigs on terms acceptable to us, or at all. Lease agreements may also require us to maintain the leased rigs, exposing us to risks of increased repairs and maintenance costs, or to expend certain costs to return the rig to the owner at the termination of the lease. These factors could materially adversely affect our financial position, results of operations and cash flows and our ability to service our indebtedness, including the notes.

If we were to commit to acquire, construct or lease rigs or reactivate any of our stacked rigs prior to obtaining a customer contract, we could be exposed to a number of risks.

We have chosen in the past, and may choose in the future, to acquire a newbuild or existing rig, lease a rig or reactivate a stacked rig speculatively, without first obtaining a customer contract. Absent a firm customer contract, we may not be able to secure arrangements for these rigs in a timely manner on economically acceptable terms, if at all. Failure to obtain a customer contract could result in the impairment of certain long-lived assets or expensing of costs which would typically be deferred. Failure to contract such rigs on acceptable terms or in a timely manner could adversely affect our business, financial position, results of operations and cash flows and our ability to service our indebtedness, including the notes.

The imposition by customers and/or governments in certain countries of programs or quotas to drive local content and local spend may impact the cost of doing business.

In Saudi Arabia, Saudi Aramco's In-Kingdom Total Value Add program sets goals for suppliers to meet, among other things, specified national content percentage targets. In the UAE, the implementation of the In-Country Value program in Abu Dhabi is also expected to increase local content for all companies contracting with ADNOC. Compliance with these, or other similar programs, could increase the cost of doing business in such jurisdictions or could subject us to fines and penalties, which could materially adversely affect our business, financial condition, results of operations and cash flows and our ability to service our indebtedness, including the notes.

Developing and expanding data security and privacy requirements could increase our operating costs, and any failure by us to maintain the security of certain customer, employee, and business-related information could result in damage to our reputation, be costly to remediate and result in regulatory action.

We are required to manage and process information related to our employees, customers and vendors in the ordinary course of business, and our operations depend upon secure retention and the secure transmission of information over public networks. This information is subject to the continually evolving risk of intrusion, tampering, and theft. Although we maintain systems to prevent or defend against these risks, these systems require ongoing monitoring and updating as technologies change, and security could be compromised, personal or confidential information could be misappropriated, or system disruptions could occur.

A compromise of our security systems could adversely affect our reputation and disrupt our operations and could also result in litigation against us or the imposition of penalties. In addition, such security breaches could be costly to remediate.

We have a dedicated cyber-security team and program that focuses on current and emerging data security and data privacy matters. We continue to assess and invest in the growing needs of our cyber-security team through the allocation of skilled personnel, ongoing training, and support of the adoption and implementation of technologies coupled with cyber-security risk management frameworks.

We may, from time to time, provide certain confidential, proprietary, and personal information to third parties. While we seek to obtain assurances and safeguards from these third parties to protect this information, there is a risk the security of data held by third parties could be breached, resulting in liability for us.

Heightened legislative and regulatory focus on data privacy and security in the EU, U.S. and elsewhere presents a growing and fast-evolving set of legal requirements in this area. The increasing legal and regulatory burden presents material obligations and risks to our business, including significantly expanded compliance burdens, costs, and enforcement risks. In particular, where the EU General Data Protection Regulation (''GDPR'') applies, the penalties for breaches are significant. In addition, legislation similar to GDPR is being considered or adopted in other jurisdictions relevant to our operations. In cases of personal information security breaches, the costs of investigation, dealing with regulators and taking steps to mitigate or remediate its effects may also be high. The majority of the personal information we process is that of our employees.

We rely on proper functioning of our computer and data processing systems that must be regularly updated or replaced, and a large-scale malfunction could result in material adverse disruptions to our business.

We rely primarily on globally and locally functioning information technology systems across our value chain, including for management financial information and various other processes and transactions. Our ability to effectively manage our business depends on the security, reliability and capacity of these systems. An attack on, or other problems with, our systems could result in the disclosure of proprietary information about our business or confidential information concerning our customers, vendors or employees, which could result in significant damage to our business and reputation.

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

We have and will continue to expend resources, and dedicate personnel, to upgrade and maintain our information technology systems to protect against threatened or actual security breaches. In addition, we could be required to expend significant amounts to respond to unanticipated information technology issues. Failure to implement these measures that could protect against all significant risks could materially adversely affect our business, financial condition, results of operations and cash flows and our ability to service our indebtedness, including the notes.

If any part of our business is moved outside of its current operative jurisdiction our overall tax exposure may change, which may affect our alleged compliance with applicable tax laws.

We and most of our subsidiaries are incorporated in the Cayman Islands. We also have subsidiaries in various other jurisdictions. Our consolidated effective tax rate is dependent on where profits are earned and taxed, or losses are generated, as different countries have different tax systems and statutory tax rates. Different jurisdictions also have different tax laws and interpretations thereof. If we move some of our operations into a new jurisdiction or acquire companies in jurisdictions in which we do not already operate, our overall effective tax rate may be affected. Further, we may also become exposed to changes in tax policies and amendments to tax legislation, prospectively and/or retroactively, in such jurisdictions.

There can be no assurance that the relevant tax authorities in the jurisdictions in which we operate will agree with our tax calculations and judgments. If a relevant tax authority disputes our assumptions, judgments or calculations, we may incur additional tax expense, interest and penalties. Any changes in our tax exposure may affect our alleged compliance with applicable tax law, and any non-compliance could have a material adverse impact on our business, financial condition, results of operations and cash flows and our ability to service our indebtedness, including the notes.

USE OF PROCEEDS

We estimate that the net proceeds from this offering will be approximately $304.1 million, after taking into account the issue price but before deducting the initial purchasers' discount and our estimated offering expenses. We intend to use the net proceeds from this offering (i) to repay all of the outstanding borrowings under, and to terminate, our revolver, (ii) to cash collateralize all of the outstanding bank guarantees issued under our revolver, (iii) to redeem, repurchase or otherwise satisfy and discharge all of the outstanding 8.75% Senior Secured Notes, (iv) to pay related fees and expenses including any applicable premium or discounts in connection with any such redemption or repurchase, as applicable, and (v) for general corporate purposes.

As of December 31, 2020, there were $55.0 million of outstanding borrowings under our revolver and bank guarantees and performance bonds totaling $23.6 million issued against the revolver. Our revolver will mature on April 30, 2023 and the weighted average interest rate on the outstanding borrowings under our revolver was approximately 5.8% per year as of December 31, 2020 and is payable quarterly.

Affiliates of the initial purchasers are lenders under our revolver and, accordingly, will receive a portion of the net proceeds of this offering.

Interest on the 8.75% Senior Secured Notes accrues at a rate of 8.75% and is payable semiannually in arrears on May 15 and November 15 of each year. The 8.75% Senior Secured Notes mature on November 15, 2024. As of the date hereof, the outstanding aggregate principal amount of the 8.75% Senior Secured Notes is $80.0 million.

The statements of intent in this offering memorandum with respect to the redemption of the 8.75% Senior Secured Notes do not constitute a notice of redemption under the indenture governing the 8.75% Senior Secured Notes or an offer to purchase any 8.75% Senior Secured Notes.

CAPITALIZATION

The following table sets forth our cash and cash equivalents, restricted cash, debt, common shares, total equity and total capitalization as of December 31, 2020:

- on a historical basis;
- on an as adjusted basis after giving effect to (i) the sale of the Shelf Drilling Journey in February 2021 and the receipt of $77,600 thousand of proceeds therefrom and (ii) the payment of $37,125 thousand of interest on our 8.25% Senior Unsecured Notes on February 16, 2021; and
- on an as further adjusted basis after giving effect to this offering and the use of proceeds therefrom (excluding the payment of accrued interest), described in ''Use of proceeds.''

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

	As of December 31, 2020		
	Actual	As Adjusted	As Further Adjusted
	(in thousands, except share amounts)		
Cash and cash equivalents:	$ 73,408	$ 113,835	$ 246,645
Restricted cash[1]	15,555	35	24,124
Debt			
8.250% Notes due 2025	900,000	900,000	900,000
8.750% Senior Secured Notes due 2024	80,000	80,000	—
Revolving Credit Facility, due April 2023	55,000	55,000	—
Unamortized premium and debt issuance costs[2]	(11,037)	(11,037)	(22,698)
Notes due 2024 offered hereby[3]	—	—	310,000
Total debt	$1,023,963	$1,023,963	$1,187,302
Common Shares[4]**:**	1,362	1,362	1,362
Total equity:	288,963	288,963	288,963
Total capitalization:	$1,312,926	$1,312,926	$1,476,265

(1) Actual balance represents gross cash deposit relating to the sale of Shelf Drilling Journey, which was recorded as restricted cash as of December 31, 2020. As Further Adjusted balance represents cash collateral for all outstanding bank guarantees at 102% issued under our revolver.

(2) As Further Adjusted includes the original issue discount for this offering.

(3) Does not reflect original issue discount.

(4) Common shares of $0.01 par value; 184,063,473 shares authorized at December 31, 2020; actual and as adjusted, 136,223,040 issued and outstanding at December 31, 2020, actual and as adjusted.

SELECTED CONSOLIDATED FINANCIAL DATA

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

We derived the selected consolidated statements of operations data and consolidated statements of cash flows data for the years ended December 31, 2020, December 31, 2019 and December 2018 and the selected consolidated balance sheet data as of December 31, 2020 and December 31, 2019 set forth below, from our audited consolidated financial statements as of and for the year ended December 31, 2020, which are included elsewhere in this offering memorandum and our audited consolidated financial statements.

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

	Years ended December 31,		
	2020	**2019**	**2018**
	(in thousands, except per share data)		
Consolidated statements of operations data:			
Revenues			
Operating revenues	$ 570,343	$ 561,295	$ 599,043
Other revenues	14,833	14,858	14,276
	585,176	576,153	613,319
Operating costs and expenses			
Operating and maintenance	341,426	366,715	358,030
Depreciation	69,895	82,503	86,796
Amortization of deferred costs	47,148	75,305	82,953
General and administrative	45,849	50,773	61,030
Loss on impairment of assets	249,156	57,986	40,071
(Gain) / loss on disposal of assets	(3,601)	(905)	1,682
	749,873	632,377	630,562
Operating loss	(164,697)	(56,224)	(17,243)
Other (expense) / income, net			
Interest income	175	1,138	1,454
Interest expense and financing charges	(89,703)	(80,708)	(106,772)
Other, net	(939)	(763)	354
	(90,467)	(80,333)	(104,964)
Loss before income taxes	(255,164)	(136,557)	(122,207)
Income tax expense	19,695	12,979	14,036
Net loss	$(274,859)	$(149,536)	$(136,243)
Less: Preferred shares dividend	—	—	9,550
Net loss attributable to common shares	$(274,859)	$(149,536)	$(145,793)
Loss per share:			
Basic and Diluted - Common shares	$ (2.02)	$ (1.16)	$ (1.50)
Weighted average shares outstanding:			
Basic and Diluted - Common shares	136,157	128,389	97,084

	Years ended December 31,		
	2020	2019	2018
	(in thousands, except per share data)		
Consolidated statements of cash flows data:			
Net cash provided by / (used in) operating activities	$ 54,218	$ (12,868)	$ 37,705
Net cash used in investing activities	(88,675)	(83,032)	(95,763)
Net cash provided by financing activities	95,121	31,364	51,068
Other financial data (unaudited):			
Adjusted EBITDA[(1)]	$200,261	$177,514	$217,672
Adjusted EBITDA Margin[(1)]	34.2%	30.8%	35.5%

	Years ended December 31,	
	2020	2019
Consolidated balance sheets data:		
Cash and cash equivalents	$ 73,408	$ 26,055
Total assets	1,516,353	1,700,045
Long-term debt	1,023,963	924,540
Total liabilities	1,227,390	1,138,595
Common shares of $0.01 par value	1,362	1,366
Total equity	288,963	561,450

(1) Adjusted EBITDA and Adjusted EBITDA Margin are non-GAAP financial measures. For definitions of these measures and a reconciliation of Adjusted EBITDA to our net loss, see "Management's discussion and analysis of financial condition and results of operations—Financial measures."

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

The following discussion and analysis of our financial condition and results of operations should be read in conjunction with our financial statements and the notes thereto, in each case included elsewhere in this offering memorandum. The discussion and analysis below includes certain forward-looking statements that are subject to risks, uncertainties and other factors described in "Risk factors" beginning on page 17 and elsewhere in this offering memorandum that could cause actual results to differ materially from those expressed in, or implied by, those forward-looking statements. See "Disclosure regarding forward-looking statements."

Overview

We are a leading international shallow water offshore drilling contractor providing equipment and services for the drilling, completion, maintenance and decommissioning of oil and natural gas wells. We are solely focused on shallow water operations in depths of up to 375 feet, and our drilling fleet consists of 31 ILC jack-up rigs as of December 31, 2020, excluding stacked and/or held for sale rigs, which we believe makes us one of the world's largest owners and operators of jack-up rigs by number of active shallow water rigs.

Since our inception in 2012, we have applied our ''fit-for-purpose'' strategy to enhance the performance of our business, people and processes, leveraging our sole focus on the shallow water segment and the decades of experience of our people with our customers, rigs and markets where we operate. We believe that this strategy has enabled us to execute our vision of being the ''international jack-up contractor of choice'' and will allow for sustainable, long-term profitability across our fleet.

Our fleet is well-suited to our core operating regions of MENAM, South East Asia, India and West Africa. These markets are generally characterized by relatively benign operating conditions with activities concentrated in workover and development programs on producing assets with existing infrastructure.

We have one reportable segment, Contract Drilling Services, which reflects how we manage our business, that our drilling fleet is mobile and that our market is dependent upon the worldwide oil industry. The drilling rigs comprising our offshore fleet operate in a single market for drilling services and are deployed globally due to the changing needs of our customers, which largely consist of NOCs, IOCs and independent oil and gas companies.

See ''Business'' for more information, including discussions on our business, recent events, operations, customers and customer contracts, and operating expenses, capital expenditures and deferred costs.

Outlook

Brent crude oil prices, the key driver of exploration, development and production activity, rebounded from a low price point of approximately $20 per barrel during the second quarter of 2020 to over $60 per barrel in February 2021. Significant declines in global oil demand combined with a challenging economic outlook due to the impacts of the COVID-19 pandemic put significant downward pressure on oil prices during the second and third quarters of 2020, which impacted the entire drilling industry. The low prices resulted in lower utilization and lower dayrates in the jack-up market during 2020. Although the oil price has rebounded in late 2020 and early 2021, this has not yet translated into an increase in utilization and dayrates. Oil producers remain cautious, seeking to keep costs and production levels low, while waiting to determine if oil demand will strengthen and prices will stabilize near current levels.

The global number of contracted jack-up rigs decreased earlier in the year from 386 rigs in March 2020 to 350 in October 2020, and then stabilized, decreasing only slightly to 346 in February 2021. Marketed utilization for the industry shows a similar trend, falling from 87% in March 2020 to 80% in October 2020, and increasing slightly to 81% by February 2021.

During 2020 we experienced a number of contract terminations, suspensions and renegotiation of prices that had a material impact on our financial results, including sequential declines in revenues from the first quarter of 2020 through the fourth quarter of 2020. Replacement contracts for available rigs were difficult to secure and are typically shorter in duration and at lower dayrates than in the pre-pandemic period. However, we have seen an uptick in tendering and general market inquiries in recent months following the improvement in oil prices. We have executed a series of short-term contract extensions in the Middle East and India since the start of 2021 and we believe we will secure several long-term awards in India and West Africa in the near term.

We have completed a series of actions to preserve liquidity and help secure the continuity of our operations. The cost cutting and restructuring measures implemented in April 2020 reduced our general and administrative expenses, and we continue to look for opportunities for incremental savings across all cost categories. We have focused on divesting stacked assets and the opportunistic sales of the Trident XIV in 2020 and Shelf Drilling Journey in February 2021. We also signed an amendment to the revolver in September 2020, which provides relief from the Total Net Leverage Ratio financial covenant until September 2021, and continue to explore additional options, including this offering, to extend our liquidity. We seek to proactively address the evolving impacts of the pandemic on our business and industry and to keep our rigs generating revenues and operating cash flows.

Operational measures

We use various operational measures common to our industry to evaluate our operational performance, including:

- *Contract backlog* is the maximum contract drilling dayrate revenues that can be earned from firm commitments for contract drilling services represented by executed definitive agreements based on the contracted operating dayrate during the contract period less any planned out-of-service periods for regulatory inspections and surveys or other work. Contract backlog excludes revenues resulting from mobilization and demobilization fees, capital or upgrade reimbursement, recharges, bonuses and other revenue sources. Contract backlog may also include the maximum contract amount of revenues under non-drilling contracts for the use of our rigs such as bareboat charters and contracts for accommodation units. The contract period excludes revenues from extension options under our contracts, unless such options have been exercised. The contract operating dayrate may differ from the amount estimated due to mobilization, weather, unscheduled downtime and repairs, among other factors. Actual dayrates may also include adjustments based on market factors, such as oil prices or cost increases, and such adjustments are not estimated in the backlog dayrate. Contract backlog is a key indicator of our potential future revenue generation.
- *Average dayrate* is the average contract dayrate earned by marketable rigs over the reporting period excluding mobilization fees, contract preparation, capital expenditure reimbursements, demobilization, recharges, bonuses and other revenues. Average dayrate can be calculated related to historical revenues or contract backlog.
- *Contracted rigs* consist of all of our rigs that are under contract, including contracted newbuild rigs under construction and rigs under non-drilling contracts.
- *Average contracted days per rig* is the total remaining contracted days for all contracted rigs divided by the number of contracted rigs.
- *TRIR* is the number of recordable incidents per 200,000 man-hours.
- *Marketable rigs* consist of the total of our rigs that are operating or are available to operate, but excluding stacked rigs, rigs under non-drilling contracts and non-contracted newbuild rigs under construction.
- *Uptime* is the period during which we perform well operations without stoppage due to mechanical, procedural or other operational events that result in non-productive well operations time. Uptime is expressed as a percentage measured daily, monthly or yearly. Uptime performance is a key customer contracting criterion, an indication of our operational efficiency, and is directly related to our current and future revenues and profit generation.
- *Effective utilization* measures the dayrate revenue efficiency of our marketable rigs. This is the 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 revenues from effective utilization.

The following table includes selected operating measures as of December 31, 2020, 2019 and 2018:

	As of December 31,		
	2020	2019	2018
Contract backlog (in millions)	$1,377	$2,005	$ 935
Weighted average backlog dayrate (in thousands)	$ 67.2	$ 69.7	$79.1
Contracted rigs	29	31	28
Average contracted days per rig	706	928	422

Contract backlog as of December 31, 2020 is expected to be recognized over the periods as per the following table, subject to certain limitations and adjustments as discussed above:

	2021	2022	2023	Thereafter	Total
Contract backlog (in millions)	$449	$258	$115	$555	$1,377

The following table includes selected operating measures for the years ended December 31, 2020, 2019 and 2018:

	Years ended December 31,		
	2020	2019	2018
TRIR	0.19	0.19	0.23
IADC Average TRIR(1)	0.47	0.63	0.68
Weighted average actual dayrate (in thousands)	$58.9	$64.7	$67.4
Average marketable rigs	32.1	32.6	35.3
Uptime	99.4%	99.2%	98.7%
Effective utilization	80%	71%	67%

(1) As reported in the IADC's incident statistic program ISP quarterly summary reports for the fourth quarter of each corresponding year.

Financial measures

In addition to terms under GAAP, we utilize certain non-GAAP financial measures. We present the non-GAAP measures, which include adjusted earnings before interest, taxes, depreciation and amortization (''Adjusted EBITDA'') and Adjusted EBITDA divided by revenues (''Adjusted EBITDA Margin''). These are reconciled to net loss, which is 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 the excluded items, 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 the 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 and Adjusted EBITDA Margin may not be comparable to similarly titled measures employed by other companies and should not be considered in isolation or as a substitute for net income (loss) or other data prepared in accordance with GAAP. Adjusted EBITDA and Adjusted EBITDA Margin have significant limitations, including but not limited to the exclusion from these numbers of various cash requirements to operate our business.

Our financial measures for the years ended December 31, 2020, 2019 and 2018 were as follows (in thousands, except Adjusted EBITDA Margin):

	Years ended December 31,		
	2020	2019	2018
Net loss	$(274,859)	$(149,536)	$(136,243)
Add back:			
Interest expense and financing charges, net of interest income(1)	89,528	79,570	105,318
Income tax expense	19,695	12,979	14,036
Depreciation	69,895	82,503	86,796
Amortization of deferred costs	47,148	75,305	82,953
Loss on impairment of assets	249,156	57,986	40,071
(Gain) / loss on disposal of assets	(3,601)	(905)	1,682
EBITDA	$ 196,962	$ 157,902	$ 194,613
Acquired rig reactivation costs(2)	816	19,479	5,080
One-time corporate transaction costs(3)	2,483	133	3,995
Certain share-based compensation expense, net of forfeitures(4)	—	—	11,334
Sponsors' fee(5)	—	—	2,250
Other	—	—	400
Adjusted EBITDA	$ 200,261	$ 177,514	$ 217,672
Adjusted EBITDA Margin	34.2%	30.8%	35.5%
Unlevered Discretionary Free Cash Flow	$ 114,515	$ 67,644	$ 123,039

(1) Represent interest expenses incurred and accrued on our debt and the amortization of debt issuance fees and costs over the term of the debt net of capitalized interest and interest income. This also includes the loss on debt extinguishments in relation to our debt refinancing transactions in 2018.

(2) 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.

(3) Represents certain one-time third-party professional services.

(4) Represents certain share-based compensation expense, net of forfeitures, related to grants prior to the Company's June 25, 2018 initial public offering on the OSE (the ''Offering'').

(5) Represents the fee to the Sponsors in respect of their role as advisors to us until the consummation of the Offering.

Operating Results for the Year Ended December 31, 2020 Compared to the Year Ended December 31, 2019 (In thousands, except percentages)

	Years ended December 31, 2020	Years ended December 31, 2019	Change	% change
Revenues				
Operating revenues	$ 570,343	$ 561,295	$ 9,048	2%
Other revenues	14,833	14,858	(25)	0%
	585,176	576,153	9,023	2%
Operating costs and expenses				
Operating and maintenance	341,426	366,715	(25,289)	(7%)
Depreciation	69,895	82,503	(12,608)	(15%)
Amortization of deferred costs	47,148	75,305	(28,157)	(37%)
General and administrative	45,849	50,773	(4,924)	(10%)
Loss on impairment of assets	249,156	57,986	191,170	330%
Gain on disposal of assets	(3,601)	(905)	(2,696)	(298%)
	749,873	632,377	117,496	19%
Operating (loss) / income	(164,697)	(56,224)	(108,473)	193%
Other (expense) / income, net				
Interest income	175	1,138	(963)	(85%)
Interest expense and financing charges	(89,703)	(80,708)	(8,995)	(11%)
Other, net	(939)	(763)	(176)	(23%)
	(90,467)	(80,333)	(10,134)	(13%)
(Loss) / income before income taxes	(255,164)	(136,557)	(118,607)	(87%)
Income tax expense	19,695	12,979	6,716	52%
Net loss	$(274,859)	$(149,536)	$(125,323)	(84%)

Revenues

Total revenues for 2020 were $585.2 million compared to $576.2 million for 2019. Revenues for 2020 consisted of $570.3 million (97.5%) of operating revenues and $14.8 million (2.5%) of other revenues. In 2019, these same revenues were $561.3 million (97.4%) and $14.9 million (2.6%), respectively.

Total revenues for 2020 increased by $9.0 million compared to the same period in 2019 primarily due to $55.6 million related to the net impact of higher effective utilization as nine additional rigs were operating during 2020 that were not operating for the full comparative period in 2019 and lower effective utilization on ten rigs with contracts that were suspended or terminated in 2020, and $5.9 million from higher recharges and amortization of mobilization revenues, partially offset by a reduction of $52.5 million from lower average earned dayrates, primarily due to the effects of the COVID-19 pandemic.

Operating and maintenance expenses

Total operating and maintenance expenses for 2020 were $341.4 million, or 58.3% of total revenue, compared to $366.7 million, or 63.6% of total revenue, in 2019. Operating and maintenance expenses in 2020 consisted of $306.0 million rig-related expenses and $35.4 million shore-based expenses. In 2019, these expenses were $329.6 million and $37.1 million, respectively.

The decrease in total rig-related expenses of $23.6 million primarily consisted of $18.0 million lower expenses related to rigs whose operations were suspended or terminated in 2020, $9.8 million lower maintenance and shipyard expenses, $9.1 million lower expenses for rigs sold in the current or prior period and $3.1 million of other rig cost savings. This was partially offset by $12.8 million higher expense for acquired rigs or rigs that were not operating for the full comparative period in 2019 and $3.6 million of expense related to the bareboat charter rigs with China Merchants. Shore-based expenses decreased by $1.7 million in 2020 as compared to the same period in 2019 mainly due to cost savings measures implemented across all field locations in 2020.

Depreciation expense

Depreciation expense in 2020 was $69.9 million compared to $82.5 million in 2019. In 2020, depreciation expense was impacted by $18.3 million of lower depreciation on drilling rigs and equipment which were impaired in March 2020 or December 2019 and by $7.3 million of increased depreciation for three rigs that were placed into operation in late 2019 or 2020.

Amortization of deferred costs

The amortization of deferred costs in 2020 was $47.1 million compared to $75.3 million in 2019. The decrease was primarily related to lower amortizations of contract preparation and mobilization costs on drilling rigs that completed their firm contracts after the corresponding period in 2019 or that were impaired in March 2020 or December 2019. These effects were partially offset by increased amortization on drilling rigs which started new contracts in late 2019 or in 2020.

General and administrative expenses

General and administrative expenses in 2020 were $45.8 million compared to $50.8 million in 2019. The $4.9 million decrease primarily resulted from lower personnel and administrative costs due to a range of cost savings and restructuring measures implemented at the Company's headquarters in April 2020, partially offset by a $2.9 million increase in allowance for credit losses and a $2.6 million increase in share-based compensation.

Loss on impairment of assets

Loss on impairment of assets was $249.2 million in 2020 compared to $58.0 million in 2019. The loss in 2020 included impairment on 19 of our rigs and other long-lived assets and five rigs classified as assets held for sale. The loss in 2019 included impairment on eight of our rigs and the impairment of other long-lived assets.

Gain / (loss) on disposal of assets

Gain / (loss) on disposal of assets was a gain of $3.6 million and $0.9 million in 2020 and 2019, respectively. The gain on disposal of assets includes a gain on the sale of two rigs in 2020 and the sale of four rigs during 2019. The increase in gain on sale of assets was primarily related to higher proceeds on the rig sales in 2020 as compared to the rig sales during 2019.

Other (expense) / income, net

Other (expense) / income, net, consisting of interest expense and finance charges, interest income and other, net was an expense of $(90.5) million in 2020 compared to $(80.3) million in 2019. During 2020, other expense consisted primarily of interest expense and financing charges of $(89.7) million, as well as interest income of $0.2 million and other, net of $(0.9) million in expense. This compares to $(80.7) million, $1.1 million and $(0.8) million in expense for those respective categories during 2019.

Interest expense and financing charges in 2020 was $9.0 million higher compared to 2019 primarily due to $6.4 million interest on the 8.75% Senior Secured Notes issued during the first quarter of 2020 and $2.4 million increased interest on the revolver.

Income tax expense

Income tax expense in 2020 was $19.7 million compared to $13.0 million in 2019. 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 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, (d) changes in the Company's rig operating structures which may alter the basis on which the Company is taxed in a particular jurisdiction, and (e) fluctuations in foreign currency rates against the U.S. Dollar which are used to measure tax receivables in various jurisdictions.

Income tax expense in 2020 was higher than for the same period in 2019 primarily due to new tax exposures related to uncertain tax positions recorded in 2020 and a tax benefit related to an uncertain tax position realized in 2019.

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, cash from issuance of long-term debt and equity and availability under the revolver. Our primary uses of cash were payments for capital and deferred expenditures, debt issuance costs, interest and income taxes.

We had $73.4 million and $26.1 million in cash and cash equivalents as of December 31, 2020 and 2019, respectively. As of December 31, 2020, on an adjusted basis after giving effect to (i) the sale of the Shelf Drilling Journey in February 2021 and the receipt of $77.6 million of proceeds therefrom, (ii) the payment of $37.1 million of interest on our 8.25% Senior Unsecured Notes on February 16, 2021 and (iii) this offering of notes and the use of proceeds therefrom, we would have at least $240 million of cash on hand. See ''Capitalization'' beginning on page 55. As of December 31, 2020 and 2019, the Company owed $55.0 million and $35.0 million, respectively, under the revolver. The Company issued bank guarantees and performance bonds totaling $23.6 million and $9.9 million as of December 31, 2020 and 2019, respectively, against the revolver. There are certain contractual limitations which restrict the Company's ability to draw down the available balance of the revolver, including but not limited to prohibiting draw down while an event of default or material adverse event is ongoing and requiring that the Company be in compliance with its financial covenant obligations both before and after the draw down.

On February 20, 2020, the Company closed a private offering of $80.0 million aggregate principal amount of the 8.75% Senior Secured Notes to replenish its liquidity following the acquisition of the premium jack-up rig Shelf Drilling Enterprise and to finance the remaining reactivation and upgrade costs associated with the deployment of the rig in advance of its contract which commenced in January 2021.

At any given time, we may require a significant portion of cash on hand for working capital, capital and deferred expenditures and other needs related to the operation of our business. 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. Any such transactions will depend on prevailing market conditions, our liquidity requirements, contractual restrictions and other factors. We may seek to extend our maturities and/or reduce the overall principal amount of our debt through liability management transactions, which may include exchange offers and/or recapitalizations.

Going concern assumption as per Oslo Børs reporting requirements

The existence of COVID-19 has caused disruptions to businesses and economic activity globally. As of December 31, 2020, certain of our contracts have been terminated, shortened or renegotiated which adversely impacted our business in the second half of 2020 and will continue to do so in future periods. As of December 31, 2020, we have adequate cash reserves, which were significantly enhanced by the sale of the Shelf Drilling Journey in February 2021, and we are continuously managing our actual cash flows and cash forecasts. On September 21, 2020, the Company entered into an amendment to the revolver, including providing relief from the Total Net Leverage Ratio financial covenant from January 1, 2021 until September 29, 2021 or upon the Company's voluntary election to early terminate in accordance with the amendment. In connection with the offering of the notes, all outstanding borrowings under the revolver will be repaid, all outstanding bank guarantees issued thereunder will be cash collateralized, and the revolver will be terminated. In addition, a portion of the proceeds of the offering of the notes will provide the Company with additional liquidity support. We believe that we will have adequate liquidity to fund our operations for at least the next twelve months, and, therefore, our financial statements have been prepared under the going concern assumption.

Discussion of Cash flows for the Year ended December 31, 2020 compared to the year ended December 31, 2019

The following table sets out certain information regarding our cash flows for the years ended December 31, 2020 and 2019:

	Years ended December 31,	
	2020	**2019**
Net cash provided by / (used in) operating activities	$ 54,218	$(12,868)
Net cash used in investing activities	(88,675)	(83,032)
Net cash provided by financing activities	95,121	31,364
Net increase / (decrease) in cash and cash equivalents	$ 60,664	$(64,536)

Net cash provided by / (used in) operating activities

Net cash provided by operating activities totalled $54.2 million in 2020 compared to net cash used in operating activities of $12.9 million in 2019. The increase of $67.1 million in cash from operations was primarily due to a decrease in operating and maintenance and general and administrative expenses and an increase in revenues when compared to the prior period.

During 2020 and 2019, we made cash payments of $85.2 million and $78.8 million in interest and financing charges, respectively, included in other operating assets and liabilities, net. We also made cash payments of $15.8 million and $19.2 million in income taxes included in ‘‘other operating assets and liabilities, net’’ during 2020 and 2019, respectively.

Net cash used in investing activities

Net cash used in investing activities totalled $88.7 million in 2020 compared to $83.0 million in 2019. Cash used for capital expenditures totalled $111.8 million and $91.4 million in 2020 and 2019, respectively. The $20.4 million increase was primarily due to the acquisition and readiness project costs for the Shelf Drilling Enterprise. Deposits related to rig sales, net of $15.9 million in 2020 primarily related to the sale of the Shelf Drilling Journey and four other rigs, with no corresponding amounts in 2019. The net proceeds from disposal of assets totalled $7.2 million and $8.4 million in 2020 and 2019, respectively. The net proceeds primarily related to the sale of two rigs during 2020 and four rigs during 2019.

Net cash provided by financing activities

Net cash provided by financing activities totalled $95.1 million in 2020 compared to $31.4 million in 2019. The increase of $63.8 million was primarily due to $80.0 million in proceeds from the issuance of the 8.75% Senior Secured Notes, partially offset by the decrease of $15.0 million in net repayments and drawdowns on the revolver and an increase of $3.0 million in payments of debt financing costs.

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

The table below sets out our capital expenditures and deferred costs for the years ended December 31, 2020 and 2019 in thousands):

	Years ended December 31,	
	2020	2019
Regulatory and capital maintenance[1]	$ 44,837	$ 56,139
Contract preparation[2]	14,783	30,161
Fleet spares and other[3]	6,431	10,591
	$ 66,051	$ 96,891
Rig acquisitions[4]	88,331	203,257
Total capital expenditure and deferred costs	$154,382	$300,148

(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 expenditures 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 expenditures.

(4) Includes capital expenditures and deferred costs associated with the acquisition and readiness projects for Shelf Drilling Enterprise acquired in January 2020 and for two newbuild premium jack-up drilling rigs acquired in 2019 and the subsequent reactivation of one premium jack-up rig acquired in 2018.

Capital expenditures and deferred costs were $154.4 million and $300.1 million in 2020 and 2019, respectively. The decrease of $145.7 million was primarily due to the $114.9 million decrease in rig acquisition expenditures, mainly explained by a $169.0 million decrease for the acquisition and operating readiness of the two newbuild premium CJ46 drilling jack-up rigs acquired in 2019, partially offset by a $80.1 million increase for the acquisition and operation readiness of the Shelf Drilling Enterprise in 2020. In addition, there was a $19.5 million decrease in contract preparation and fleet spares expenditures and a $11.3 million decrease in regulatory and capital maintenance expenditures, primarily due to lower expenditures in 2020 for rigs in UAE and Tunisia which started contracts in 2019 and higher spending for a planned out of service project in 2019 for a rig in Saudi Arabia.

The following table reconciles the cash payments related to additions to property and equipment and changes in deferred costs, net to the total capital expenditures and deferred costs for the years ended December 31, 2020 and 2019 (in thousands):

	Years ended December 31,	
	2020	2019
Cash payments for additions to property and equipment	$111,817	$ 91,391
Net change in accrued but unpaid additions to property and equipment	744	6,740
	$112,561	$ 98,131
Add: Asset additions related to share issuance	—	121,772
Total capital expenditures	$112,561	$219,903
Changes in deferred costs, net	$ (5,327)	$ 4,940
Add: Amortization of deferred costs	47,148	75,305
Total deferred costs	$ 41,821	$ 80,245
Total capital expenditure and deferred costs	$154,382	$300,148

Indebtedness

As of December 31, 2020, we had a total indebtedness of $1.0 billion which related to the 8.25% Senior Unsecured Notes, 8.75% Senior Secured Notes and the revolver. In connection with the offering of the notes, all outstanding borrowings under the revolver will be repaid, all bank guarantees issued thereunder will be cash collateralized, and the revolver will be terminated. We also intend to redeem, repurchase or otherwise satisfy and discharge the 8.75% Senior Secured Notes in connection with the offering.

Our revolver imposes significant operating and financial restrictions on us. As of December 31, 2020, total cash drawdowns of $55.0 million and $23.6 million of surety bonds were outstanding under the revolver. See "Note 11—Debt" to our consolidated financial statements for the year ended December 31, 2020.

As of December 31, 2020, on an as adjusted basis after giving effect to (i) the sale of the Shelf Drilling Journey in February 2021 and the receipt of $77.6 million of proceeds therefrom, (ii) the payment of $37.1 million of interest on our 8.25% Senior Unsecured Notes on February 16, 2021 and (iii) this offering of the notes and the use of proceeds therefrom, we would have at least $240 million of cash on hand, and our total indebtedness would have been $1.187 billion. See ''Capitalization''.

Contractual Obligations

In the normal course of business, we enter into various contractual obligations that impact or could impact our liquidity. The table below contains our estimated contractual obligations stated at face value as of December 31, 2020 (in thousands) without giving effect to this offering or the use of proceeds therefrom:

	Years ended December 31,						
	2021	2022	2023	2024	2025	Thereafter	Total
Debt repayment	$ —	$ —	$ 55,000	$ 80,000	$900,000	$—	$1,035,000
Interest on debt[1]	87,145	86,728	83,074	80,453	9,281	—	346,681
Operating lease obligations	9,102	6,878	4,726	3,185	355	—	24,246
Total	$96,247	$93,606	$142,800	$163,638	$909,636	$—	$1,405,927

(1) Includes commitment fees on the revolver assuming no change in the undrawn balance from December 31, 2020. Assumes the margin applied to the interest rate on the revolver decreases by 100 basis points after the termination of the September 21, 2020 fifth amendment to the revolver. Assumes no change in the current variable interest applied on the revolver. See ''Note 11—Debt'' to our consolidated financial statements for the year ended December 31, 2020.

As of December 31, 2020, the Company has liabilities related to postemployment benefits of $16.9 million and liabilities for uncertain tax positions of $11.7 million that are not included in the table above as the Company cannot make a reasonable estimation of the timing of the payment of such amounts.

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.

The Company maintains surety bond facilities in either U.S. dollars or local currencies of approximately $62.0 million provided by several banks to guarantee various contractual, performance, and customs obligations in Egypt, UAE and Nigeria. In addition, the Company had outstanding bank guarantees and performance bonds, which will expire over the next three years, drawn against the revolver and a bank guarantee secured by restricted cash related to the agreement to sell the Shelf Drilling Journey. The total outstanding bank guarantees and surety bonds issued by the Company were $63.0 million and $69.3 million as of December 31, 2020 and 2019, respectively, which consisted of bank guarantees and performance bonds drawn against surety bond facilities of $39.4 million and $59.4 million, respectively, bank guarantees and performance bonds drawn against the revolver of $23.6 million and $9.9 million, respectively, and a bank guarantee secured by restricted cash of $15.5 million and zero, respectively. As of December 31, 2020, these obligations stated in U.S. dollar equivalent and their expiration dates were as follows (in thousands):

	Years ended December 31,						
	2021	2022	2023	2024	2025	Thereafter	Total
Surety bonds and other guarantees	$44,336	$8,548	$10,085	$—	$—	$—	$62,969

Off Balance Sheet Arrangements

Contingent liabilities

The majority of the contingent liabilities that we are exposed to relate to legal proceedings, certain contractual and customs obligations secured by surety bonds and bank guarantees and uncertain tax positions. See ''Note 10—Income Taxes'' and ''Note 13—Commitments and Contingencies'' to our consolidated financial statements for the year ended December 31, 2020. As of December 31, 2020, we are not exposed to any contingent liabilities that are expected to result in a material adverse effect on our consolidated financial position, results of operations or cash flows.

Off-balance Sheet Financing

We had no off-balance sheet arrangements during the years ended December 31, 2020 and 2019.

Critical Accounting Policies and Estimates

The discussion and analysis of our financial condition and results of operations are based upon our consolidated financial statements, which have been prepared in accordance with GAAP. The preparation of the consolidated financial statements in accordance with GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period.

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 routine 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 the preparation of our consolidated financial statements.

We identify our critical accounting policies as those that are significant to our results of operations, financial condition and cash flows and that require management's most difficult, subjective or complex estimates and judgments in matters that are inherently uncertain. We believe that our more critical accounting policies include revenue recognition, operating expenses and deferred costs, property and equipment, leases and impairment of long-lived assets.

Our significant accounting policies are included in "Note 2—Significant Accounting Policies" to our consolidated financial statements for the year ended December 31, 2020.

Revenue Recognition

The Company recognizes revenues when control of a good or service promised in a contract is transferred to a customer. Control is obtained when a customer has the ability to direct the use of and obtain substantially all of the remaining benefits from that good or service. The timing of revenue recognition may differ from the timing of invoicing to customers and these timing differences result in receivables, contract assets, or contract liabilities, as appropriate on the Company's consolidated balance sheets.

The Company's drilling services provided under each drilling rig contract is a single performance obligation satisfied over time and is comprised of a series of distinct time increments or service periods in which we provide drilling services. Variable consideration is only recognized as revenues to the extent that it is probable that a significant reversal will not occur during the contract term. When determining if variable consideration should be recognized, management considers whether there are factors outside of the Company's control that could result in a significant reversal of revenues as well as the likelihood and magnitude of a potential reversal of revenue. A description of our principal revenue generating activities are as follows:

Operating Revenues

A significant portion of the Company's revenues is generated from rigs operated by the Company through dayrates charged to its customers for the provision of 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 dayrate invoices billed to the customer are typically determined based on the varying rates applicable to the specific activities performed on an hourly basis.

The Company may earn lump-sum fees relating to mobilization, contract preparation, capital upgrades and demobilization in certain drilling contracts. The contract preparation and capital upgrade fees are typically received at the commencement of the contract. Mobilization fees are generally billable to the customer in the initial phase of a contract and generate contract liabilities (deferred revenue) until they are recognized as revenue. These activities are not considered to be distinct within the context of the contract, therefore, the associated revenues are recorded as a contract liability and amortized on a straight-line basis over the firm contract term.

In addition, fees received for demobilization of the rig are accrued as operating revenues over the contract duration if they are unconditional and if there is no significant risk of potential material cumulative revenue reversal in the future. In most contracts, there is uncertainty as to the amount of expected demobilization revenues due to contractual provisions that stipulate certain conditions must be present at contract completion for such revenues to be received. Therefore, the demobilization fees are recorded when it becomes probable that there will not be a material cumulative revenue reversal. 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 Accounting Standards Codification (''ASC'') 606-10-50-14(b) and have not disclosed variable consideration related to remaining unsatisfied performance obligations.

Many drilling contracts have termination and/or extension options which can be exercised at the option of the customer. In many cases, if the contract is terminated by the customer, the Company can charge an early termination fee to the customer. Termination revenues are typically billed after a termination notice is received from a customer or activity related to a contract ceases. Termination revenues are typically recognized as revenues when billed and it is probable that revenues will not be reversed. In such cases, any remaining deferred revenues and costs are recorded in the consolidated statements of operations upon such termination, when it becomes probable that there will not be a material cumulative revenue reversal. The extension option revenues are at agreed prices and terms and are typically accounted for as contract modifications as if it were a separate contract.

Other Revenues

Other revenues consist of revenues from lease rentals and amounts billed for goods and services such as personnel, catering, additional equipment, consumables or accommodations which are generally invoiced to customers at a margin. The Company may use third parties for the provision of such goods and services. The Company generally acts as a principal in the provision of catering, 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 obtained by a customer. Certain judgments are involved in identifying the performance obligations in customer contracts and determining whether the Company is a principal or an agent in the provision of certain equipment and consumables to the customers.

Operating Expenses and Deferred Costs

Operating costs are recognized when incurred. Certain expenditures associated with contract preparation, mobilization, regulatory inspections and major equipment overhauls are recorded as deferred costs, according to the deferral period as other current assets or other long-term assets on the consolidated balance sheets.

Costs incurred for certain contract preparation expenditures and upfront mobilizations incurred for a rig entering a binding commitment for a drilling services contract are attributable to the Company's future performance obligation under the related drilling contract. Such contract costs are deferred and amortized on a straight-line basis over the firm contract term. See ''Note 4—Revenues, Contract Liabilities and Deferred Contract Costs and Allowance for Credit Losses'' to our consolidated financial statements for the year ended December 31, 2020. Demobilization costs and the cost of mobilization of rigs without contracts are expensed as incurred.

Regulatory inspections are incurred in connection with obtaining regulatory certifications to operate the rigs, including Special Periodic Surveys (''SPS'') and Underwater Inspections in Lieu of Dry-docking (''UWILDs''), and are deferred and amortized over the time period until the next survey or inspection—generally for periods between 30 to 60 months. Periodic major overhauls of equipment are deferred and amortized on a straight-line basis over a period of five years.

Property and Equipment, Net

Property and equipment is initially stated at cost. Expenditures for additions, including other costs necessary to bring the asset to the condition and location necessary for its intended use, improvements and substantial enhancements are capitalized. Routine expenditures for minor replacements and repairs and maintenance that do not increase the asset life are expensed as incurred. Construction in progress includes interest capitalized during the period of asset construction for qualified assets if the construction is expected to take one year or longer and the amount of interest is material. When the asset is placed into service, it is transferred from construction in progress to the appropriate category under property and equipment.

Property and equipment is subject to periodic impairment testing as discussed in ''—Impairment of Long-Lived Assets'' below.

Depreciation commences when an asset is placed into service or is substantially complete and ready for its intended use. Depreciation is computed using the straight-line method, after allowing for salvage value where applicable, over the estimated useful lives of the assets. Land is not depreciated. Leasehold improvements are recorded as component of property and equipment and are depreciated over the shorter of the remaining expected lease term or the estimated useful lives of the improvements. If an impairment loss is recognized, the adjusted carrying amount shall be depreciated over the remaining useful life of that asset.

The estimated useful lives of property and equipment are as follows:

	Years
Drilling rigs	30
Drilling equipment and spares	9 - 13
Building	30
Other	3 - 5

The Company periodically reviews and adjusts, as appropriate, the remaining useful lives and salvage values of rigs when certain events occur that directly impact such estimates. This includes changes in operating condition, functional capability and market and economic factors. The remaining estimated average useful life of existing drilling rigs in the Company's fleet, excluding stacked rigs, as of December 31, 2020 is 11 years.

When assets are sold, retired or otherwise disposed of, the cost and related accumulated depreciation are written off, net of any proceeds received, and any gain or loss is reflected in the consolidated statements of operations.

Assets Held for Sale

Property and equipment is reclassified as asset held for sale when (a) there is a committed plan to sell the asset that is unlikely to be subject to significant changes or termination, (b) the asset is available for immediate sale, (c) actions are initiated to complete the sale, including an active program to locate a buyer, (d) the sale is expected to be completed within one year and (e) the asset is being actively marketed at a price that is reasonable relative to its fair value. Assets held for sale are subject to periodic impairment testing as discussed in ''—Impairment of Long-Lived Assets'' below.

Leases

A lease contract is a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Lease classification as short-term lease, operating lease or finance lease is made at the lease inception.

Short-Term Leases

The Company made an accounting policy election not to recognize a right-of-use asset and lease liability for short-term leases with an initial term of 12 months or less, therefore these leases are not recorded on the consolidated balance sheets. Lease expense for short-term leases are recognized on a straight-line basis over the lease term.

The Company as a Lessee

The Company recognizes lease liabilities and right-of-use assets for all operating and finance leases at the lease commencement date. For a contract that contains an operating lease component and non-lease component, the lease is accounted for as one single lease component based on the predominant component in accordance with the Company's policy. Therefore, all non-lease components in the lease contracts are included in the measurement of the operating lease liability and right-of-use asset. See also ''Note 8 – Leases'' to our consolidated financial statements for the year ended December 31, 2020.

Lease liabilities are initially recognized at the present value of the future lease payments during the expected lease term using the interest rate implicit in the lease, if that rate can be determined, or the Company's incremental borrowing rate. Lease liabilities are recorded, according to the payment dates as other current liabilities and other long-term liabilities in the consolidated balance sheets. Finance lease and operating lease liabilities are recorded separately.

The Company determines the lease term as the non-cancellable period of a lease, including renewal or termination options that the Company is reasonably certain to exercise. The Company considers all relevant facts and circumstances that create an economic incentive to exercise the option.

Subsequent to initial recognition, the operating lease liability is increased for the interest component of the lease liability and reduced by the lease payments made.

The right-of-use asset is initially recognized at the amount of the initial measurement of the lease liability, plus any lease payments made at or before the commencement date, less any lease incentives received and any initial direct costs incurred by the Company. Right-of-use assets are recorded as other long-term assets in the consolidated balance sheets, and finance lease and operating lease right-of-use assets are recorded separately. Costs to get a leased asset to the condition and location necessary for its intended use are capitalized as leasehold improvements.

Subsequent to initial recognition, the right-of-use asset is reflected net of amortization. Right-of-use assets are subject to periodic impairment testing as discussed in ‘‘—Impairment of Long-Lived Assets’’ below.

The Company remeasures its lease liabilities with a corresponding adjustment to the right-of-use asset due to an applicable change in lease payments such as those due to a lease modification not accounted for as a separate contract, certain changes in the expected term of the lease, and certain changes in assessments and contingencies. The Company has made an accounting policy election to account for lease concessions related to the effects of the COVID-19 pandemic as though enforceable rights and obligations for those concessions existed in the original lease contract and, therefore, the Company will not account for these concessions as lease modifications. The Company is instead accounting for rent reductions as a negative variable lease payment in the period in which that payment would have come due and is accounting for temporary rent deferrals as a short-term lease payable until the amount becomes due and payable.

Operating lease expenses are recognized as a single lease cost on a straight-line basis over the lease term, which includes the interest component of the measurement of the lease liability and amortization of the right-of-use asset. Operating lease expenses are recognized based on the type of leased asset under either operating and maintenance expenses or general and administrative expenses in the consolidated statements of operations. Finance lease expenses are recognized separately in the consolidated statements of operations, with the interest expense on the lease liability recorded under interest expense and the amortization of the right-of-use asset recorded as based on the type of leased asset under either operating and maintenance expenses or general and administrative expenses.

The Company as a Lessor

The Company’s drilling contracts contain lease components related to the underlying drilling rigs, in addition to service components of labor and expertise to operate such drilling equipment. The Company has made an accounting policy election to present the lease and associated non-lease operations as a single component based upon the predominant component. The service component of operating a drilling rig is predominant in the Company’s drilling contracts. Therefore, the Company is accounting for drilling rig revenues as a single performance obligation as service revenues.

Impairment of Long-Lived Assets

The Company evaluates property and equipment, right-of-use assets and other long-lived assets whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. An impairment loss on an asset should be recorded when the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. Any actual impairment loss recognized represents the excess of the asset’s carrying value over the estimated fair value.

The Company estimates the fair values of property and equipment, right-of-use assets and other long-lived assets to be held and used by applying a combination of income and market approaches, using projected cash flows and estimates of the exchange price that would be received for the assets in the principal or most advantageous market for the assets in an orderly transaction between market participants as of the measurement date. The fair value of the Company’s asset groups using the income approach is based on estimated cash flows expected to be realized from the use of the assets. Asset impairment evaluations are, by nature, highly subjective. The critical estimates are significant unobservable inputs, which are based on numerous estimates and assumptions about future operations and market conditions including but not limited to those such as projected rig utilization, dayrates, operating, overhead and major project costs, remaining useful life, salvage value and discount rate as well as cost inflation assumptions.

The Company estimated the fair values of assets held for sale based on the expected sale price less estimated costs to sell, which can include significant unobservable inputs. These assumptions are considered non-recurring level 3 fair value measurements.

New Accounting Pronouncements

See "Note 3—Recently Issued and Adopted Accounting Pronouncements" to our consolidated financial statements for the year ended December 31, 2020 for a discussion on recently adopted and issued accounting pronouncements.

BUSINESS

Our company

We are a leading international shallow water offshore drilling contractor providing equipment and services for the drilling, completion, maintenance and decommissioning of oil and natural gas wells. We are solely focused on shallow water operations in depths of up to 375 feet, and, as of December 31, 2020, our drilling fleet consists of 31 ILC jack-up rigs, excluding stacked and/or held for sale rigs, which we believe makes us one of the world's largest owners and operators of jack-up rigs by number of active shallow water rigs.

Our exclusive focus on jack-up rig operations allows us to deliver outstanding performance in our core operating regions of the MENAM, South East Asia, India and West Africa. We have a significant presence in the Middle East, Thailand, India and West Africa, where we believe development activities are generally characterized by relatively low production costs and short cycle times and therefore have relatively favorable rig supply and demand fundamentals due to more stable levels of offshore development across commodity price cycles. Combined with the relatively lower emissions from jack-up rigs (as compared to deep water rigs) and also from the areas where we operate, we believe our markets are well positioned to be a stable source of oil and gas production in the near-term.

We have well-established customer relationships, primarily with NOCs and IOCs, including Saudi Aramco, Chevron, ONGC, ADNOC, ENI and TOTAL. We believe that our customers prefer to work with well-established drilling contractors that have a strong track record of safety and operating results, and since our inception in 2012, our safety track record has consistently exceeded industry averages with our operating uptime being at least 98.5% per year. The NOCs that make up the majority of our customer base tend to evaluate long-term merits of development projects through commodity price cycles, and their spending remains relatively consistent in face of short-term uncertainties. Together, we believe these factors contributed to the success of our marketing activities, including total secured contracts and extensions with an aggregate value of more than $7.0 billion since our inception.

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

We have streamlined our systems and processes to the specific needs of our business and fleet, keeping our organization lean and effective and resulting in an industry leading low-cost structure. We focus on financial returns when evaluating our growth initiatives and capital investment strategy. We believe that our approach has enabled us to preserve valuable client relationships and generate sufficient cash flow to operate the business into an improving commodity price environment and to deliver greater returns on invested capital relative to our U.S. public company competitors.

Our revenues, net loss, Adjusted EBITDA and Adjusted EBITDA Margin for the year ended December 31, 2020 were $585.2 million, $274.9 million, $200.3 million and 34.2%, respectively. For definitions of Adjusted EBITDA and Adjusted EBITDA Margin and a reconciliation of Adjusted EBITDA to our most directly comparable measurement of net income (loss) under GAAP, see "Management's discussion and analysis of financial condition and results of operations—Financial measures." As of December 31, 2020, we had a total contract backlog of $1.4 billion across 29 contracted rigs, for an average of 706 days per contracted rig, 97% of which was with NOCs and IOCs.

Our competitive strengths

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

- One of the largest pure-play jack-up fleet contractors globally, with geographic concentration in MENAM, India, West Africa and Southeast Asia;
- Successful track record of delivering safe, efficient and reliable operational performance;
- Industry leading low-cost structure, coupled with high national content;
- High-quality, well-maintained "fit-for-purpose" fleet;
- Well-established customer relationships with large national and international oil and gas companies; and
- Experienced management team.

One of the largest pure-play jack-up fleet contractors globally, with geographic concentration in MENAM, India, West Africa and Southeast Asia

We believe we are a leading international jack-up rig contractor by number of marketed rigs and have critical mass and significant market share in all our core operating regions. We believe our sole focus on shallow water drilling allows for optimal size, scale, and management of our organization, in order to concentrate our fleet of rigs in the most promising markets. We have a significant presence in the Middle East, Thailand, India and West Africa, where we believe development activities are generally characterized by low production costs and breakeven prices and short cycle times, and will therefore have relatively favorable rig supply and demand fundamentals in the coming years.

MENAM proved relatively resilient throughout 2020, and we believe the importance of this region for jack-up rigs grows with each commodity price cycle, even in low oil price environments. Our customer base in MENAM is predominantly NOCs, who tend to evaluate long-term merits of development projects through commodity price cycles. We are in a strong position with 15 marketable rigs in the region, 14 of which are under contract despite limited contract terminations in 2020 and early 2021.

India is a region where demand for jack-up rigs remains stable and did not experience notable declines in 2020. Our customer base in India is also primarily NOCs. We believe we have a leading position in India's jack-up rig market with 8 marketable rigs and 100% utilization. We believe the relationships with NOCs we have cultivated with our track record and low-cost structure have mitigated some of the fallout from the COVID-19 pandemic.

In West Africa, we have seen an increase in opportunities with NOCs. We believe we are the leading jack-up rig contractor in Nigeria with 4 marketable rigs, 3 of which are under contract. We believe that our scale of operations, efficient cost structure, and compliance with local content requirements position us well when these opportunities materialize.

Southeast Asia's jack-up market was impacted by the COVID-19 pandemic, but we believe we have retained our leading position in Thailand with 4 rigs and 100% utilization. Both of our premium jack-up rigs dedicated to P&A activities are now working in tandem in the Gulf of Thailand, in addition to our two highly customized, fit-for-purpose newbuilds. We are committed to our expanding partnership with Chevron in and out of Thailand and expect to see more opportunities in decommissioning work in the region.

Successful track record of delivering safe, efficient and reliable operational performance

Since our inception, our track record for safety operating uptime has consistently exceeded industry averages, with TRIR safety metrics being consistently below the IADC averages, and our operating uptime being at least 98.5% per year. We work with our customers to improve drilling efficiencies, which frequently results in rig operations being completed ahead of plan and ultimately lowering the cost per well for our customers.

Industry leading low-cost structure, coupled with high national content

We believe that our sole focus on shallow water drilling in our core operating regions allows us to optimize our size and scale. In addition, we believe this focus allows us to concentrate our rigs in stable and growing geographic markets, promoting operational efficiency and contributing to our low-cost structure. Our strategically positioned headquarters in Dubai is in close proximity to our core operating regions and eliminates the need for additional regional offices. In addition, since our inception, we have focused on building high national content through hiring and developing nationals from the countries in which we operate, a value increasingly adopted and appreciated by governments and communities across the regions in which we operate. These efforts served to enhance our relationships with local stakeholders, allowed for a more stable workforce, including our leadership teams, and helped facilitate offshore crew changes during a period of severe travel restrictions related to COVID-19. Our high national content in both our workforce and management, local supply chain networks across our geographies, standardized equipment across our fleet, and centralized management of our supply chain and key maintenance activities are all key drivers of our industry leading low-cost structure.

High-quality, well-maintained ''fit-for-purpose'' fleet

We believe our fleet is comprised of well-maintained jack-up rigs with proven technologies and operating capabilities. Since our inception, we have implemented a strategic fleet upgrade and renewal program. We have continuously evaluated and enhanced our existing fleet with ''smart upgrades'' where appropriate to meet specifications for the markets in which we intend them to operate, in accordance with our ''fit-for-purpose'' strategy. For example, we have standardized equipment across a significant number of our rigs, which facilitates our delivery of consistent and predictable performance in the environments in which we operate. In addition, we have added eight modern, premium jack-ups through a series of newbuild construction projects and asset acquisitions. These rigs typically also feature specific technical innovations that allow further improvements to what is already considered best-in-class performance, exceeding our customers' expectations in their respective categories. We believe we are one of the largest jack-up rig operators in the world by number of active rigs, and that the size of our fleet, coupled with the balance of premium, shallow draft and standard jack-ups, is well-suited to the various customer requirements across our regions.

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

Our large and high-quality fleet, high national content, strong operational performance and close alignment with our customers' interests provide us a competitive advantage and contribute to our contracting success and high fleet utilization. We have well-established relationships with our customers, which are primarily NOCs and IOCs, including Saudi Aramco, Chevron, ONGC, ADNOC, ENI and TOTAL. We believe that our customers prefer to work with drilling contractors who are well-established and have a strong track record of safety and operating uptime. We are responsive and flexible in addressing our customers' specific needs and seek collaborative solutions to achieve customer objectives.

Experienced management team

The members of our executive management team are knowledgeable operations and finance executives with extensive experience in the global oil and gas industry. Our four executive officers have more than 130 years of collective industry and financial experience and have held leadership positions at highly regarded offshore drilling and oilfield services companies, including Schlumberger Ltd., Transocean Ltd., Noble Drilling plc and Wellstream Holdings plc. All four members of our executive management team have been involved with us since our inception and have been responsible for the design and implementation of our ''fit-for-purpose'' strategy.

Our business strategies

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

- Maintain a proactive approach to fleet and organizational management that focuses on positive cash flow;
- Capitalize on a potential recovery in demand for shallow water drilling activity in our core operating regions;
- Focus exclusively on jack-up operations in our core operating regions;
- Continue to deliver safe, efficient and reliable operations;
- Develop long-term mutually beneficial relationships with customers, suppliers and the communities in which we operate; and
- Apply ''fit-for-purpose'' strategy to maximize profitability and leverage our proven ability to bring technical innovations and unique solutions to address our customers' needs.

Maintain a proactive approach to fleet and organizational management that focuses on positive cash flows

In recent years, our approach to fleet management involves opportunistic acquisition of premium jack-up rigs complementary to our fleet at attractive prices, through either cash on hand or equity or debt financing. From 2016 through 2020, we acquired nine premium jack-up rigs at significantly lower prices than the historic cost of construction for comparable newbuild rigs. Two of such rigs were financed exclusively through an equity offering to affiliates of China Merchants, which, as a result of such offering, became our largest shareholder. Additionally, we have selectively divested rigs to buyers that place high cash values on our rigs and/or intend to place them in markets in which we do not compete. These efforts improve the Company's financial flexibility, but not at the expense of our competitiveness, and reduce the costs associated with certain non-operated assets and assets near the end of their useful lives. We believe these selective acquisitions and divestitures of rigs in our fleet allow us to deploy a competitive fleet that can meet the needs of our customers in the shallow water drilling market. We anticipate that the current dislocation and distress in the broader offshore drilling industry may create compelling opportunities in the years ahead.

We regularly explore opportunities to reduce our total cost of debt, ensure adequate liquidity and improve flexibility to operate our business and pursue growth projects. We focus on financial returns when evaluating our growth initiatives and our expansion strategy. We believe that our approach has delivered superior cash flows relative to our public company competitors and facilitated maintaining adequate liquidity in the business. We intend to continue pursuing contracts that offer an attractive combination of duration and dayrates, with an emphasis on duration, to drive higher backlog and greater cash flow.

During 2020, the global impact of the COVID-19 pandemic and the resulting effects on the world economy have caused an increase in contract terminations, suspensions and dayrate renegotiations as our customers curtailed their activities and reduced operating costs. In response to this situation, we acted to focus in the near term on ensuring continuity of operations, reducing costs and preserving liquidity. The approach has included headcount and compensation reductions and operating and general and administrative expense reductions. Given our low-cost structure and long-standing customer relationships in our core operating regions, we believe that we are positioned to withstand the ongoing impacts of COVID-19 that are affecting the drilling industry.

Capitalize on a potential recovery in demand for shallow water drilling activity in our core operating regions

Given our strong market positions, industry leading low-cost structure and long-standing customer relationships in our core operating regions, we believe that we are well-positioned to benefit from a recovery in shallow water drilling activity. Although 2020 was a difficult year due to a decline in jack-up rig demand associated with the economic effects of COVID-19, we have begun to experience an increase in market and tender inquiries from certain customers, particularly in West Africa and other key markets, and believe that we will have opportunities to redeploy uncontracted rigs in the near term. This uptick in shallow water activity coincides with the positive trajectory of Brent crude prices, which rose from below $20 per barrel in April 2020 to $69 per barrel as of March 5, 2021, as well as recovering demand for oil as economic activities resume gradually around the world. The growth in jack-up rig demand in our core operating regions is primarily driven by infill drilling and workover activities, which have historically provided upstream operators with lower-risk, short-cycle returns relative to exploration and development drilling, as well as an increase in P&A activities for mature fields. In addition, shallow-water drilling projects offer relatively low breakeven prices and short cycle times as compared to other oil supply sources. As such, we believe jack-up rig demand, especially in our core regions, will tend to recover more quickly than demand for deep water rigs, as seen in past cycles.

Focus exclusively on jack-up operations in our core operating regions

As a newly formed company in 2012, we were not burdened with legacy systems, structures or management personnel. As a result, we believe that we were able to design and build efficient systems and operating procedures from the outset with a high degree of centralization and a dedicated focus on shallow water operations. We believe our exclusive focus on jack-up rig operations allows us to deliver outstanding performance in our core operating regions of MENAM, South East Asia, India and West Africa. We have streamlined our systems and processes to the specific needs of our business and fleet, keeping our organization lean and effective, resulting in an industry leading low-cost structure. We focus on financial returns when evaluating our growth initiatives and capital investment strategy. We believe that our approach has enabled us to preserve valuable client relationships and generate sufficient cash flow to operate the business into an improving commodity price environment.

Continue to deliver safe, efficient and reliable operations

We believe that our centralized structure and focus on jack-up rig operations has significantly contributed to the safety, efficiency and reliability of our operations. We had a TRIR of 0.19 for the year ended December 31, 2020, 60% below the average of the IADC, and our safety track record has consistently exceeded the industry benchmark since inception. In addition, we have consistently maintained an average fleet uptime of at least 98.5% since our inception in 2012 and achieved the highest annual level in our history in 2020 at 99.4%. Through ongoing training, appropriate incentive structures at all levels and management oversight, we intend to continue improving our safety and operational performance as we strive to continue to reduce workplace incidents.

Develop long-term mutually beneficial relationships with customers, suppliers and the communities in which we operate

Our customers include NOCs, IOCs and a small number of independent oil and gas companies. For the 12 months ended December 31, 2020, our top three customers, which were Saudi Aramco, Chevron and ONGC, collectively accounted for 90% of our contract backlog and 66% of our revenues. We are able to maintain our strong long-term customer relationships through outstanding service, low-cost structure, and high national content. We believe our ability to maintain relationships with, and to win repeat business from, our existing customers is critical to our stability and growth of cash flows.

Apply "fit-for-purpose" strategy to maximize profitability, and utilize innovations and unique solutions to customize rig operations to the customer's technical specifications and needs

We plan to continue to apply our "fit-for-purpose" strategy to maximize profitability, including strategically deploying rigs well-suited for specific markets. Additionally, we have a proven ability to customize our rig equipment and operations to meet the specific technical needs of our customers, including for example the unique specifications for plugging and abandonment of mature wells and factory-style drilling operations in the Gulf of Thailand. We expect this strategy will allow us to continue to leverage our strong operational track record and leading market position to maintain our comparatively high utilization rates and low-cost structure. We believe this strategy has been critical in enabling us to consistently maintain our Adjusted EBITDA Margin above 30% for the years ended December 31, 2013 to 2020.

Our fleet

Our drilling fleet consists of 31 ILC jack-up rigs, excluding five stacked and/or held for sale rigs, as of December 31, 2020. The ILC design allows each leg to be independently raised or lowered and permits the drilling platform to be extended out from the hull to perform operations over certain types of pre-existing platforms or structures. We believe these design features provide greater operational flexibility, safety and efficiency than alternative designs. Many of our jack-up rigs further feature proven, reliable technology and processes, utilizing mechanical features with generally lower operating costs or custom upgrades and/or equipment depending on the type of operations or customer requirements. Within their given water depth capabilities, we believe our jack-up rigs are well-suited for our customers' typical shallow water drilling operations in regions where we operate.

We have taken steps in recent years to enhance our fleet, including our construction of newbuild rigs and acquisition of premium jack-up rigs. From 2016 through 2020 we added nine premium jack-up rigs to our fleet at prices significantly less than the historic cost of construction for comparable newbuild rigs.

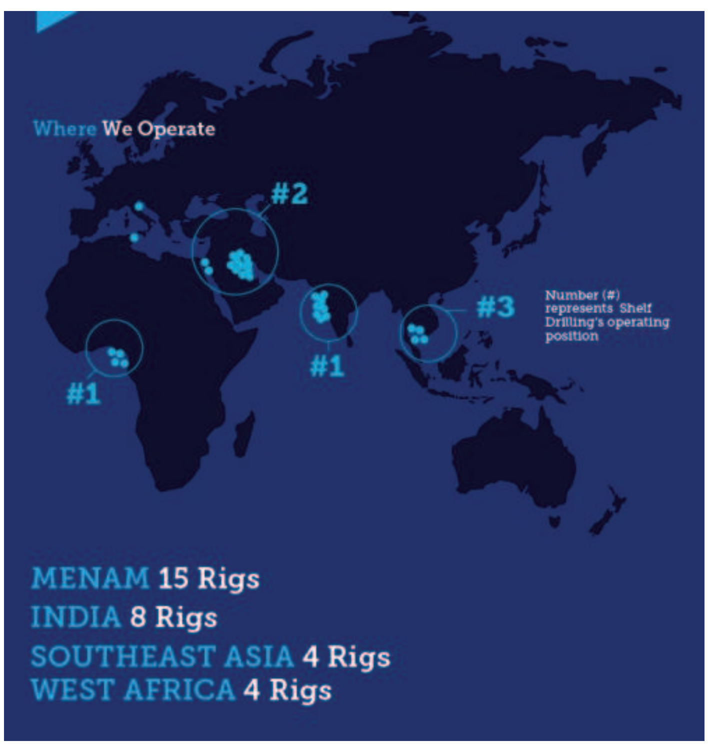
Our most recent acquisition of the Shelf Drilling Enterprise in 2020 was supported by a long-term firm contract with Chevron Thailand, which commenced in January 2021, and concurrent debt financing. The rig has been heavily customized to deliver highly efficient P&A operations for Chevron's program in the Gulf of Thailand. The Shelf Drilling Scepter, a similarly acquired and customized premium jack-up rig in 2018, has likewise delivered exceptional P&A performance since commencing operations in late 2019.

P&A is a growing market within our areas of operations, especially in Thailand where we have a leading position with four contracted rigs (two of which are contracted specifically for decommissioning work). According to Rystad Energy, decommissioning in Southeast Asia is estimated to be a $15 billion market. We believe that our investment and extensive experience in P&A operations position us well for future work in this growing market.

The Shelf Drilling Journey was opportunistically sold in February 2021 to ADNOC Drilling. The timing and proceeds of $77.6 million from this sale significantly enhance the Company's liquidity profile and financial flexibility. See "Note 7—Assets Held for Sale" to our consolidated financial statements for the year ended December 31, 2020 and "Capitalization" for additional information.

We operate in four of the top five markets for jack-up rigs as of 2020 in terms of the percentage market share of jack-up rigs relative to floating rigs, according to Rystad Energy. The graphic below sets out the number of our jack-up rigs we currently operate in each of our core operating regions and our operating position relative to other companies that are not state-owned:

Number of Shelf Drilling-operated jack-up rigs by region (excluding stacked rigs and/or rigs held for sale) as of March 4, 2021



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

Rig Name	Design	Year Built/ Last Upgraded	Maximum Water Depth (feet)	Maximum Drilling Depth (feet)	Location
		MENAM			
Rig 141	MLT 82-SD-C	1982	250	20,000	Egypt
Trident 16	Modec 300-C38	1982 / 2012	300	25,000	Egypt
Key Manhattan	MLT 116-C	1980 / 2010	350	25,000	Croatia
Main Pass I	F&G L-780 Mod II	1982 / 2013	300	25,000	Bahrain
High Island II	MLT 82-SD-C	1979 / 2011	270	20,000	Saudi Arabia
High Island IV	MLT 82-SD-C	1980 / 2011	270	20,000	Saudi Arabia
High Island V	MLT 82-SD-C	1981 / 2013	270	20,000	Saudi Arabia
High Island IX	MLT 82-SD-C	1983 / 2012	250	20,000	Saudi Arabia
Main Pass IV	F&G L-780 Mod II	1982 / 2012	300	25,000	Saudi Arabia
Shelf Drilling Achiever	GustoMSC CJ46-X100-D	2019	350	30,000	Saudi Arabia
Key Singapore	MLT 116-C	1982 / 2015	350	25,000	Tunisia
Compact Driller	MLT 116-C	1992 / 2013	300	25,000	UAE
High Island VII	MLT 82-SD-C	1982 / 2016	250	20,000	UAE
Shelf Drilling Mentor	LeTourneau Super 116E	2010 / 2017	350	30,000	UAE
Shelf Drilling Tenacious	Baker Marine Pacific Class 375	2007 / 2017	375	30,000	Oman
		India			
C.E. Thornton	MLT 53-SC	1974 / 1984	300	21,000	India
F.G. McClintock	MLT 53-SC	1975 / 2002	300	21,000	India
Harvey H. Ward	F&G L-780 Mod II	1981 / 2011	300	25,000	India
J.T. Angel	F&G L-780 Mod II	1982	300	25,000	India
Parameswara	Baker Marine BMC 300-IC	1983 / 2001	300	25,000	India
Ron Tappmeyer	MLT 116-C	1978	300	25,000	India
Trident II	MLT 84-SC Mod	1977 / 1985	300	21,000	India
Trident XII	Baker Marine BMC 300-IC	1982 / 1992	300	21,000	India
		West Africa			
Adriatic I	MLT 116-C	1981 / 2014	350	25,000	Nigeria
Baltic	MLT Super 300	1983 / 2015	375	25,000	Nigeria
Shelf Drilling Resourceful	LeTourneau Super 116C	2008 / 2017	350	30,000	Nigeria
Trident VIII	Modec 300-C35	1981 / 2018	300	21,000	Nigeria
		Southeast Asia			
Shelf Drilling Chaophraya	LeTourneau Super 116E	2016	350	30,000	Thailand
Shelf Drilling Krathong	LeTourneau Super 116E	2017	350	30,000	Thailand
Shelf Drilling Scepter	Keppel FELS Super B	2008 / 2019	350	35,000	Thailand
Shelf Drilling Enterprise	Baker Marine Pacific Class 375	2007 / 2020	375	30,000	Thailand
		Stacked and/or Held for Sale			
Key Hawaii(1)(2)	Mitsui 300 C	1983 / 2004	300	25,000	Bahrain
Galveston Key(1)(2)	MLT 116-SC Mod	1978 / 2002	300	25,000	UAE
Trident 15(1)(2)	Modec 300-C38	1982 / 2014	300	25,000	Malaysia
Randolph Yost(1)(2)	MLT 116-C	1979	300	25,000	USA

(1) Rig is currently being held for sale.

(2) Rig is stacked.

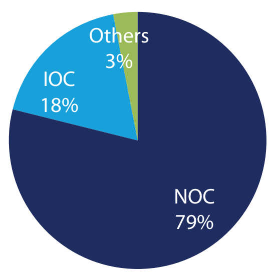
The carrying value of the rigs (other than rigs that are held for sale) as of December 31, 2020 was $1,112 million. To comply with our revolver, we received appraisals as of December 31, 2020 from various third-party appraisers for eleven of our rigs, valuing them at $613 million (2.0x coverage) in the aggregate. Our management estimated the fair market value of the remaining twenty rigs (which exclude rigs that are held for sale) to be $360 million (additional 1.2x coverage, or 3.1x coverage in total) based on the appraised values for similar rigs and the carrying value of the remaining rigs. These are only estimates made by our management based on the information available to us as of December 31, 2020, and do not reflect any subsequent changes in the market for rigs and may not be representative of the value of any rig if actually sold. See ‘‘Risk factors—Risks related to the notes and this offering—The value of the Collateral may be limited,’’ and ‘‘Risk factors—Risks related to the notes and this offering—Appraisals and estimates should not be relied upon as a measure of realizable value of the Collateral.’’

Customers and Customer Contracts

Our customers include NOCs, IOCs and a small number of independent oil and gas companies. For the 12 months ended December 31, 2020, our top three customers, which were Saudi Aramco, Chevron and ONGC, collectively accounted for 90% of our contract backlog and 66% of our revenues. No other customer accounted for more than 6.7% of our revenue for that period.

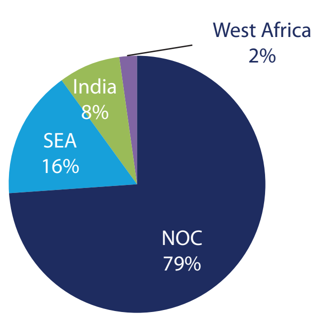
We have secured contracts and extensions with an aggregate value of more than $7.0 billion since our inception. As of December 31, 2020, we had a total contract backlog of $1.4 billion and 706 days per contracted rig across 29 contracted rigs, 97% of which was with NOCs and IOCs. The remaining 3% was composed of independent oil companies. The graphic below illustrates the quality and diversity of our customers as measured by contract backlog as of December 31, 2020.

Shelf Drilling customer base



MENAM and India comprised $1,018.4 million, or 74.0%, and $110.4 million, or 8.0%, of our contract backlog, respectively, as of December 31, 2020, and comprised $277.6 million, or 47.4%, and $87.2 million, or 14.9%, of our revenues, respectively, for the 12 months ended December 31, 2020. Our other core operating regions, Southeast Asia and West Africa comprise $215.0 million, or 15.6%, and $33.3 million, or 2.4%, of our contract backlog, respectively, as of December 31, 2020 and comprised $142.3 million, or 24.3% and $78.1 million, or 13.4%, of our revenues for the 12 months ended December 31, 2020, respectively. The graphic below sets out our contract backlog by region (for more information, see ‘‘Management's discussion and analysis of financial condition and results of operations—Operational measures’’):

Shelf Drilling contract backlog by region



Contract backlog is the maximum contract drilling dayrate revenues that can be earned from firm commitments for contract drilling services represented by executed definitive agreements based on the contracted operating dayrate during the contract period less any planned out-of-service periods for regulatory inspections and surveys or other work. Contract backlog excludes revenues resulting from mobilization and demobilization fees, capital or upgrade reimbursement, recharges, bonuses and other revenue sources. Contract backlog may also include the maximum contract amount of revenues under non-drilling contracts for the use of our rigs such as bareboat charters and contracts for accommodation units. The contract period excludes revenues from extension options under our contracts, unless such options have been exercised. The contract operating dayrate may differ from the amount estimated due to mobilization, weather, unscheduled downtime and repairs, among other factors. Actual dayrates may also include adjustments based on market factors, such as oil prices or cost increases, and such adjustments are not estimated in the backlog dayrate. Contract backlog is a key indicator of our potential future revenue generation.

See ‘‘Management's discussion and analysis of financial condition and results of operations—Operational measures'' and ‘‘Management's discussion and analysis of financial condition and results of operations—Revenue recognition'' for additional information.

Our drilling contracts are typically awarded on an individual basis and vary in terms and rates depending on the operational nature, duration, amount and type of equipment and services, geographic area, market conditions and other variables. Dayrates are negotiated directly with customers or determined through a formal bidding process and can be influenced by the operating performance of the service provider or rig, as well-established drilling contractors with a strong track record of safety and operating uptime are generally able to negotiate more favorable dayrates. Prior experience with a customer can be a deciding factor in the awarding of contracts and negotiation of contract terms, as discussed further below. Market factors, such as Brent crude oil prices and natural gas prices, can also impact dayrates, and dayrates have trended lower since early 2020 due to the impact of COVID-19 and its resulting effects on global oil demand. As is common in the industry, our customer contracts can contain multiple dayrates, including specified dayrates for routine operations and reduced dayrates for equipment downtime, adverse weather, rig moves or other instances of scheduled or non-scheduled events, including for circumstances both within or outside of our control.

Revenues are impacted by dayrate levels and by inactive periods between contracts, including for repairs, overhauls and inspections, and stacking of rigs. Dayrates set forth in this filing are estimates based upon the full contract operating dayrate, however, actual dayrates earned over the course of any given contract are lower, and may be substantially lower, due to factors discussed herein.

We may receive additional compensation or reimbursement for contract preparation and capital upgrades, such as mechanical or structural alterations to a rig necessary to meet customer specifications, and for mobilization costs necessary to relocate the rig for contractual operations. Some contracts also include lump-sum or dayrate demobilization revenues which are triggered if stipulated conditions are present. These provisions vary and are based on negotiations of individual contracts with customers, which can be influenced by the contract duration, dayrates, local market conditions and other factors.

Many drilling contracts have extension options, which can be exercised at the option of the customer, often at previously agreed prices and terms. Customer contracts may also be subject to suspension, termination, cancellation and delays for a variety of reasons, including at the customers' convenience and sole option or for other circumstances beyond our control. Contract suspension provisions may allow customers to suspend contract activity for a predetermined or indefinite period, and in certain circumstances may extend the contracted term for a period of time equal to the suspension period. Such suspension provisions may provide for a reduced dayrate, or no dayrate, and may require a rig to be ready for immediate redeployment at the customer's option. Certain customer contracts may outline specific termination provisions, which usually includes a notice period and may also include termination payments and fees. Termination payments, if applicable, can vary from contract to contract and can include the payment of a certain percentage of the contract dayrate for either a contractually specified number of days or the number of firm contract days remaining on the contract. However, in certain contracts the termination fee paid can be refunded or reduced (or infrequently, eliminated) if we are able to secure a subsequent drilling contract with a different operator. Additionally, contracts customarily provide for automatic termination or optional customer termination for cause, typically without the payment of any termination fee. These provisions can be triggered under pre-defined circumstances such as non-performance or material breach of the contract, including but not limited to for operational or safety performance issues, equipment failure, and sustained downtime related to force majeure events.

Contract terms range in length from the time necessary to drill or workover one well up to several years. We seek to secure long-term agreements providing enhanced stability and deeper customer relationships rather than the highest possible dayrates on a shorter-term basis. Typically, NOC contracts are for longer terms when compared to contracts with IOCs or independent oil and gas companies, although in certain countries annual government budget approval cycles may limit the tenor of these contracts.

The type of contract can also impact the length and predictability of a contract term. ''Greenfield exploration'' consists of exploration of unchartered territory, where mineral deposits are not confirmed to exist, and such projects are generally considered an investment in developing a future production field. ''Brownfield projects'' consist of workover activity on producing assets, and such projects are generally considered part of ongoing operations. Greenfield exploration tends to be shorter term and more closely linked to prevailing commodity prices and success of exploration activities than brownfield projects, as customers are often unwilling to make investments in unproven fields during periods of low oil prices. Decommissioning projects consist of plugging and abandonment of mature oil and natural gas wells at the end of their lives.

The methods through which we pursue new business opportunities vary significantly. Small independent oil and gas companies are generally less likely to require formal tender processes, while NOCs are more likely to require participation in full tender exercises prior to awarding new contracts. We believe that extending current contracts or entering into additional contracts with existing customers benefits both us and our customers, due to the following factors:

- Readily available rigs and crews for the customer's work site, eliminating additional mobilization expense and risk;
- Available equipment, which meets customer specifications both from an operational and a safety perspective;
- Employees familiar with the customer's policies and procedures;
- Simplified process for contract negotiations and related legal and administrative requirements and
- A higher likelihood that the customer will be satisfied with the services provided.

We believe that our ability to maintain relationships with, and to win repeat business from, our existing customers is critical to our stability and growth of cash flows. If an existing customer fails to renew a contract, we will seek to secure a new contract for that rig.

In the year ended December 31, 2020, of the eight contracts or extensions we entered into, five represented contract renewals with the existing customer. Based on customer contracts in place as of December 31, 2020, 12 are scheduled to expire during 2021, 11 during 2022 and 6 in 2023 or later. As of December 31, 2020, our shortest remaining contract term was approximately one month and the longest remaining contract term was 10 years.

Customers are typically invoiced monthly, based on the dayrates applicable to the specific activities we perform on an hourly basis, and have 30 to 60 day payment terms. Lump-sum contract preparation, capital upgrade and mobilization fees are typically invoiced at the commencement or initial phase of the contract. Lump-sum or dayrate demobilization and termination fees are typically billed at the completion of a contract if certain stipulated conditions are present. Some contracts also provide for price adjustments tied to material changes in specific costs or variations in the average price of Brent crude oil or natural gas.

Our drilling contracts provide for varying levels of indemnification for both us and customers. We believe the terms of such indemnification provisions are standard for the industry. In general, the parties assume liability for their respective personnel and property. Our customers typically assume responsibility for, and indemnify us against, well control and subsurface risks under dayrate drilling contracts, which includes indemnifying us from any loss or liability resulting from pollution or contamination, including clean-up and removal and third-party damages, arising from operations under the contract and originating below the surface of the water, including as a result of blow-outs or cratering of the well. However, in certain cases, we may retain risk for damage to customer or third-party property on our rigs and retain liability for third-party damages resulting from pollution or contamination. Additionally, we may have contractually agreed upon certain limits to our indemnification rights and can be responsible for damages up to a specified maximum amount. We generally indemnify customers for pollution that originates from our rigs that is within our control (e.g., diesel fuel or other fluids stored onboard for the use of the rig). However, all contracts are individually negotiated, and the degrees of indemnification and/or risk retention can vary from contract to contract, and prevailing market conditions and customer requirements existing when the contract was negotiated, among other factors, can influence such contractual terms. In most instances in which we are indemnified for damages to the well, we have the responsibility to re-drill the well at a reduced dayrate. Notwithstanding a contractual indemnity from a customer, our customers may not be financially able to indemnify us or otherwise honor their contractual indemnity obligations to us.

The interpretation and enforceability of a contractual indemnity depends upon the specific facts and circumstances involved, as governed by applicable laws, and may ultimately need to be decided by a court or other proceeding, considering the specific contract language, the facts and applicable laws. The law generally considers contractual indemnity for criminal fines and penalties to be against public policy. Regardless of indemnification provisions, local jurisdiction regulations may require us to post surety bonds, letters of credit and parent company guarantees for contract performance. In addition, certain jurisdictions in which we operate, local customs and practice or governmental requirements necessitate the formation of joint ventures with local participation. In certain jurisdictions, such customs and laws also effectively mandate establishment of a relationship with a local agent or sponsor. When appropriate, we enter into agency or sponsorship agreements, in such jurisdictions. We are currently party to four joint ventures, two of which are in Nigeria, one in Indonesia and one in Malaysia. Although we may not control all aspects of these joint ventures, we are an active participant in and are the primary beneficiary of each of these joint ventures. For more information regarding joint ventures, see ‘‘Note 5—Variable Interest Entities’’ to our consolidated financial statements for the year ended December 31, 2020.

Our customer contracts and operations are subject to a number of additional risks and uncertainties; readers of this offering memorandum should carefully review the discussion contained in ‘‘Risk factors’’.

Suppliers

We maintain long-term relationships with our core suppliers and service providers through our collaborative approach. Through our highly centralized oversight and management of supply chain operations, we coordinate major vendor contracts and engagement from Dubai leading to lower costs and generally greater levels of cooperation with our vendors. We believe that our depth of relationships with our key suppliers and service providers is critical as it allows us to benefit from economies of scale in the procurement of goods and services and sub-contracting work, as well as to operate a fit for purpose organization. Relationships with suppliers and sub-contractors also provide us with market intelligence on technologies which are sought after by our customers as well as the opportunity to develop new fit for purpose technologies.

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

Competition

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

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

Human Capital Resources

Overview

We attract and retain the best talent through our fit-for-purpose talent management and competitive compensation and benefits programs. Our employees and contractors have extensive technical, operational and management experience in the jack-up segment of the offshore drilling industry. The following table presents our employees and contractors by category as of December 31, 2020:

	Company employees	Contractors	Total
Rig-based/offshore	1,848	963	2,811
Shore-based	182	61	243
Corporate	119	38	157
Total	2,149	1,062	3,211

Approximately 88% of our employees and contractors comprise offshore rig-based crew members who carry out day-to-day drilling operations. Our offshore crews include supervisors as well as trained and competent technical specialists in the areas of drilling operations, safety, maintenance and marine support. Offshore crews typically work rotation schedules which vary according to jurisdiction and local practice with periods ranging from two weeks on / two weeks off up to four weeks on / four weeks off, which schedules were disrupted as a result of COVID-19.

The remaining 12% of our employees and contractors are shore-based or corporate, with the largest concentration employed at our corporate headquarters in Dubai. The other shore-based employees and contractors work in the offices and yards that support our activities in the various countries in which we operate. They provide support in operations, commercial and marketing, technical, finance, human resources, procurement, HSE and information technology to our customers and jack-up rigs and crews. Our corporate headquarters houses centralized projects teams, who ensure the consistent implementation of our operations processes, quality policy and HSE management system worldwide as well as administrative personnel who provide technical and functional support to both the rigs and local shore-based employees. Employees in certain of the countries in which we operate are represented by trade unions and arrangements that may be made through collective bargaining agreements.

Nationalization/Local Employment

Our strategy is to focus on building high national content through hiring and developing nationals from the countries in which we operate, including across our leadership teams. This enables us to strengthen customer and governmental relationships, particularly with NOCs, and results in a lower cost base as well as relatively lower employee turnover.

The following table shows the employee mix in our key markets as of December 31, 2020:

	National employees and contractors
India	99.4%
West Africa	97.2%
Southeast Asia	92.3%
MENAM	47.6%

Diversity, Equal Opportunity and Labor and Human Rights

We are committed to equal opportunity employment for all employees and applicants for employment and welcome the variety of experiences they bring to the Company. We recruit, hire, train, promote, and compensate without regard to race, color, national origin, citizenship, religion, gender, sexual orientation, marital status, age, or any other category of persons to the extent protected by applicable laws.

We are committed to establishing and maintaining a work environment in which all individuals are respected and treated with dignity. We have a zero tolerance for discrimination or harassment in the workplace or any other work-related environment which governs all terms, conditions and actions related to employment. We prohibit all harassment, including verbal, written, or electronic dissemination of materials which are offensive or disparaging of others on the basis of race, color, national origin, citizenship, religion, gender, sexual orientation, marital status, age, or any other category, whether the harassment is directed at a subordinate, co-worker, supervisor, customer, agent, guest, contractor or vendor. We recognize that discrimination can be indirect or unintentional and therefore strive to create awareness and educate our people in order to develop and maintain a truly inclusive and high performing culture.

We respect labor rights as described in the fundamental conventions of the International Labor Organization, including freedom of association and collective bargaining as well as freedom from forced and compulsory labor, child labor and discrimination in respect of employment and occupation. We are committed to respecting and protecting labor rights, both in our internal business as well as those of our business partners, suppliers, customers and others who are directly affected by our activities. We are committed to important issues such as non-discrimination, the right to privacy, employment contracts, protection against harassment and management-employee collaboration. We engage with the relevant employee representative groups, which operate in certain jurisdictions, and encourage active ongoing dialogue to ensure alignment of our collective interests. We are committed to respecting fundamental human rights as described in the UN Guiding Principles on Business and Human Rights, both in our own internal business and in our relations with business partners, suppliers, customers and others who are directly affected by our activities.

We encourage open dialog between employees and supervisors, however, the Company has established various channels through which employees or third-parties can raise concerns and report actual or suspected wrongdoings, including reports on discrimination, without any fear of retaliation. These include a toll-free multilingual telephone hotline reporting system called ‘‘Shelf Drilling EthicsPoint Helpline’’ which enables filing confidential reporting of complaints, concerns and incidents either through the telephone (toll-free) or through a web-based form. The helpline is operated 24/7 by an independent third-party provider to help maintain confidentiality and, when requested, anonymity.

Training and Development

For all Company employees, we provide applicable training related to key Company policies and procedures covering topics such as our code of business conduct, ethics, anti-corruption, and conflicts of interest.

For offshore employees, we provide access to a comprehensive training and development program that enables employees to progress from entry level positions through to the most-senior level on the rig. Employees acquire skills, knowledge and experience following a highly structured training matrix that specifies the set of training required for each role and responsibility. This is channeled into four main categories: on the job training, competency assessments, shore-based professional courses and regulatory and marine licensing training courses. Employee progress toward the next level and compliance with defined training targets are tracked through our online reporting system. Specific programs, such as the Offshore Development Program, aim to fast-track the promotion of high potential offshore candidates. Regular reviews are held between the field and corporate management teams on an ad-hoc basis and as part of a structured Annual Succession Planning process to ensure progress towards achieving the designated nationalization objectives as well as the development of adequate bench strength for key positions.

For shore-based and corporate employees, development plans are specific to the individual, their current role and potential future opportunities.

Risk management and insurance

Our operations are subject to hazards inherent in the drilling, completion and maintenance of shallow water oil and natural gas wells. These hazards include, but are not limited to, blowouts, punch through, loss of control of the well, abnormal drilling conditions, mechanical or technological failures, seabed cratering, fires and pollution. These conditions can cause personal injury or loss of life, loss of revenues, pollution, damage to or destruction of the environment, property and equipment, the suspension of operations and could result in claims or investigations by regulatory bodies, customers, employees and others affected by such events. In addition, claims for loss of oil production and damage to formations can occur in the shallow water drilling industry. If a serious accident were to occur at a location where our equipment and services are being used, it could result in us being named as a defendant in lawsuits asserting large claims and incurring costs and losses associated with such claims.

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

We maintain insurance coverage which we believe is customary in the industry, including general business liability, hull and machinery, cargo, casualty and third-party liability insurance. Our insurance policies typically consist of twelve-month policy periods, and the next renewal date for a substantial portion of our insurance program is scheduled for November 2021. Our insurance policies may not be adequate to cover all losses and have deductibles, limits of liabilities and exclusions of coverage for certain losses. Further, some pollution and environmental risks are generally not completely insurable. In addition, we may not be able to maintain adequate insurance or obtain insurance coverage for certain risks in the future at rates we consider reasonable and commercially justifiable or on terms as favorable as our current arrangements. Our drilling rig fleet is insured for its estimated fair market value and we periodically evaluate risk exposures, insurance limits and self-insured retentions. As of December 31, 2020, the insured value of our drilling rig fleet, including rigs acquired through the end of 2020, was $1.4 billion.

The above description of our insurance program and the indemnification provisions of our drilling contracts discussed in ''—Customers and Customer Contracts'' above are a general summary as of the time of preparation of this offering memorandum, and as such do not contain all information required to fully understand our indemnity and insurance risks. Our insurance policies and contractual rights of indemnification may not adequately cover our losses and liabilities. For additional information, see ''Risk Factors''.

Health, safety and environmental regulations

We place a high priority on managing the risks inherent in the offshore drilling industry and are committed to compliance with the highest national and international HSE standards. We utilize an integrated management system covering the quality, health, safety and environmental principles and objectives of our business, which is implemented throughout all offshore and onshore operations. This management system aims to provide innovative and sustainable solutions to monitor our HSE performance and continuously improve the necessary safeguards to protect our employees, service providers, customers and assets and to minimize our impact on the environment. The Company's total absences due to sickness were minimal during the years ended December 31, 2020 and 2019.

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

We have implemented comprehensive HSE processes, including a Corporate Operational Support Plan, Emergency Response Plans, Medical Evacuation Response Plans and a major emergency management and safety leadership training program (based on a focused training matrix). We believe we have put in place HSE policies, processes and systems which are in line with industry best practices.

In 2020, as a result of COVID-19, we implemented additional actions to help protect our employees. These included remote working programs as well as social distancing policies at our headquarters and certain shore-based offices. Additional quarantine and testing procedures have been implemented for rig-based personnel, as well as limits on non-essential travel to the rigs. These procedures include those required to comply with local laws and regulations and customer requirements and may change over time as the situation and recommendations of the global heath community continue to evolve. We track health, safety and environment performance on a monthly basis by way of a monthly HSE report, tracking, trending and investigations which are stored in our ''HSE dashboard'' our custom designed safety database. SDL, on behalf of all subsidiaries, is a member of the IADC and participates in its Incident Statistics Program.

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

The following is a summary of certain applicable international conventions and other laws, which serve as examples of the various laws and regulations to which we are subject. We believe that all our rigs are compliant in all material respects with all HSE regulations to which they are subject. For a discussion on the possible effects of environmental regulation on our business, see ''Risk Factors''.

Greenhouse gas regulation

There is increasing attention worldwide concerning the issue of climate change and the effect of greenhouse gas emissions. The 1992 treaty of the United Nations Framework Convention on Climate Change (''UNFCCC'') provides a foundation for the global efforts to combat climate change. In 2005, the Kyoto Protocol to the 1992 UNFCCC became the first binding treaty under international law to reduce greenhouse gas emissions. In 2015, the conference of the UNFCCC in Paris resulted in the creation of the Paris Agreement. The Paris Agreement, which entered into force on November 4, 2016, requires countries to set ''nationally determined contributions'' toward emissions reductions and includes a ''global stocktake'' or evaluation of collective progress made toward share climate goals. The setting of nationally determined contributions and the global stocktake of progress occur every five years beginning in 2020 and 2023, respectively. Subsequent meetings of the UNFCCC have sought to develop specific guidance related to implementation of the Paris Agreement, including the use of carbon trading markets for which rules have not yet been finalized. The next such meeting is scheduled for November 2021.

While it is not possible at this time to predict how the Paris Agreement and other new treaties and legislation that may be enacted to address greenhouse gas emissions would impact our business, the modification of existing laws or regulations or the adoption of new laws or regulations curtailing exploratory or developmental drilling for oil and gas could materially adversely affect our operations by limiting drilling opportunities or imposing materially increased costs. Moreover, incentives to conserve energy or use alternative energy sources could have a negative impact on our business if such incentives reduce the worldwide demand for oil and gas or redirects resources to renewable energy alternatives.

United Nations' International Maritime Organization ("IMO") regulatory regime

The international conventions, laws and regulations of the IMO govern shipping and international maritime trade. IMO regulations have been widely adopted by United Nations member countries, and in some jurisdictions in which we operate, these regulations have been expanded upon. International conventions, laws and regulations applicable to our operations include the MARPOL, the CLC, and the BUNKER that impose compliance obligations and liability related to the use, storage, treatment, disposal and release of petroleum products and hazardous substances. These laws govern the discharge of materials into the environment or otherwise relate to environmental protection, and in certain circumstances, may impose strict liability, rendering us liable for environmental and natural resource damages without regard to negligence or fault.

MARPOL regulates harmful air emissions from ships and is also applicable to shallow water drilling rigs. Recent amendments to MARPOL require a progressive reduction of sulfur oxide levels in heavy bunker fuels and create more stringent nitrogen oxide emissions standards for marine engines in the future. Our drilling rigs are also subject to BUNKER, which holds us strictly liable for pollution damage caused by discharges of bunker fuel in jurisdictional waters of ratifying states.

The IMO's Ballast Water Management Convention (the ''BWM Convention''), may also impose obligations on our operations. The BWM Convention's implementing regulations call for a phased introduction of mandatory ballast water exchange requirements beginning in 2009, to be replaced in time with a requirement for mandatory ballast water treatment. The BWM Convention entered into force on September 8, 2017, at which time all vessels in international traffic were to comply with the ballast water exchange standard. Thereafter, vessels will be required to meet the more stringent ballast water performance standard no later than the first intermediate or renewal survey following the BWM Convention's entry into force. The IMO continues to review and introduce new regulations. It is impossible to predict what additional regulations, if any, may be passed by the IMO and what effect, if any, such regulation may have on our operations.

National and local health, safety and environmental regulation

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

Other regulations

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

Maintenance and certifications

Our organizational objective is to maintain our assets to provide optimal operating performance while minimizing out of service time and total capital expenditures. Each of our rigs is subject to the maintenance and inspection regime governed by the IMO's Code for the Construction and Equipment of Mobile Offshore Drilling Units. Our rigs are subject to periodic testing with a major inspection every five years under the SPS requirements. This inspection typically takes six to twelve weeks and is often scheduled between customer contracts to minimize downtime. Our fleet is also subject to UWILD, intermediate surveys and annual inspections between each SPS. The marine equipment of our fleet is certified according to international safety standards under the International Safety Management Code and is certified by the American Bureau of Shipping classification society, enabling universal recognition of our equipment as being qualified for international operations, however, our equipment maintenance standards are governed by the guidelines, recommendations and standards provided by the American Petroleum Institute.

Properties

Our properties consist primarily of our mobile fleet of jack-up drilling rigs and related equipment that is located and operates across four core operating regions: MENAM, India, West Africa and Southeast Asia. We also own or lease office space for our corporate headquarters in Dubai, UAE and shore-based facilities in UAE, Saudi Arabia, Bahrain, Oman, Egypt, Tunisia, Italy, Hungary, Indonesia, Malaysia, Vietnam, Singapore, Thailand, Mauritius, India and Nigeria to support rig operations.

Legal proceedings

We are involved in various claims and lawsuits in the normal course of business. We do not believe that the resolution of these legal proceedings will have a material adverse impact on its financial condition, results of operations, or cash flows.

MANAGEMENT

The following table sets forth information concerning our executive officers and directors, including their ages, as of December 31, 2020:

Name	Age	Position
Ernie Danner	66	Chairman of the Board
David Mullen	62	Director and Chief Executive Officer
John K. Castle	80	Director
Yongjian Cong	44	Director
J. William Franklin, Jr.	49	Director
Dongyang Lou	44	Director
David B. Pittaway	69	Director
John Reynolds	50	Director
Benjamin Sebel	50	Director
Usama Trabulsi	75	Director
David Williams	67	Director
William Hoffman	60	Executive Vice President and Chief Operating Officer
Gregory O'Brien	34	Executive Vice President and Chief Financial Officer
Ian Clark	61	Executive Vice President

Directors

Ernie Danner, Chairman of the Board

Mr. Danner joined our board of directors in October 2013 and has served as Chairman of the Board since November 2018. Since January 2018 Mr. Danner has served as an Operating Partner of SCF Partners, a private equity firm focused on oil service investments, which he joined in October 2012. Currently Mr. Danner serves as Chairman of the board of directors of Nine Energy Service, Inc., a NYSE listed company providing completion services to oil and gas producers in North America, and Chairman of the board of directors of BCCK Engineering, Inc, a private company that designs, fabricates and installs natural gas processing plants in North America. Mr. Danner also serves as Chairman of the board of directors of Pipeline Plastics LLC, a manufacturer of HDPE pipe. Mr. Danner served as President and Chief Executive Officer of Exterran Holdings Inc. from July 2009 to October 2011 and as a member of its board of directors from 1998 to October 2011. He also served as President, Chief Executive Officer and a director of Exterran GP LLC the general partner of Exterran Partners L.P. Exterran was a global leader in natural gas compression products and services and a provider of equipment and solutions for processing, production, air emissions and water treatment to the energy sector with over 10,000 employees with operations in 30 countries. Mr. Danner has a Masters of Accounting and Bachelor of the Arts degree from Rice University.

David Mullen, Director and Chief Executive Officer

Mr. Mullen has over 35 years' experience in the oil services business and has been our Chief Executive Officer since October 2012. Since April 2018, Mr. Mullen has served as an Independent Director of Subsea 7 S.A. From September 2010 to April 2011, Mr. Mullen was CEO of Wellstream Holdings PLC, a UK listed company that designed and manufactured subsea pipeline products and included as part of the product offering, subsea services and installation. From April 2008 to August 2010, Mr. Mullen served as Chief Executive Officer of Ocean Rig ASA, a Norwegian listed ultra-deepwater drilling contractor. Prior to Ocean Rig ASA, Mr. Mullen also spent four years as a senior leader of Transocean Ltd. As Senior Vice President of Global Marketing, Business Development and M&A at Transocean Ltd., Mr. Mullen spearheaded marketing and strategic planning. Mr. Mullen had a 23-year career at Schlumberger, including as President of Oilfield Services for North and South America. Mr. Mullen received a B.A. in Geology & Physics from Trinity College Dublin and an M.Sc. degree in Geophysics from University College Galway.

John K. Castle, Director

Mr. Castle joined our board of directors in November 2012 and has served as Chairman of the Nomination Committee since February 2019. Since 1987, Mr. Castle has served as Chairman and Chief Executive Officer of Castle Harlan, Inc. Mr. Castle served as chairman of Castle Connolly Medical Ltd. from 1991 until its sale in December 2018, and has served as Chairman and Chief Executive Officer of Branford Castle, Inc., a holding company, since 1986. Prior to forming Castle Harlan, Inc., Mr. Castle was President and Chief Executive of investment banking firm Donaldson, Lufkin & Jenrette, Inc. Mr. Castle is a board member of various private equity companies, and he has previously been a director of numerous private and public companies. He also served as a Director of the Equitable Life Assurance Society of the U.S. Mr. Castle is a Life Member of the Corporation of the Massachusetts Institute of Technology. Previously, he had served for 22 years as a Trustee of New York Medical College, including 11 of those years as Chairman of the board. Mr. Castle is a Trustee and Chairman of the Executive Committee of the St. Patrick's Cathedral in New York City and is a member of the Finance Council and various other entities associated with the Archdiocese of New York. From 2000 until March 2018, Mr. Castle was a Director of Castle Harlan Australian Mezzanine Partners Pty Ltd and a Director of CHAMP Group Holdings Pty Ltd, both part of the CHAMP Private Equity Group (now named CPE Capital). He has served on various visiting committees at Harvard University, including the Harvard Business School. Mr. Castle received his Bachelor's degree from the Massachusetts Institute of Technology, his M.B.A. as a Baker Scholar with High Distinction from Harvard University, and has four Honorary Doctorate Degrees of Humane Letters.

Yongjian Cong, Director

Mr. Cong joined our board of directors in August 2020. He is an attorney admitted to the bars of People's Republic of China and New York State of the United States of America. Mr. Cong has over 15 years of experience in alternative investments and legal practice, including cross-border acquisitions, private equity investments, mezzanine financing, debt restructuring, asset restructuring and other special situations investments. Mr. Cong has been the person in charge of China Merchants Capital Marine Industry Fund since 2013. From 2011 to 2013, he was one of the founding members of China Development Bank International Holdings Ltd (''CDBI''), where he served on the Investment Committee and was in charge of fund and legal departments. At CDBI, Mr. Cong led the equity investment amounting to US$200 million in Alibaba Group as well as many privatization transactions of Chinese companies listed overseas. In addition, as the person in charge of the fund department of CDBI, he directly led the establishing of over US$5 billion of USD- and RMB-denominated funds. From 2005 to 2010, he worked in alternative investments at J.P. Morgan, Standard Chartered, and other global financial institutions, and was mainly engaged in private equity investments, real estate investments, mezzanine financing, acquisition and disposal of non-performing assets, and other special situations investments. His projects spanned across major cities in Asia, and was the person in charge of stripping, restructuring and acquisition of distressed assets of financial institutions in China and Malaysia. Mr. Cong was an independent non-executive director of Sunway International Holdings Limited (00058.HK) from August 2015 to June 2019. Mr. Cong obtained a Master of Laws from both University of International Business and Economics in the PRC and Cornell University in the USA.

J. William Franklin, Jr., Director

Mr. Franklin joined our board of directors in September 2012 and has served as Chairman of the Compensation Committee since May 2020. He joined Lime Rock Partners in 2003 and was named a Managing Director in 2008. Currently based in Houston, Mr. Franklin has worked in the firm's Houston, Calgary, and Westport, Connecticut locations and has played a leadership role in the firm's investment efforts in the oilfield service and exploration and production sectors in North America and internationally. Before joining Lime Rock Partners, he had experience in private equity, energy company operations, and energy finance at Riverstone Holdings from 2000 to 2003, Simmons & Company International from 1996 to 1998, and Parker & Parsley Petroleum Company from 1995 to 1996. Mr. Franklin currently serves on the board of directors of AccessESP, Arsenal Resources, KSW Environmental and OilSERV. He previously served on a number of the boards of private equity backed oil and gas related companies. He is a graduate of the University of Texas at Austin (B.A., B.B.A.) and Harvard Business School (M.B.A.).

Dongyang Lou, Director

Mr. Lou joined our board of directors in August 2020 and is currently Chairman and Non-executive Director of CMIC Ocean En-Tech Holding Co., Ltd. since April 2018. He is also the Chief Financial Officer of China Merchants (''CM'') Industry Holdings Co., Ltd. Mr. Lou served as an engineer in the Chemical Engineering Office of the Institute of Standardization of Nuclear Industry and as secretary-general for the National Technical Committee for Standardization of Radioisotopes from July 1997 to October 2001, as an engineer in the Planning Department in China Isotope Company from October 2001 to August 2003, as a specialist of the board of supervisors for Key Large State-Owned Enterprises under the State Council from August 2003 to August 2004, as deputy head of the board of supervisors for Key Large State-Owned Enterprises under the State Council from September 2008 to September 2012, as an assistant to the department director of the intellectual property administrative department of China Merchants Group Limited (''CM Group'') from September 2012 to May 2015, as an assistant to the department director of the finance department (intellectual property department) of CM Group from May 2015 to October 2015, and as a deputy department director of the finance department (intellectual property department) of CM Group from October 2015 to November 2017. Mr. Lou obtained a bachelor's degree in applied chemistry from Peking University in 1997 and a master's degree in business administration also from Peking University in 2002.

David B. Pittaway, Director

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

John Reynolds, Director

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

Benjamin Sebel, Director

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

Usama Trabulsi, Director

Mr. Trabulsi joined our board of directors in August 2017 and is a Managing Member of Integrated Renewable Energy Systems Ltd., a Saudi Arabia registered privately held limited liability company. Previously, he was the Chief Financial Controller (Deputy Minister Portfolio) of the Ministry of Petroleum and Mineral Resources, Riyadh, Saudi Arabia for over 14 years and the representative of the Minister of Petroleum and Mineral Resources to the Executive

Committee, Auditing Committee and Compensation Committee of Saudi Aramco for over 13 years. Mr. Trabulsi has served on the board of directors of Arabian Oil Company from 1996 to 2003 and Arabian Oil Holdings, Inc. Japan from 2003 to 2007, in each case as the representative of the Saudi Government. In addition, Mr. Trabulsi served as the Chairman of the board of directors of "PEMREF" Petromin-Mobil Oil Refinery Company Ltd., a joint venture company between Petromin (the State-owned National Oil Company) and Mobil Oil Company from 1990 to 1993. Meanwhile, Mr. Trabulsi served as Executive Vice President for Operation and Marketing of SUMED Oil Pipelines Co., a joint venture company between Egypt, Saudi Arabia, Kuwait, UAE and Qatar. He received his B.A. in Economics and Political Science from the King Saud University in 1965 and received his M.B.A. from Michigan State University in 1970.

David Williams, Director

Mr. Williams joined our board of directors in August 2017 and has served as Chairman of the Audit Committee since November 2018. He has served as the Chairman of PTL UK Topco Ltd since May 2019 and Tharsus Ltd of Newcastle upon Tyne since 2012. Previously, Mr. Williams was the Chairman of Shepherd Group Ltd of York from 2014 until April 2020, the Chairman of Ramco Ltd from March 2013 until January 2019, the Chairman of Frog Capital (previously known as Foursome Investments) for 13 years and the Interim Chief Executive Officer of Logstor Holdings A/S of Logstor, Denmark for two years. Prior to this, Mr. Williams was the Chairman, then Chief Executive, of Serimax Holdings SAS of Paris from June 2004 to June 2006 and June 2006 to October 2011, respectively. He also held several positions at 3i plc from 1985 to 2003, including regional managing director. Mr. Williams received a BSc (Hons) in Naval Architecture and Shipbuilding from the University of Newcastle upon Tyne in 1975, has a Certified Diploma in Accountancy and Finance and received an MSc from London Business School in 1985.

Executive officers

David Mullen, Director and Chief Executive Officer

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

William ("Kurt") Hoffman, Executive Vice President and Chief Operating Officer

Mr. Hoffman has worked on rigs around the world and has over 40 years' experience in the global oil and gas drilling industry. He joined Shelf Drilling in October 2012. From August 2009 to April 2011, Mr. Hoffman was Senior Vice President and Chief Operating Officer of Seahawk Drilling, a Houston and Gulf of Mexico-based jack-up drilling provider where he was responsible for the company's daily operations and strategic business plan implementation. From 1991 through August 2009, Mr. Hoffman spent 18 years with Noble Corporation where he held senior operational and executive roles, including Vice President of Worldwide Marketing, Vice President of Western Hemisphere Operations and President of Noble's engineering services division, Triton Engineering Services. Mr. Hoffman received a B.S. degree from Southwest Texas State University.

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

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

Ian Clark, Executive Vice President

Mr. Clark has over 40 years' experience in the oil services business. Prior to joining Shelf Drilling in November 2012, Mr. Clark spent 12 years with Transocean Ltd. where he most recently served as Vice President of Human Resources and as part of its senior management team. Previous roles included Division Manager for Transocean Ltd.'s operations in Northeast Asia and also Managing Director for Nigeria. Before joining Transocean Ltd., Mr. Clark had a 20-year career with Schlumberger in various managerial, technical and marketing roles across Europe and Africa. Mr. Clark has a B.S. degree in Electrical and Electronic Engineering from Heriot-Watt University in Edinburgh, Scotland and completed both the Advanced Management Program at Harvard Business School and the Financial Times Non-Executive Director Diploma.

CERTAIN RELATIONSHIPS AND RELATED PARTY TRANSACTIONS

Sponsors, VIEs and China Merchants

The Company's related parties include those entities that meet the criteria for variable interest entities ("VIEs") for which the Company is deemed to be the primary beneficiary, the Sponsors and China Merchants. In May 2019, China Merchants became the largest shareholder of, and a related party to, the Company as part of an equity offering used to finance two premium jack-up rigs at significantly lower prices than the historic cost of construction for comparable newbuild rigs.

A related party provided rig related services to one of the Company's foreign subsidiaries. These services totaled $1.3 million and $0.8 million, during the years ended December 31, 2020 and 2019, respectively. The total liability recorded under accounts payable was $0.3 million and $0.3 million as of December 31, 2020 and 2019, respectively.

We incurred costs of $0.8 million during 2020 and $1.8 million during 2019 related to the Sponsors, which included directors' fees and reimbursement of costs incurred by Sponsors, by a former sponsor through the first quarter of 2020 and by directors for attendance at meetings relating to the management and governance of the Company. See Note 24—"Related Parties" to our consolidated financial statements for the year ended December 31, 2020.

A VIE related party provided goods and services to drilling rigs owned by one of the Company's foreign subsidiaries. These goods and services totaled $2.2 million, $2.5 million and $2.5 million during the years ended December 31, 2020, 2019 and 2018, respectively. The total liability recorded under accounts payable for such transactions was $0.3 million and $0.7 million as of December 31, 2020 and 2019, respectively.

Lease with a related party

The Company entered into an operating lease agreement for yard space with a VIE related party with cancellable terms. The duration of this lease is five years. The lease does not include an extension or renewal option, but a termination option is available to either party. The lease payments are fixed for the duration of the lease. This lease agreement does not contain any material residual value guarantees or material restrictive covenants. The right-of-use asset was $2.8 million and $5.1 million as of December 31, 2020 and 2019, respectively. The corresponding operating lease liability was $5.0 million (current: $1.6 million; long-term: $3.4 million) as of December 31, 2020 and $5.7 million (current: $1.5 million; long-term: $4.2 million) as of December 31, 2019. The Company has recorded total expense for this related party lease of $1.3 million, $1.6 million and $1.6 million for the years ended December 31, 2020, 2019 and 2018, respectively. See also Note 9—"Loss on Impairment of Assets" to our consolidated financial statements for the year ended December 31, 2020.

DESCRIPTION OF OTHER INDEBTEDNESS

As of December 31, 2020, we had a total principal amount of indebtedness of $900.0 million of 8.25% Senior Unsecured Notes, $80.0 million of 8.75% Senior Secured Notes, $55.0 million of outstanding borrowings under our revolver and $23.6 million of surety bonds and guarantees issued, resulting in availability of $146.4 million. Our indebtedness as of December 31, 2020 as adjusted for the offering of the notes and the use of proceeds therefrom was a total principal amount of $1.21 billion, consisting of $900.0 million of 8.25% Senior Unsecured Notes and $310 million of the notes.

Certain of such indebtedness impose significant operating and/or financial restrictions on us. See "Risk factors—Risks related to the notes and this offering—Our existing indebtedness imposes significant operating and/or financial restrictions on us that may prevent us from pursuing business opportunities and restrict our ability to operate our business" for additional information.

See Note 11—"Debt" to our consolidated financial statements for the year ended December 31, 2020 for additional information.

Our revolver

On February 24, 2014, the Issuer entered into a Credit Agreement for a $150.0 million revolving credit facility (as subsequently amended, our "revolver"). The revolver was made available for utilization on February 28, 2014. The facility amount was subsequently increased to $225.0 million through amendments. Our revolver can be drawn as, or a mixture of, cash, letters of credit or bank guarantees, subject to the satisfaction of customary conditions set forth in the underlying agreement. All of the outstanding borrowings under the revolver will be repaid, and all of the outstanding bank guarantees issued under the revolver will be cash collateralized, with the proceeds from this offering, and the revolver will be terminated. See "Use of Proceeds".

8.75% Senior Secured Notes, due November 2024

On February 20, 2020, SDHL completed the issuance through a private offering of $80.0 million aggregate principal amount of new 8.75% Senior Secured Notes, due November 15, 2024 (the "8.75% Senior Secured Notes") issued at par. SDHL received proceeds of $80.0 million, less $2.7 million of fees and expenses, which were recorded as debt issuance costs and are being amortized over the life of the debt. The Company used the proceeds to replenish its liquidity following the acquisition of the Shelf Drilling Enterprise in January 2020 and to finance the reactivation and upgrade costs associated with the deployment of the rig in advance of its contract commencement in early 2021 in the Gulf of Thailand. The 8.75% Senior Secured Notes will be redeemed, repurchased or otherwise satisfied and discharged with the proceeds from this offering. See "Use of Proceeds".

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 February 15, 2025 (together with the $300.0 million of additional notes issued on June 19, 2018 as described below, the "8.25% Senior Unsecured Notes") issued at par. SDHL received net proceeds of $589.3 million, after deduction of $10.7 million of fees and expenses which were recorded as debt issuance costs and are being 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, due November 1, 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 a $3.0 million premium. SDHL received net proceeds of $297.2 million, after the deduction of $5.8 million of fees and expenses which were recorded as debt issuance costs and are being amortized over the life of the debt. The Company used the net proceeds to repay the $25.4 million aggregate outstanding principal amount of a $75.0 million senior secured credit facility including the accrued interest, and the remaining proceeds were used to repurchase the Shelf Drilling Chaophraya rig and the Shelf Drilling Krathong rig and terminate a sale and leaseback financing of such rigs. Interest on the 8.25% Senior Unsecured Notes accrues at a rate of 8.25% per year and is payable semi-annually in arrears on February 15 and August 15 of each year. The effective interest rate on the 8.25% Senior Unsecured Notes is 8.54%.

See Note 11—"Debt" to our consolidated financial statements for the year ended December 31, 2020 for additional information.

DESCRIPTION OF NOTES

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

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

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

Brief Description of the Notes

The Notes

The Notes will:

- be senior secured obligations of the Issuer;
- rank equally in right of payment with all existing and future Senior Indebtedness of the Issuer;
- be secured on a first-priority basis by Liens on substantially all of the assets of the Issuer and the Guarantors (other than Excluded Assets), subject to Permitted Liens;
- be effectively senior to all Senior Unsecured Indebtedness of the Issuer, to the extent of the value of the Collateral (which may be shared with Additional First Lien Claims);
- be effectively senior to all Second Lien Obligations of the Issuer, to the extent of the value of the Collateral (which may be shared with Additional First Lien Claims);
- be effectively *pari passu* in right of payment with any Additional First Lien Claims of the Issuer, to the extent of the value of the Collateral;
- be Guaranteed on a senior secured basis by each Guarantor and Guaranteed on a senior unsecured basis by the Parent;
- be structurally subordinated to all existing and future Indebtedness, claims of holders of Preferred Stock and other liabilities of Subsidiaries of the Issuer that do not Guarantee the Notes, if any; and
- rank senior in right of payment to all Subordinated Obligations of the Issuer, if any.

The Guarantees

The Notes will be fully and unconditionally, jointly and severally, guaranteed by all of the Guarantors. On the Issue Date, all of the Issuer's Subsidiaries that Guarantee the Existing Notes will Guarantee the Notes, (including Shelf Drilling RigCo II, Ltd., a Subsidiary that is not currently a guarantor of the Existing Notes, that recently sold the Shelf Drilling Journey Rig and that currently holds the net sale proceeds therefrom) except for the Issuer's Subsidiaries organized in Egypt (the ''*Egyptian Subsidiaries*'') if required governmental consents or approvals have not been obtained by the Issue Date; provided, that the Egyptian Subsidiaries shall use commercially reasonable efforts to obtain all such required consents and approvals. In the future, certain other Restricted Subsidiaries may Guarantee payment on the Notes in accordance with the requirements described under the caption ''—Certain Covenants—Future Guarantors.'' Our non-Guarantor Subsidiaries as of the Issue Date will be the Egyptian Subsidiaries, Shelf Drilling Offshore Services (India) Private Limited, which is an Excluded Subsidiary incorporated in India, and certain Immaterial Subsidiaries and dormant Unrestricted Subsidiaries. For the year ended December 31, 2020, our non-Guarantor Subsidiaries (excluding the Egyptian Subsidiaries) accounted for none of our EBITDA. As of December 31, 2020, such non-Guarantor Subsidiaries held approximately 1% of our consolidated assets.

The Parent will enter into a guarantee agreement at the closing of the offering of the Notes under which it will provide an unconditional unsecured Guarantee of the Notes.

The Parent's guarantee will:

- be a senior unsecured obligation of the Parent;
- rank equally in right of payment with all existing and future Senior Indebtedness of the Parent;
- be effectively subordinated to any secured Indebtedness of the Parent, to the extent of the value of the collateral securing such Indebtedness; and
- rank senior in right of payment to all future Subordinated Obligations of the Parent, if any.

Each Note Guarantee will:

- be a senior secured obligation of such Guarantor;
- rank equally in right of payment with all existing and future Senior Indebtedness of such Guarantor;
- be secured on a first-priority basis by Liens on substantially all of such Guarantor's assets (other than Excluded Assets), subject to Permitted Liens;
- be effectively senior to all Senior Unsecured Indebtedness of such Guarantor to the extent of the value of the Collateral (which may be shared with Additional First Lien Claims);
- be effectively senior to any of such Guarantor's obligations under Second Lien Obligations, to the extent of the value of the Collateral (which may be shared with Additional First Lien Claims);
- be effectively *pari passu* with any Additional First Lien Claims of the Guarantor, to the extent of the value of the Collateral;
- be structurally subordinated to all existing and future Indebtedness, claims of holders of Preferred Stock and other liabilities of Subsidiaries of such Guarantor that do not Guarantee the Notes, if any; and
- rank senior in right of payment to all Subordinated Obligations of such Guarantor, if any.

Principal, Maturity and Interest

The Issuer will issue the Notes initially with a maximum aggregate principal amount of $310 million. The Issuer will issue the Notes in minimum denominations of $2,000 and integral multiples of $1,000 in excess thereof. The Notes will mature on November 15, 2024 (the "*Maturity Date*"). Subject to our compliance with the covenants described under the subheadings "—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock" and "—Certain Covenants—Limitation on Liens," we are permitted, without the consent of the Noteholders, to issue additional Notes from time to time (the "*Additional Notes*"). The Notes and the Additional Notes, if any, will be treated as a single class for all purposes of the Indenture, including waivers, amendments, redemptions and offers to purchase. Because, however, any Additional Notes may not be fungible with the Notes for United States federal income tax purposes, they may have a different CUSIP number or numbers, be represented by a different Global Note (as defined in "Book entry, delivery and form") or Notes and otherwise be treated as a separate class or classes of Notes for other purposes. The Additional Notes will constitute First Lien Claims, and as such Holders of Additional Notes actually issued will share equally and ratably in the Collateral with the Notes. As a result, the issuance of Additional Notes will have a dilutive effect on the security interests in the Collateral for the benefit of the then-outstanding Notes. Unless the context otherwise requires, for all purposes of the Indenture and this "Description of Notes," references to the Notes include any Additional Notes actually issued.

If required, the Notes will bear an original issue discount legend as required under Treasury regulations section 1.1275-3.

Interest on the Notes will accrue at the rate of 8.875% per annum and will be payable in cash semiannually in arrears on May 15 and November 15, commencing on November 15, 2021. The Issuer will make each interest payment to the Noteholders of record on the immediately preceding May 1 and November 1.

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

Additional Amounts

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

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

(2) any Taxes that are imposed or withheld as a result of the failure of the Holder or beneficial owner of the Notes to comply with any written request, made to that Holder or beneficial owner of the Notes in writing at least 90 days before any such withholding or deduction would be payable, by the Issuer to provide timely or accurate information concerning the nationality, residence or identity of such Holder or beneficial owner of the Notes or to make any valid or timely declaration or similar claim or satisfy any certification, information or other reporting requirement, (A) which is required or imposed by a statute, treaty, regulation or administrative practice of the relevant Tax Jurisdiction as a precondition to exemption from all or part of such Taxes and (B) with respect to which such Holder or beneficial owner is legally entitled to comply;

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

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

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

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

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

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

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

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

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

Redemption for Change in Taxes

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

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

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

The Issuer will not give any such notice of redemption earlier than 90 days prior to the earliest date on which the Issuer or the applicable Guarantor, as the case may be, would be obligated to make such payment or withholding if a payment in respect of the Notes or its Note Guarantee, as the case may be, were then due. Prior to giving any notice of redemption of the Notes pursuant to the foregoing, the Issuer will deliver to the Trustee an Officer's

Certificate and the opinion of an internationally recognized law firm experienced in such matters, who is reasonably acceptable to the Trustee, to the effect that there has been such change or amendment which would entitle the Issuer to redeem such Notes hereunder and an Officer's Certificate to the effect that the Issuer cannot avoid any obligation to pay Additional Amounts by taking reasonable measures available. The Trustee will accept such Officer's Certificate and opinion as sufficient evidence of the existence and satisfaction of the conditions precedent as described above, in which event it will be conclusive and binding on the Holders of the Notes.

Optional Redemption

Except as set forth below and as set forth under the caption ''—Redemption for Change in Taxes,'' we will not be entitled to redeem the Notes at our option prior to March 15, 2022.

On and after March 15, 2022, we will be entitled at our option to redeem all or a portion of the Notes upon not less than 30 nor more than 60 days' notice, at the redemption prices (expressed in percentages of principal amount) set forth below, plus accrued and unpaid interest to, but not including, the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date), if redeemed during the periods set forth below:

Period	Redemption Price
On and after March 15, 2022 and prior to March 15, 2023	106.656%
On and after March 15, 2023 and prior to September 15, 2023	103.328%
On and after September 15, 2023	100.00%

In addition, at any time prior to March 15 2022, we will be entitled at our option on one or more occasions to redeem Notes (which includes Additional Notes, if any) in an aggregate principal amount not to exceed 35% of the aggregate principal amount of the Notes (which includes Additional Notes, if any) issued under the Indenture at a redemption price (expressed as a percentage of principal amount) of 108.875%, plus accrued and unpaid interest to, but not including, the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date), in an amount not to exceed the Net Cash Proceeds from one or more Qualified Equity Offerings; *provided, however,* that

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

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

Prior to March 15, 2022, we will be entitled at our option to redeem all or any part of the Notes at a redemption price equal to 100% of the principal amount of the Notes plus the Applicable Premium as of, and accrued and unpaid interest to, but not including, the redemption date (subject to the right of Holders on the relevant record date to receive interest due on the relevant interest payment date). Notice of such redemption must be mailed or delivered not less than 30 nor more than 60 days prior to the redemption date.

"Applicable Premium" means, with respect to a Note at any date of redemption, the greater of (i) 1.0 % of the principal amount of such Note and (ii) the excess, if any, of (A) the present value at such date of redemption of (1) the redemption price of such Note at March 15, 2022 (such redemption price being described in the second paragraph of ''—Optional Redemption'') plus (2) all remaining required interest payments due on such Note through March 15, 2022 (excluding accrued but unpaid interest to, but not including, the date of redemption), computed using a discount rate equal to the Treasury Rate plus 50 basis points, over (B) the principal amount of such Note. The Issuer shall determine the Applicable Premium and redemption price, and the Trustee shall have no obligation to confirm or verify any such calculation.

"Treasury Rate" means, as of any redemption date, the yield to maturity as of such redemption date of United States Treasury securities with a constant maturity (as compiled and published in the most recent Federal Reserve Statistical Release H. 15 (519) which has become publicly available at least two Business Days prior to the redemption date (or, if such Statistical Release is no longer published, any publicly available source for similar market data)) most nearly equal to the period from the redemption date to March 15, 2022; *provided, however,* that if the period from the redemption date to March 15, 2022 is not equal to the constant maturity of a United States Treasury security for which a weekly average yield is given, the Treasury Rate will be obtained by linear interpolation (calculated to the nearest one-twelfth of a year) from the weekly average yields of United States Treasury securities for which such yields are given, except that if the period from the redemption date to March 15, 2022 is less than

one year, the weekly average yield on actually traded United States Treasury securities adjusted to a constant maturity of one year will be used. The Issuer shall obtain the foregoing Treasury Rate.

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

Selection and Notice of Redemption

If we are redeeming less than all the Notes at any time, the Trustee will select Notes by lot or such other methods in accordance with applicable procedures of The Depository Trust Company (''*DTC*'').

We will redeem Notes of $2,000 or less in whole and not in part. Notices of redemption will be mailed by first class mail or delivered by electronic transmission (for Notes held in book-entry form) at least 30 but not more than 60 days before the redemption date to each Holder of Notes to be redeemed at its registered address, except that redemption notices may be delivered more than 60 days prior to a redemption date if the notice is issued in connection with a defeasance of the Notes or a satisfaction and discharge of the Indenture. Any redemption may, at the Issuer's option, be subject to one or more conditions precedent, including but not limited to a Qualified Equity Offering or a Change of Control. In addition, if such redemption is subject to satisfaction of one or more conditions precedent, such notice shall describe each such condition and if applicable, shall state that, in the Issuer's discretion, the redemption date may be delayed until such time (but not more than 60 days after the date the notice of redemption was mailed or delivered, including by electronic transmission) as any or all such conditions shall be satisfied, or such redemption may not occur and such notice may be rescinded in the event that any or all such conditions shall not have been satisfied by the redemption date, or by the redemption date as so delayed, or such notice may be rescinded at any time in the Issuer's discretion if in the good faith judgment of the Issuer any or all of such conditions will not be satisfied.

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

Mandatory Redemption; Offers to Purchase; Open Market Purchases

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

Ranking

The Indenture Obligations will be senior secured obligations of the Issuer and will rank equally in right of payment with all existing and future Senior Indebtedness of the Issuer and have the benefit of a Lien on the Collateral that will be *pari passu* with any Lien thereon that secures any Additional First Lien Claims and will be contractually senior to any future Lien thereon that secures any Second Lien Obligations, in each case subject to Permitted Liens. The Indenture Obligations will be Guaranteed by the Guarantors and the Parent and will rank equally in right of payment with all existing and future Senior Indebtedness of such Guarantor or Parent, as applicable, and, other than with respect to the Guarantee of the Parent, will have the benefit of a Lien on the Collateral that will be *pari passu* with any Lien thereon that secures any Additional First Lien Claims and will be contractually senior to any future Lien thereon that secures any Second Lien Obligations, in each case subject to Permitted Liens.

As of December 31, 2020, after giving pro forma effect to the offering of the Notes and the use of proceeds described under ''Use of Proceeds'' in this offering memorandum, the Issuer and the Guarantors would have had a total principal amount of $1.21 billion of Senior Indebtedness outstanding comprised of $310 million of Senior Secured Indebtedness in respect of the Notes and $900 million of Senior Unsecured Indebtedness in respect of the Existing Notes.

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

The Indenture will not treat (1) unsecured Indebtedness as subordinated or junior to secured Indebtedness merely because it is unsecured, (2) Indebtedness as subordinated or junior to any other Indebtedness merely because it has a junior priority with respect to the same Collateral or (3) Indebtedness that is not guaranteed as subordinated or junior to Indebtedness that is guaranteed merely because of such guarantee.

Guarantees

Our Restricted Subsidiaries accounted for 100% of our consolidated assets as of December 31, 2020 and 100% of our consolidated revenues for the year ended December 31, 2020. Our non-Guarantor Subsidiaries as of the Issue Date will be the Egyptian Subsidiaries, Shelf Drilling Offshore Services (India) Private Limited, which is an Excluded Subsidiary incorporated in India, and certain Immaterial Subsidiaries and dormant Unrestricted Subsidiaries. For the year ended December 31, 2020, our non-Guarantor Subsidiaries (excluding the Egyptian Subsidiaries) accounted for none of our EBITDA. As of December 31, 2020, such non-Guarantor Subsidiaries held approximately 1% of our consolidated assets.

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

The Note Guarantees of the Guarantors will be secured by first-priority security interests in the Collateral owned by the Guarantors, subject to Permitted Liens.

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

The obligations of each Guarantor under its Note Guarantee will be limited as necessary to prevent the Note Guarantee from constituting a fraudulent conveyance under applicable law. This provision may not, however, be effective to protect a Note Guarantee from being voided under applicable fraudulent transfer law, or may reduce the applicable Guarantor's obligation to an amount that effectively makes its Note Guarantee worthless. If a Note Guarantee is rendered voidable, it could be subordinated by a court to all other indebtedness (including Guarantees and other contingent liabilities) of the Guarantor, and, depending on the amount of such indebtedness, a Guarantor's liability on its Note Guarantee could be reduced to zero. See ''Risk factors—Risks related to the notes and this offering—The notes or the note guarantees may be avoided, and the security interests that secured them may be terminated, under fraudulent conveyance or fraudulent transfer laws and, as a result, you may be required to return payments received by you in respect of the notes or the note guarantees.''

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

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

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

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

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

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

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

(3) if we exercise our legal defeasance option or our covenant defeasance option as described under ''—Defeasance''; (in the case of the First Lien Collateral Documents, to the extent the Termination Date (as defined in the Security Agreement) has occurred);

(4) if our obligations under the Indenture are satisfied and discharged in accordance with the terms of the Indenture (in the case of the First Lien Collateral Documents, to the extent the Termination Date (as defined in the Security Agreement) has occurred); or

(5) if such Guarantor is dissolved or liquidated in accordance with the Indenture.

In addition, the Parent will enter into a guarantee agreement at the closing of the offering of the Notes under which it will provide an unconditional unsecured Guarantee of payment of the Notes. Such unsecured Guarantee will only be released if our obligations under the Indenture are defeased or satisfied and discharged in accordance with the terms of the Indenture.

Security for the Notes

Pursuant to First Lien Collateral Documents to be entered into by the Issuer and the Guarantors in favor of the First Lien Collateral Agent for the benefit of the Notes Secured Parties, the Notes, the Note Guarantees and all other Indenture Obligations will be secured by a perfected, first-priority Lien on substantially all of the existing and future property and assets of the Issuer and the Guarantors, including the following:

(1) Rigs other than Excluded Rigs when title thereto becomes legally vested in the applicable Guarantor;

(2) the Capital Stock of the Guarantors; and

(3) substantially all other assets of the Issuer and the Guarantors, including equipment, inventory, accounts receivable (and supporting obligations related to the payment or performance thereof) and general intangibles;

but not including any Excluded Assets and subject to certain exceptions (including the Security Principles) set forth in the Indenture or the First Lien Collateral Documents and to Permitted Liens.

''*Excluded Assets*'' means:

(1) vehicles and other property covered by certificates of title or ownership to the extent that a security interest therein cannot be perfected solely by filing a UCC-1 (or similar) financing statement (it being understood and agreed that, in no event, shall any Rig be an Excluded Asset under this clause (1));

(2) any asset or property right of any nature if the grant of such security interest shall constitute or result in

(A) the abandonment, invalidation or unenforceability of such asset or property right or the loss of use of such asset or property right or (B) a breach, termination or default under any lease, license, contract or agreement, other than to the extent that any such term would be rendered ineffective pursuant to Section 9-406, 9-407, 9-408 or 9-409 of the Uniform Commercial Code (the "*UCC*") (or any successor provision or provisions) of any relevant jurisdiction or any other applicable law (including Insolvency Laws) or principles of equity, to which the Issuer or any Guarantor is party; provided, however, that such security interest shall attach immediately at such time as the condition causing such abandonment, invalidation or unenforceability shall be remedied and to the extent severable, shall attach immediately to any portion of such lease, license, contract, property rights or agreement that does not result in any of the consequences specified in clause (A) or (B) above;

(3) any property right of any nature to the extent that any applicable law or regulation prohibits the creation of a security interest thereon (other than to the extent that any such term would be rendered ineffective pursuant to Sections 9-406, 9-407, 9-408 or 9-409 of the UCC (or any successor provision or provisions) of any relevant jurisdiction or any other applicable law (including Insolvency Laws) or principles of equity) or requires a consent not obtained of any governmental authority pursuant to applicable law;

(4) any real property owned, leased or operated by the Issuer or any Guarantor, whether by lease, license or other means, together with, in each case, all easements, hereditaments and appurtenances relating thereto, and all improvements and appurtenant fixtures thereon; provided, however, that no such real property with a Fair Market Value in excess of $5,000,000 (and the related easements, hereditaments and appurtenances relating thereto, and all improvements and appurtenant fixtures thereon) shall constitute an Excluded Asset pursuant to this clause (4);

(5) (i) deposit and securities accounts the balance of which consists exclusively of (a) withheld income taxes and United States federal, state or local employment taxes in such amounts as are required to be paid to the Internal Revenue Service or state or local government agencies within the following two months with respect to employees of the Issuer or any Guarantor, and (b) amounts required to be paid over to an employee benefit plan pursuant to DOL Reg. Sec. 2510.3-102 on behalf of or for the benefit of employees of the Issuer or any Guarantor, (ii) all segregated deposit accounts constituting (and the balance of which consists solely of funds set aside in connection with) tax accounts and trust accounts, (iii) deposit and securities accounts the balance of which consists exclusively of cash and cash equivalents securing Indebtedness permitted to be Incurred pursuant to clause (b)(20) of the covenant below captioned "—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock," and (iv) deposit, securities and header accounts that comprise a notional cash pooling arrangements maintained in the ordinary course of business (*provided*, that in no event shall the aggregate average closing balance in all such accounts that comprise notional cash pooling arrangements exceed $50,000,000 for any 30 consecutive day period);

(6) any applications for trademarks or service marks filed in the United States Patent and Trademark Office (the "*PTO*") pursuant to 15 U.S.C. §1051(b) unless and until evidence of use of the mark in interstate commerce is submitted to the PTO pursuant to 15 U.S.C. §1051(c) or 15 U.S.C. §1051(d);

(7) any fixed asset acquired by any of the Issuer or a Guarantor with the proceeds of Indebtedness permitted by the "—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock" covenant that is subject to a Permitted Lien that secures such Indebtedness only to the extent and for so long as the terms of the agreement in which such Permitted Lien is granted validly prohibits the creation of a security interest in such asset (other than to the extent that any such term would be rendered ineffective pursuant to Section 9-406, 9-407, 9-408 or 9-409 of the UCC of any relevant jurisdiction or any other applicable law (including Insolvency Laws) or principles of equity); *provided* that no such Indebtedness shall be secured by any asset of the Issuer or any Restricted Subsidiary thereof other than such fixed asset that was so acquired with such proceeds;

(8) (i) any Capital Stock of any joint venture or Subsidiary of Issuer that is not a Wholly Owned Subsidiary only to the extent and for so long as the terms of the organizational documents pursuant to which such joint venture or Subsidiary is organized validly prohibits the creation of a security interest in such Capital Stock (other than to the extent that any such term would be rendered ineffective pursuant to Section 9-406, 9-407, 9-408 or 9-409 of the UCC of any relevant jurisdiction or any other applicable law (including Insolvency Laws) or principles of equity) and (ii) any Capital Stock in any Unrestricted Subsidiary;

(9) letter-of-credit rights (except to the extent constituting a supporting obligation for other Collateral as to which the perfection of security interests in such other Collateral and the supporting obligation is accomplished solely by the filing of a UCC-1 (or equivalent financing statement)) or commercial tort claims, in each case with a value of less than $1.0 million;

(10) each Excluded Rig (other than proceeds thereof) but only so long as such Rig constitutes an Excluded Rig; and

(11) those properties (other than proceeds and receivables thereof) to the extent that a security interest therein is prohibited by applicable law, contracts existing on the Issue Date (or renewals thereof on no more restrictive terms with respect to restrictions on Liens) and other contracts entered into after the Issue Date to the extent that the terms thereof prohibit the granting of a security interest therein in favor of the First Lien Collateral Agent and such contracts are permitted to contain such restrictions under provisions of the Indenture, in each case to the extent, and only so long as, such prohibition is not terminated or rendered unenforceable or otherwise deemed ineffective pursuant to Section 9-406, 9-407, 9-408 or 9-409 of the UCC of any relevant jurisdiction or any other applicable law (including Insolvency Laws) or principles or equity;

provided, that notwithstanding anything to the contrary contained above in this definition, (i) no asset described in clauses (1) through (11) above shall constitute an Excluded Asset if such asset constitutes part of the collateral securing any then-extant First Lien Claims, any then-extant Second Lien Obligations or, other than Excluded Assets pursuant to clause (2), (5)(iii), (5)(iv) (but solely through Permitted Liens described by clause (2), (12) or (24) of the definition thereof), (7), (8)(ii) or (11) above, any other outstanding Indebtedness for borrowed money of the Issuer or any Restricted Subsidiary owing to a Person other than the Issuer or a Guarantor, (ii) if and so long as any asset that was an Excluded Asset ceases to constitute an Excluded Asset pursuant to all of the above clauses (1) through (11), at such time such asset automatically shall become subject to the Lien granted to the First Lien Collateral Agent, (iii) any proceeds received by the Company or any Guarantor from the sale, transfer or other disposition of any Excluded Asset shall constitute Collateral unless such proceeds are themselves subject to the exclusions set forth in clauses (1) through (11) above, (iv) no Rig shall constitute an Excluded Asset, other than pursuant to clause (10) above, and (v) Capital Stock issued by a Restricted Subsidiary that owns a Rig shall not constitute an Excluded Asset.

"*Excluded Rigs*" means (i) each Immaterial Rig and (ii) subject to the immediately following sentence any Rig (together with any related machinery and equipment required to operate the Rig) that is, as certified in an Officer's Certificate delivered to the First Lien Collateral Agent (other than the Rig Baltic (registered as of the Issue Date in Vanuatu under Official Number 1410) for which such an Officer's Certificate shall be deemed delivered for the Drilling Contract Lien Restrictions in effect on the Issue Date) as being, subject to (A) Drilling Contract Lien Restrictions or (B) in the case of any Rig acquired from a Person other than the Issuer or any Restricted Subsidiary after the Issue Date, a bid or proposal by the seller, the Issuer or any Restricted Subsidiary as of the date such Rig is so acquired for a drilling contract that contains Drilling Contract Lien Restrictions. Notwithstanding anything to the contrary in the foregoing sentence, (1) to the extent that any Excluded Rig (other than the Immaterial Rigs) ceases to be subject to any Drilling Contract Lien Restrictions (or if an applicable bid or proposal in respect of any Excluded Rig referred to in clause (ii)(B) above is not accepted), such Excluded Rig shall automatically cease to be an Excluded Rig, unless an Officer determines such Excluded Rig is reasonably expected within 90 days following the date on which such Excluded Rig ceases to be subject to such Drilling Contract Lien Restrictions or the date on which such Rig is so acquired from such Person, respectively, to be subject, to any Drilling Contract Lien Restrictions; (2) to the extent any Immaterial Rig ceases to satisfy the definition of Immaterial Rig and does not constitute an Excluded Rig under clause (ii) of the immediately foregoing sentence, such Immaterial Rig shall automatically cease to be an Excluded Rig; (3) no Rig that would otherwise constitute an Excluded Rig under the first sentence of this definition shall constitute an Excluded Rig if such Rig constitutes part of the collateral securing any other then-extant First Lien Claims, any then-extant Second Lien Obligations or any other outstanding Indebtedness of the Issuer or any Restricted Subsidiary; (4) without duplication of any other clause in this sentence, the aggregate number of Rigs that may constitute Immaterial Rigs (other than Immaterial Rigs described by clause (i) of the definition thereof) shall not exceed four (4) at any time and the aggregate carrying value of Rigs that may constitute Immaterial Rigs (other than Immaterial Rigs described by clause (i) of the definition thereof) shall not exceed $30 million at any time; (5) without duplication of any other clause in this sentence, the aggregate number of Rigs that may constitute Excluded Rigs (other than Immaterial Rigs described by clause (i) of the definition thereof) shall not exceed eight (8) at any time, which shall be reduced by the number of Rigs (other than Excluded Rigs) that are not subject to a Collateral Rig

Mortgage within 90 days after being acquired by the Issuer or any Restricted Subsidiary; (6) without duplication of any other clause in this sentence, the aggregate number of Modern Rigs that may constitute Excluded Rigs shall not exceed three (3) at any time, which shall be reduced by the number of Modern Rigs (other than Excluded Rigs) that are not subject to a Collateral Rig Mortgage within 90 days after being acquired by the Issuer or any Restricted Subsidiary; and (7) Rigs that were Excluded Rigs but no longer constitute Excluded Rigs shall be subject to the requirements described under ''— After-Acquired Property'' as of the date any such Rig ceases to be an Excluded Rig.

The value of the Collateral at any time will depend on market and other economic conditions, including the availability of suitable buyers for the Collateral. By its nature, all or some of the Collateral will be illiquid and may have no readily ascertainable market value. There can be no assurance that the Collateral, if saleable, can be sold in a short period of time. In the event of a foreclosure, liquidation, bankruptcy or similar proceeding, no assurance can be given that the proceeds from any sale or liquidation of the Collateral will be sufficient to pay any of the Obligations under the Notes or any of the Guarantees thereof, in full or at all.

The right of the First Lien Collateral Agent to repossess and dispose or otherwise exercise remedies in respect of the Collateral upon the occurrence of an Event of Default is likely to be significantly impaired (or at a minimum delayed) by applicable bankruptcy law if a bankruptcy proceeding were to be commenced by or against the Issuer or any Guarantor prior to or possibly even after the First Lien Collateral Agent has repossessed and disposed of the Collateral or otherwise completed the exercise of its remedies with respect to the Collateral. Under the U.S. Bankruptcy Code, a secured creditor such as the First Lien Collateral Agent is prohibited from repossessing its security from a debtor in a bankruptcy case, or from disposing of security repossessed from such debtor, without prior bankruptcy court approval (which may not be given depending upon the circumstances). Moreover, the U.S. Bankruptcy Code permits the debtor to continue to retain and to use cash and other collateral, as well as the proceeds, products, rents or profits of the collateral, even though the debtor is in default under the applicable debt instruments; provided that, under the U.S. Bankruptcy Code, the secured creditor is given ''adequate protection.'' The meaning of the term ''adequate protection'' may vary according to circumstances, but it is intended in general to protect the value of the secured creditor's interest in the collateral securing the obligations owed to it and may include cash payments or the granting of additional or replacement security, if and at such times as the bankruptcy court in its discretion determines, for any diminution (as determined by the court) in the value of such collateral as a result of the stay of repossession or disposition or any use of the collateral by the debtor during the pendency of the bankruptcy case. A bankruptcy court may determine that a secured creditor may not require compensation for a diminution in the value of its collateral if the value of the collateral exceeds the amount of debt it secures. In view of the lack of a precise definition of the term ''adequate protection'' and the broad discretionary powers of a bankruptcy court, it is impossible to predict whether or when payments under the Notes or the Guarantees could be made following commencement of a bankruptcy case or the length of any delay in making any such payments, whether or when the First Lien Collateral Agent could repossess or dispose of the collateral or whether or to what extent Holders would be compensated for any delay in payment or loss of value of the Collateral through the requirement of ''adequate protection.''

Moreover, the First Lien Collateral Agent may need to evaluate the impact of potential liabilities and expenses before determining to foreclose on Collateral including potential liabilities or expenses arising from property located in jurisdictions outside the United States. Consequently, the First Lien Collateral Agent will not be required to foreclose on such Collateral or exercise remedies available if it does not receive security or indemnification to its satisfaction from the Holders.

The First Lien Collateral Agent's ability to foreclose on the Collateral may be subject to lack of perfection, the consent of third parties, prior liens and practical problems associated with the realization of the First Lien Collateral Agent's Lien on the Collateral.

The obligation of the Issuer and the Guarantors to take actions to perfect the security interest of the First Lien Collateral Agent in the Collateral primarily consists of the filing of UCC financing statements in the United States (or the applicable political subdivision, territory or possession thereof) and with respect to the Rigs, filing a Collateral Rig Mortgage in the principal jurisdiction in which the applicable Rig is flagged. The First Lien Collateral Agent's lien on Collateral may not be secured on a perfected basis in any jurisdiction to the extent a Lien on such Collateral cannot be perfected in such jurisdiction by such filings of such UCC Financing statements or Collateral Rig Mortgages.

The Lien of the First Lien Collateral Agent in the Collateral will be effectively senior to the Lien on the Collateral that secures any Second Lien Obligations, to the extent of the value of the Collateral securing such obligations (as such value may be shared with Additional First Lien Claims).

The Lien of the First Lien Collateral Agent in the Collateral will be *pari passu* to the Lien on the Collateral that secures any Additional First Lien Claims, to the extent of the value of the Collateral securing such obligations.

The only Excluded Rigs as of the Issue Date will be the Rig Baltic (which is subject to Drilling Contract Lien Restrictions) and four Immaterial Rigs being held for sale. Liens on all of the other Rigs shall be in place on the Issue Date, except for the Key Manhattan (registered as of the Issue Date in Vanuatu under Official Number 1272), Key Singapore (registered as of the Issue Date in Vanuatu under Official Number 1317) and Rig 141 (registered as of the Issue Date in Vanuatu under Official Number 1447). Pursuant to the Indenture, we will be required to enter into and file the Collateral Rig Mortgages with respect to such Rigs within 30 days following the Issue Date; *provided*, that the Egyptian Subsidiary that owns Rig 141 shall enter into and file the Collateral Rig Mortgage with respect to such Rig 141 within the later of (i) 30 days following the Issue Date and (ii) the date such Egyptian Subsidiary becomes a Guarantor. In a bankruptcy or insolvency proceeding involving the Issuer or any Guarantor, any unperfected Liens may be avoided and the rights of the Holders with respect to the property or assets that were the subject thereof will rank pari passu with the unsecured creditors of the Issuer or such Guarantor, as the case may be. See "Risk factors—Risks related to the notes and this offering—Any future pledge of Collateral or guarantee provided after the notes are issued might be avoided by a trustee in bankruptcy," "Risk factors—Risks related to the notes and this offering—Security over certain Collateral will not be in place by the issue date or will not be perfected on the issue date" and "Risk factors—Risks related to the notes and this offering—The notes or the note guarantees may be avoided, and the security interests that secured them may be terminated, under fraudulent conveyance or fraudulent transfer laws and, as a result, you may be required to return payments received by you in respect of the notes or the note guarantees."

The Liens securing the Notes and the Note Guarantees will be automatically released upon the discharge of the Indenture Obligations and in the other circumstances described below under "—Intercreditor Agreement—Release of Liens."

Intercreditor Agreement

On the Issue Date, the First Lien Collateral Agent will enter into the Intercreditor Agreement, which will be acknowledged and agreed by the Issuer and the Guarantors. To the extent the Issuer or any Guarantor Incurs any Second Lien Obligations in accordance with the Indenture, the other First Lien Documents, the Second Lien Documents and the Intercreditor Agreement, a Second Lien Collateral Agent, on behalf of itself and any Second Lien Secured Parties, will join the Intercreditor Agreement and be bound by its terms. The Intercreditor Agreement will, among other things, define the relative rights and related matters of the First Lien Secured Parties, including any future Additional First Lien Secured Parties, and any future Second Lien Secured Parties, in each case with respect to the Collateral. The following description is a summary of the principal terms that are expected to be contained in the Intercreditor Agreement, rather than a complete and definitive description of such terms. By purchasing Notes, each Holder will be deemed to have authorized the First Lien Collateral Agent to enter into the Intercreditor Agreement and each Holder shall be deemed to have agreed to and accepted, and be bound by, the terms of the Intercreditor Agreement.

Lien Priorities. Notwithstanding (i) the date, manner or order of grant, attachment or perfection of any Liens (including the time of filing or recording of financing statements, mortgages or other documents filed or recorded to perfect any Liens or the time of taking possession or control over any Collateral) granted to the Second Lien Collateral Agent or any other Second Lien Secured Party or of any Liens granted to the First Lien Collateral Agent or the other First Lien Secured Parties on the Collateral, (ii) any provision of the UCC or any other applicable law or the Second Lien Documents or the First Lien Documents or any other circumstance whatsoever and (iii) any rules for determining priority under any law governing relative priorities of Liens, the Second Lien Collateral Agent, on behalf of itself and the other Second Lien Secured Parties, will agree that, so long as the Discharge of First Lien Claims has not occurred: (a) any Lien on the Collateral now or hereafter held by or on behalf of the First Lien Collateral Agent or any other First Lien Secured Party or any agent or trustee therefor securing any First Lien Claims, regardless of how acquired, whether by grant, statute, operation of law, subrogation or otherwise, shall be senior in all respects and prior to any Lien thereon that secures any of the Second Lien Obligations and (b) any Lien on the Collateral now or hereafter held by or on behalf of the Second Lien Collateral Agent or any other Second Lien

Secured Party or any agent or trustee therefor securing any Second Lien Obligations, regardless of how acquired, whether by grant, statute, operation of law, subrogation or otherwise, shall be junior and subordinate in all respects to all Liens thereon that secure any First Lien Claims.

Prohibition on Contesting Liens. Each of the Second Lien Collateral Agent, on behalf of itself and each other Second Lien Secured Party, and the First Lien Collateral Agent, on behalf of itself and each other First Lien Secured Party, will agree that it shall not (and hereby waives any right to) contest or support any other Person in contesting, in any proceeding (including any Insolvency or Liquidation Proceeding), the priority, validity, perfection or enforceability of a Lien held by or on behalf of any of the First Lien Collateral Agent or the other First Lien Secured Parties or any of the Second Lien Collateral Agent, or the other Second Lien Secured Parties, in the Collateral; provided that nothing in the Intercreditor Agreement shall be construed to prevent or impair the rights of: (a) the First Lien Collateral Agent or any other First Lien Secured Party to enforce the Intercreditor Agreement, including the priority of the Liens securing the First Lien Claims; or (b) the Second Lien Collateral Agent or any other Second Lien Secured Party to enforce the Intercreditor Agreement, including the priority of the Liens securing the Second Lien Obligations.

Identical Collateral. The parties to the Intercreditor Agreement will agree that it is their intention that the Collateral subject to the First Lien Claims, on the one hand, and the Second Lien Obligations, on the other hand, be substantially identical, subject to certain provisions relating to releases of Collateral. In furtherance of the foregoing, the parties to the Intercreditor Agreement will agree, subject to certain other provisions of the Intercreditor Agreement and to the extent any Second Lien Obligations have been incurred after the Issue Date and the Discharge of Second Lien Obligations has not occurred: (i) upon request by the First Lien Collateral Agent or the Second Lien Collateral Agent, to cooperate in good faith (and to direct their counsel to cooperate in good faith) from time to time in order to determine the specific items included in the Collateral and the steps taken to perfect their respective Liens thereon; and (ii) that the Second Lien Collateral Documents shall be in all material respects the same forms as the First Lien Collateral Documents, other than with respect to the first lien and the second lien nature of the Obligations secured thereunder.

No New Liens. To the extent any Second Lien Obligations have been incurred after the date of the Intercreditor Agreement, the First Lien Collateral Agent, on behalf of itself and the other First Lien Secured Parties, will agree that, so long as the Discharge of Second Lien Obligations has not occurred, it shall not obtain a Lien on any asset or property of the Issuer or any Guarantor (other than such Liens that exist as of the date such Second Lien Obligations are initially incurred) unless the Second Lien Collateral Agent has or concurrently obtains a Lien thereon or waives its rights under this sentence; provided, however, that the refusal of the Second Lien Collateral Agent to accept a Lien on any property of the Issuer or any Guarantor shall not prohibit the taking of a Lien by the First Lien Collateral Agent. The Second Lien Collateral Agent, on behalf of itself and the other Second Lien Secured Parties, will agree that, so long as the Discharge of First Lien Claims has not occurred, it shall not obtain a Lien on any asset or property of the Issuer or any Guarantor unless the First Lien Collateral Agent has or concurrently obtains a Lien thereon or waives its rights under this sentence; provided, however, that the refusal of the First Lien Collateral Agent to accept a Lien on any property of the Issuer or any Guarantor shall not prohibit the taking of a Lien by the Second Lien Collateral Agent. If the Second Lien Collateral Agent, on behalf of itself and the other Second Lien Secured Parties, has or acquires any Lien on any property of the Issuer or any Guarantor or any of its Subsidiaries securing any Obligations which property is not also subject to the Lien of the First Lien Collateral Agent and such property would otherwise be Collateral, then the Second Lien Collateral Agent shall, without the need for any further consent of any other Person (x) hold and be deemed to have held such Lien and security interest on such property for the benefit of the First Lien Collateral Agent as security for the First Lien Claims, or (y) if directed by the First Lien Collateral Agent, release such Lien. To the extent any Second Lien Obligations have been incurred after the Issue Date and the Discharge of Second Lien Obligations has not occurred, if the First Lien Collateral Agent has or acquire any Lien on any property of the Issuer or any Guarantor or any of its Subsidiaries securing any First Lien Claims which property is not also subject to the Lien of the Second Lien Collateral Agent, on behalf of itself and the other Second Lien Secured Parties, and such property would otherwise be Collateral, then the First Lien Collateral Agent shall, without the need for any further consent of any other Person hold and be deemed to have held such Lien and security interest on such property for the benefit of the Second Lien Collateral Agent, on behalf of itself and the other Second Lien Secured Parties, as security for the Second Lien Obligations. To the extent any additional Liens are granted (or held) on any asset or property pursuant to this paragraph, the priority of such additional Liens shall be determined in accordance with the Lien priority provisions in the Intercreditor Agreement and shall be subject to the other terms of the Intercreditor Agreement. To the extent the foregoing is not complied with for any reason, without limiting any other right or remedy available to the First Lien Collateral Agent or the Second Lien Collateral Agent, as applicable, the First Lien Collateral Agent, on behalf of itself and the other First Lien Secured Parties, and the Second Lien Collateral Agent, on behalf of itself and the other Second Lien Secured Parties, agree that any amounts received by or distributed to any of the First Lien Secured Parties or the Second Lien Secured Parties pursuant to or as a result of any Lien granted in contravention of the foregoing shall be subject to ''— Application of Proceeds.''

Exercise of Remedies in Respect of Collateral. So long as the Discharge of First Lien Claims has not occurred, whether or not any Insolvency or Liquidation Proceeding has been commenced by or against the Issuer or any Guarantor, (a) the Second Lien Collateral Agent will agree, on behalf of itself and the other Second Lien Secured Parties, that no Second Lien Secured Party shall exercise or seek to exercise any rights or remedies (including set-off) with respect to any Collateral that secures any Second Lien Obligations, institute any action or proceeding with respect to such rights or remedies (including any action of foreclosure), contest, protest or object to any foreclosure proceeding or action with respect to any Collateral brought by the First Lien Collateral Agent or any First Lien Secured Party, exercise any right relating to any Collateral under any Second Lien Document, or any lockbox agreement, control agreement, blocked account agreement, landlord waiver or bailee's letter or similar agreement or arrangement to which the Second Lien Collateral Agent or any other Second Lien Secured Party is a party, or exercise any other rights and remedies relating to the Collateral under the Second Lien Documents or otherwise, or object to the forbearance by the First Lien Secured Parties from bringing or pursuing any foreclosure proceeding or action or any other exercise of any rights or remedies relating to the Collateral, and (b) the First Lien Collateral Agent and the other First Lien Secured Parties will have the exclusive right to enforce rights, exercise remedies (including set-off and the right to credit bid their debt) and make determinations regarding the release, treatment, disposition, or restrictions with respect to the Collateral in their sole discretion and without any consultation with or the consent of the Second Lien Collateral Agent or the other Second Lien Secured Parties; *provided, however*, that (i) in any Insolvency or Liquidation Proceeding commenced by or against the Issuer or any Guarantor, the Second Lien Collateral Agent may file a proof of claim or statement of interest with respect to the Second Lien Obligations, subject to the limitations and provisions contained in the Intercreditor Agreement, (ii) the Second Lien Collateral Agent may take any action (not adverse to the prior Liens of the First Lien Collateral Agent and the First Lien Secured Parties on the Collateral or the rights of the First Lien Collateral Agent or the First Lien Secured Parties to exercise remedies in respect thereof) solely in order to preserve or protect its Lien on such Collateral so long as such action is consistent with the terms and limitations on the Second Lien Collateral Agent and the other Second Lien Secured Parties imposed by the Intercreditor Agreement, and (iii) the Second Lien Collateral Agent may take any action to foreclose upon any such Collateral so long as (1) 180 days have elapsed from the date that the Second Lien Collateral Agent has given written notice to the First Lien Collateral Agent of the occurrence of an Event of Default under and as defined in any Second Lien Document and such Event of Default is continuing as of the end of such 180-day period, (2) the First Lien Collateral Agent is not diligently pursuing in good faith the exercise of its enforcement rights or remedies against any Collateral at the end of such 180-day period and thereafter, and (3) the proceeds received by the Second Lien Collateral Agent or any other Second Lien Secured Party in connection with such foreclosure action by the Second Lien Collateral Agent are applied pursuant to ''—Application of Proceeds''; provided that, to the extent the First Lien Collateral Agent or the other First Lien Secured Parties are stayed or otherwise prohibited by law from exercising such rights or remedies in respect of the Collateral during such 180-day period, then the foregoing 180-day period will be automatically extended by the number of days of such stay or prohibition.

Limitation of Actions. The Second Lien Collateral Agent, on behalf of itself and the other Second Lien Secured Parties, will agree that it will not take or receive, directly or indirectly, in cash or other property or by setoff, counterclaim or in any other manner (whether pursuant to any enforcement, collection, execution, levy or foreclosure proceeding or otherwise), any Collateral that secures any Second Lien Obligations or any proceeds of such Collateral, in each case in connection with the exercise of any right or remedy (including set-off) with respect to any such Collateral (or in respect of any such Collateral in the event of the occurrence of an Insolvency or Liquidation Proceeding with respect to the Issuer or any Guarantor), unless and until the Discharge of First Lien Claims has occurred. Without limiting the generality of the foregoing, unless and until the Discharge of First Lien Claims has occurred, except as expressly provided in the preceding paragraph, the sole right of the Second Lien Collateral Agent and the other Second Lien Secured Parties with respect to such Collateral is to hold a Lien on such Collateral pursuant to the Second Lien Documents for the period and to the extent granted therein and to receive a share of the proceeds thereof, if any, after the Discharge of First Lien Claims has occurred. Subject to ''—Exercise of Remedies in Respect of Collateral'' and without limiting the effect of other provisions of the Intercreditor Agreement, but only so long as the Discharge of First Lien Claims has not occurred, (i) the Second Lien Collateral Agent, on behalf of itself and the other Second Lien Secured Parties, will agree that the Second Lien Collateral Agent and the other Second Lien Secured Parties will not take any action that would hinder or interfere with any exercise of remedies undertaken by the First Lien Collateral Agent under the First Lien Documents with respect to the Collateral, including any sale, lease, exchange, transfer or other disposition of the Collateral, whether by foreclosure or otherwise, and (ii) the Second Lien Collateral Agent, on behalf of itself and the other Second Lien Secured Parties, will waive any and all rights it or the other Second Lien Secured Parties may have as a junior lien creditor to object to the manner in which the First Lien Collateral Agent or the First Lien Secured Parties seek to enforce or collect the First Lien Claims or the Liens granted in any Collateral, regardless of whether any action or failure to act by or on behalf of the First Lien Collateral Agent or First Lien Secured Parties is adverse to the interest of any Second Lien Secured Parties.

Application of Proceeds. So long as the Discharge of First Lien Claims has not occurred and any Excess First Lien Claims, Second Lien Obligations or Excess Second Lien Obligations remain outstanding, the Collateral or proceeds thereof (or amounts in respect thereof) received in connection with the sale or other disposition of, or collection on, such Collateral upon the exercise of remedies (or in respect of any Collateral in the event of the occurrence of an Insolvency or Liquidation Proceeding with respect to the Issuer or any Guarantor (including all funds received in respect of post-petition interest, fees and expenses, as a result of any distribution of or in respect of any Collateral (whether or not expressly characterized as such) or any distribution of Collateral (or proceeds thereof) upon the liquidation or dissolution of the Issuer or any Guarantor)), shall be applied in the following order: first, to the payment of the costs and expenses incurred by the First Lien Collateral Agent in connection with such marketing, sale or other disposition or collection until all such costs and expenses shall have been paid in full in cash; second, by the First Lien Collateral Agent pro rata to the Trustee in respect of Indenture Obligations in such order as specified in the Indenture and, if other First Lien Claims are outstanding, to the agents or representatives of the holders of such other First Lien Claims in such order as specified in the First Lien Documents until the Discharge of First Lien Claims has occurred; third, by the Second Lien Collateral Agent pro rata to the agents or representatives of the holders of Second Lien Indebtedness in respect of the Second Lien Obligations in such order as specified in the Second Lien Documents until the Discharge of Second Lien Obligations has occurred; fourth, by the First Lien Collateral Agent pro rata to the agents or representatives of the holders of Excess First Lien Claims to be applied (a) *first* to the Indenture Obligations constituting Excess First Lien Claims until all such Indenture Obligations have been paid and satisfied in full, (b) *second* to the Obligations under clause (b) of the definition of ''First Lien Claims'' until all such Obligations have been paid and satisfied in full, and *third* to the Obligations under clause (c) of the definition of ''First Lien Claims'' (pro rata according to the amounts owing to the holders of Indebtedness described in clauses (a) and (b) of the definition of ''First Lien Claims'') until all such Obligations have been paid and satisfied in full; fifth, by the Second Lien Collateral Agent pro rata to the agents or representatives of the holders of Excess Second Lien Obligations to be applied to the Excess Second Lien Obligations in such order as specified in the Second Lien Documents; and sixth, to the Issuer or applicable Guarantor, or its successors or assigns, or to whosoever may be lawfully entitled to receive the same or as a court of competent jurisdiction may direct, of any surplus then remaining from such proceeds.

Turnover. Until the Discharge of First Lien Claims has occurred, any Collateral or proceeds thereof (or amounts in respect thereof) received by the Second Lien Collateral Agent or any other Second Lien Secured Party in connection with the exercise of any right or remedy (including set-off or after the occurrence of an Insolvency or Liquidation Proceeding with respect to the Issuer or any Guarantor) relating to the Collateral in contravention of the Intercreditor Agreement shall be segregated and held in trust and forthwith paid over to the First Lien Collateral Agent for the benefit of itself and the First Lien Secured Parties in the same form as received, with any necessary endorsements or as a court of competent jurisdiction may otherwise direct.

Release of Liens. If in connection with (a) the exercise of the First Lien Collateral Agent's or any First Lien Secured Party's rights or any remedies in respect of the Collateral under any First Lien Document or applicable law (subject to the rights, if any, of the Second Lien Collateral Agent to exercise such rights or remedies as, and to the extent, set forth in ''—Exercise of Remedies in Respect of Collateral'' and subject to the application of such Collateral or proceeds thereof (or amounts in respect thereof), if any, in accordance with ''—Application of Proceeds''), including any sale, lease, exchange, transfer or other disposition of any such Collateral, or (b) any sale, lease, exchange, transfer or other disposition of any Collateral that, with respect to this clause (b), is permitted or not prohibited under both (i) the terms of the First Lien Documents (whether or not an ''event of default'' thereunder, and as defined therein, has occurred and is continuing) and (ii) the terms of the Second Lien Documents, the First Lien Collateral Agent, on behalf of itself and the First Lien Secured Parties, releases any of its Liens on any part of the Collateral, the Liens, if any, of the Second Lien Collateral Agent, on behalf of itself and the other Second Lien

Secured Parties, on such part of the Collateral shall be automatically, unconditionally and simultaneously released, and the Second Lien Collateral Agent, on behalf of itself and the other Second Lien Secured Parties, upon receipt of an Officer's Certificate certifying that such release is permitted and all conditions precedent thereto are satisfied (upon which the Second Lien Collateral Agent and the agent or representative of the holders of Second Lien Indebtedness may conclusively rely without an opinion of counsel) promptly shall execute and deliver to the First Lien Collateral Agent or the Issuer such termination statements, releases and other documents necessary or reasonably requested by the Issuer to effectively confirm such release. The Second Lien Collateral Agent, on behalf of itself and the other Second Lien Secured Parties, will irrevocably constitute and appoint the First Lien Collateral Agent and any officer or agent of the First Lien Collateral Agent, with full power of substitution, as its true and lawful attorney-in-fact with full irrevocable power and authority in the place and stead of the Second Lien Collateral Agent or such holder or in the First Lien Collateral Agent's own name, from time to time in the First Lien Collateral Agent's discretion, for the purpose of carrying out the terms of this paragraph, to take any and all appropriate action and to execute any and all documents and instruments which may be necessary or desirable to accomplish the purposes of this paragraph, including any termination statements, endorsements or other instruments of transfer or release.

Bankruptcy Financing and Other Matters. If the Issuer or any Guarantor shall be subject to any Insolvency or Liquidation Proceeding and the First Lien Collateral Agent, on behalf of the First Lien Secured Parties, shall desire to permit the use of cash collateral under Section 363 of Title 11 of the United States Code or any similar Insolvency Law or to permit the Issuer or any Guarantor to obtain financing under Section 364 of Title 11 of the United States Code or any similar Insolvency Law ("*DIP Financing*") in an aggregate outstanding principal amount that, when taken together with the aggregate outstanding principal amount (excluding Cash-Collateralized Credit Support, Credit Facility Hedging Obligations, Credit Facility Cash Management Obligations and any capitalization of interest and fees on such principal amount that did not initially exceed the Maximum First Lien Principal Amount) of the First Lien Claims, does not exceed the sum of (x) the Maximum First Lien Principal Amount and (y) 10% of the Maximum First Lien Principal Amount, so long as the Second Lien Collateral Agent receives adequate protection in the form of a replacement Lien on the DIP Financing collateral (but only to the extent that the First Lien Collateral Agent concurrently receives adequate protection in the form of a replacement lien on the DIP Financing collateral), which Lien of the Second Lien Collateral Agent shall be subordinated to the Liens securing the First Lien Claims (including any replacement lien in favor of the First Lien Collateral Agent) and such DIP Financing (and all Obligations relating thereto) on the same basis as the other Liens on the Collateral that secure the Second Lien Obligations are so subordinated to the Liens thereon that secure the First Lien Claims under the Intercreditor Agreement, then until the Discharge of First Lien Claims has occurred, the Second Lien Collateral Agent, on behalf of itself and the other Second Lien Secured Parties, will agree that it will raise no objection, and shall be deemed to consent, to such use of cash collateral or DIP Financing and will not request adequate protection or any other relief in connection therewith (except to the extent solely provided above in this paragraph), and will subordinate its Liens in the Collateral to such DIP Financing (and all Obligations relating thereto) on the same basis as the Liens on the Collateral that secure the Second Lien Obligations are subordinated to the Liens thereon that secure the First Lien Claims under the Intercreditor Agreement, and will agree that notice received two (2) calendar days prior to the entry of an order approving such usage of cash collateral or approving such DIP Financing on an interim basis shall be adequate notice. The Second Lien Collateral Agent, on behalf of itself and the other Second Lien Secured Parties, taken as a whole (and for the avoidance of doubt, not individually), will agree that it will not provide or seek (or support any other Person seeking) to provide DIP Financing to the Issuer or any Guarantor so long as the First Lien Collateral Agent, on behalf of one or more groups of First Lien Secured Parties, shall desire to provide such DIP Financing which satisfies each of the requirements listed above.

Until the Discharge of First Lien Claims, the Second Lien Collateral Agent, on behalf of itself and the other Second Lien Secured Parties, will agree that none of them shall seek relief from the automatic stay or any other stay in any Insolvency or Liquidation Proceeding in respect of the Collateral, without the prior written consent of the First Lien Collateral Agent.

The Second Lien Collateral Agent, on behalf of itself and the other Second Lien Secured Parties, will agree that none of them shall contest (or support any other Person contesting) (a) any request by the First Lien Collateral Agent or the First Lien Secured Parties for adequate protection, or (b) any objection by the First Lien Collateral Agent or the First Lien Secured Parties to any motion, relief, action or proceeding based on the First Lien Collateral Agent's or the First Lien Secured Parties claiming a lack of adequate protection, in each case, in respect of the Collateral.

Reorganization Securities. If, in any Insolvency or Liquidation Proceeding, debt obligations of the reorganized debtor secured by Liens upon any property of the reorganized debtor are distributed pursuant to a plan of reorganization or similar dispositive restructuring plan, both on account of First Lien Claims and on account of Second Lien Obligations, then, to the extent the debt obligations distributed on account of the First Lien Claims and on account of the Second Lien Obligations are secured by Liens upon the same property, the provisions of the Intercreditor Agreement will survive the distribution of such debt obligations pursuant to such plan and will apply with like effect to the Liens securing such debt obligations.

Asset Dispositions in an Insolvency or Liquidation Proceeding. The Second Lien Collateral Agent will agree, on behalf of itself and the other Second Lien Secured Parties, that no Second Lien Secured Party shall, in an Insolvency or Liquidation Proceeding or otherwise, oppose or contest any marketing, sale, sale procedures or disposition of any assets of the Issuer or any Guarantor made in accordance with the Intercreditor Agreement to the extent consisting of any Collateral that is supported by the First Lien Collateral Agent or the First Lien Secured Parties, and the Second Lien Collateral Agent and each other Second Lien Secured Party will be deemed to have consented under Section 363 of Title 11 of the United States Code (and otherwise) to such marketing, sale, sale procedures or disposition supported by the First Lien Collateral Agent or the First Lien Secured Parties and to have released their Liens in such assets in accordance with the Intercreditor Agreement.

Purchase Option of the Holders of Second Lien Indebtedness. Upon the occurrence and during the continuance of (a) the acceleration prior to maturity of all or any portion of the Indebtedness then outstanding under any First Lien Document, (b) the exercise of any remedy with respect to Liens on the Collateral by the First Lien Collateral Agent (other than the exercise of control over deposit accounts), (c) a default in any scheduled payment of principal, premium, if any, interest or regularly accruing fees under the Second Lien Documents that remains uncured or unwaived for a period of 30 days in the aggregate, or (d) the commencement of an Insolvency or Liquidation Proceeding, one or more of the Second Lien Secured Parties may, at their sole expense and effort, upon notice to the Issuer and the First Lien Collateral Agent, irrevocably require the First Lien Secured Parties to transfer and assign to such Second Lien Secured Parties, without warranty or representation or recourse (other than the representation or warranty that (i) such First Lien Claims are being transferred without any Lien created by the First Lien Secured Parties and (ii) the First Lien Secured Parties are the owners and holders of the First Lien Claims being purchased), all (but not less than all) of the First Lien Claims and all rights of the First Lien Secured Parties under the First Lien Documents; provided that (x) the First Lien Collateral Agent, the Trustee and the other First Lien Secured Parties shall retain all rights to be indemnified or to be held harmless by the Issuer and the Guarantors in accordance with the terms of the First Lien Documents, (y) such assignment shall not conflict with any law, rule or regulation or order of any court or other governmental authority having jurisdiction, and (z) such Second Lien Secured Parties shall have paid to the First Lien Collateral Agent, for the account of the First Lien Secured Parties, in United States dollars in immediately available funds, an amount equal to 100% of the principal of such Indebtedness that constitutes First Lien Claims (including Credit Facility Hedging Obligations and Credit Facility Cash Management Obligations) plus all accrued and unpaid interest, fees and expenses thereon (including interest, fees and expenses accruing on or after the commencement of an Insolvency or Liquidation Proceeding, whether or not such interest, fees or expenses would be allowed in such proceeding), plus all fees, expenses, indemnities and other similar amounts owing to the First Lien Collateral Agent, the Trustee or any other First Lien Secured Parties (including, without limitation, attorney's fees and costs), including any premium, make-whole amount, breakage costs and expenses, plus all the other First Lien Claims then outstanding (which shall include, with respect to the aggregate face amount of the letters of credit and bank guarantees outstanding under the Credit Facility, an amount in cash equal to the lesser of 105% thereof and the aggregate amount required to cash collateralize such letter of credit or bank guarantee, as applicable, under the applicable First Lien Documents), but in each case (for the avoidance of doubt) excluding Excess First Lien Claims. The assignment of the foregoing by the First Lien Secured Parties shall be at no expense to the First Lien Collateral Agent and the First Lien Secured Parties and any assignment fees or out-of-pocket expenses (including their attorney's fees and costs) of documenting and effecting such assignment and the related delivery to Second Lien Secured Parties shall be payable by the Second Lien Secured Parties purchasing the First Lien Claims (pro rata among the Second Lien Secured Parties giving irrevocable notice to the Issuer and the First Lien Collateral Agent of their intent to exercise the purchase option, according to such Second Lien Secured Parties' portions of the aggregate Second Lien Obligations outstanding on the date of purchase). After giving effect to each such payment, any remaining cash collateral that exceeds 105% of the sum of the aggregate undrawn amount of all then outstanding letters of credit and bank guarantees issued pursuant to the First Lien Documents (or, if less, the aggregate amount required to cash collateralize all such letters of credit and bank guarantees under the applicable First Lien Documents) and the aggregate facing and similar fees that will accrue thereon through the stated maturity of such letters of credit and bank guarantees (assuming no drawings thereon before stated maturity), will be returned to those Second Lien Secured Parties giving irrevocable notice to the Issuer and the First Lien Collateral Agent of their intent to exercise the purchase option hereunder (pro rata among the Second Lien Secured Parties giving irrevocable notice to the Issuer and the First Lien Collateral Agent of their intent to exercise the purchase option, according to such Second Lien Secured Parties' portions of the aggregate Second Lien Obligations outstanding on the date of purchase). When all such letters of credit and bank guarantees have been cancelled with the consent of the beneficiary thereof, expired or been fully drawn, and after all payments from the account described above have been made, any remaining cash collateral will be returned to the Second Lien Secured Parties giving irrevocable notice to the Issuer and the First Lien Collateral Agent of their intent to exercise the purchase option hereunder (pro rata among the Second Lien Secured Parties giving irrevocable notice to the Issuer and the First Lien Collateral Agent of their intent to exercise the purchase option according to such Second Lien Secured Parties' portions of the aggregate Second Lien Obligations outstanding on the date of purchase). If the right set forth in this paragraph is irrevocably exercised: (a) the parties shall endeavor to close promptly thereafter but in any event within ten (10) Business Days after the notice set forth in the first sentence of this paragraph, and (b) such First Lien Claims shall be purchased pro rata among the Second Lien Secured Parties giving irrevocable notice to the Issuer and the First Lien Collateral Agent of their intent to exercise the purchase option hereunder according to such Second Lien Secured Parties' portions of the Second Lien Obligations outstanding on the date of purchase pursuant to this paragraph.

No Surcharge of Collateral. The Second Lien Collateral Agent will agree, on behalf of itself and the other Second Lien Secured Parties, that no Second Lien Secured Party shall, in an Insolvency or Liquidation Proceeding or otherwise, assert or enforce, at any time when the Discharge of First Lien Claims has not occurred, any claim under Section 506(c) of Title 11 of the United States Code (and otherwise) for costs or expenses of preserving or disposing of any Collateral.

Right to Credit Bid. The Second Lien Collateral Agent will agree, on behalf of itself and the other Second Lien Secured Parties, that no Second Lien Secured Party shall object to, contest or oppose (or support any other Person in objecting to, contesting or opposing) in any manner the exercise by the First Lien Collateral Agent or any of the other First Lien Secured Parties of the right to "credit bid" pursuant to Section 363(k) of Title 11 of the United States Code or other applicable law in respect of the Collateral.

Plan Treatment. The Second Lien Collateral Agent will agree, on behalf of itself and the other Second Lien Secured Parties, that no Second Lien Secured Party shall seek (or cause or support any other Person to seek) the filing or confirmation of any plan of reorganization or liquidation or similar dispositive plan that does not expressly provide for the Discharge of First Lien Claims on the plan's effective date.

Matters Related to First Lien Documents. The First Lien Documents may be amended, restated, waived, supplemented or otherwise modified in accordance with their terms, and the indebtedness under the First Lien Documents may be refinanced, renewed, extended or replaced, in each case, without the consent of, or notice to, any First Lien Secured Party or Second Lien Secured Party; provided, however, that, without the consent of the Second Lien Collateral Agent (acting with the consent of the requisite holders of the Second Lien Indebtedness, if any), no such amendment, restatement, supplement, modification or refinancing shall (i) contravene any provision of the Intercreditor Agreement, or (ii) result in the aggregate principal amount of Indebtedness for borrowed money under the First Lien Documents (excluding Cash-Collateralized Credit Support, Credit Facility Hedging Obligations, Credit Facility Cash Management Obligations and any capitalization of interest and fees on such principal amount that did not initially exceed the Maximum First Lien Principal Amount) exceeding the Maximum First Lien Principal Amount. In furtherance of the provisions of this paragraph, if at any time after a Discharge of First Lien Claims, the Issuer or any other Guarantor thereafter enters into any refinancing or replacement of any First Lien Document evidencing a First Lien Claim, which refinancing or replacement complies with the proviso to the preceding sentence, then notwithstanding anything to the contrary in the Intercreditor Agreement, such Discharge of First Lien Claims shall automatically be deemed not to have occurred for all purposes of the Intercreditor Agreement, and the obligations under such refinancing or replacement First Lien Document shall automatically be treated as First Lien Claims for all purposes of the Intercreditor Agreement, including for purposes of the Lien priorities and rights in respect of Collateral set forth herein, and the administrative agent, collateral agent or similar agent under such refinancing or replacement First Lien Documents shall be the First Lien Collateral Agent for all purposes of the Intercreditor Agreement. Upon receipt of a notice stating that the Issuer or any Guarantor has entered into a new First Lien Document (which notice shall include the identity of the new agent, such agent, the "*New First Lien Agent*"), the Second Lien Collateral Agent shall promptly enter into such documents and agreements (including amendments or supplements to the Intercreditor Agreement) as the Issuer or such New First Lien Agent may reasonably request in order to provide to the New First Lien Agent or other First Lien Secured Parties under such new First Lien Documents the rights contemplated hereby, in each case consistent in all material respects with the terms of the Intercreditor Agreement.

Matters Related to Second Lien Documents. Without the prior written consent of the First Lien Collateral Agent, acting with the consent of the requisite number of First Lien Secured Parties, no Second Lien Document may be amended, restated, waived, supplemented or otherwise modified, or entered into, to the extent such amendment, restatement, waiver, supplement or modification, or the terms of such new Second Lien Document, would (i) contravene the provisions of the Intercreditor Agreement, (ii) contravene the provisions of the First Lien Documents, or (iii) add to the Collateral securing the Second Lien Obligations other than as specifically provided by the Intercreditor Agreement. In furtherance of the provisions of this paragraph, if at any time after a Discharge of Second Lien Obligations, the Issuer or any other Guarantor thereafter enters into any refinancing or replacement of any Second Lien Document evidencing a Second Lien Obligation which refinancing or replacement complies with the preceding sentence, then notwithstanding anything to the contrary in the Intercreditor Agreement, such Discharge of Second Lien Obligations shall automatically be deemed not to have occurred for all purposes of the Intercreditor Agreement, and the obligations under such refinancing or replacement Second Lien Document shall automatically be treated as Second Lien Obligations for all purposes of the Intercreditor Agreement, including for purposes of the Lien priorities and rights in respect of Collateral set forth herein, and the administrative agent, collateral agent or similar agent under such refinancing or replacement Second Lien Documents shall be the Second Lien Collateral Agent for all purposes of the Intercreditor Agreement. Upon receipt of a notice stating that the Issuer or any Guarantor has entered into a new Second Lien Document (which notice shall include the identity of the new agent, such agent, the "*New Second Lien Agent*"), the First Lien Collateral Agent shall promptly enter into such documents and agreements (including amendments or supplements to the Intercreditor Agreement) as the Issuer or such New Second Lien Agent may reasonably request in order to provide to the New Second Lien Agent or other Second Lien Secured Parties under such new Second Lien Documents the rights contemplated hereby, in each case consistent in all material respects with the terms of the Intercreditor Agreement.

Additional First Lien Claims; Second Lien Obligations

If the Issuer or any Guarantor Incurs any Additional First Lien Claims other than Additional Notes, the representative of the holders of such Additional First Lien Claims shall enter into a First Lien Accession Agreement, and thereafter the relationship between the Holders of the Notes and the Additional First Lien Secured Parties will be governed by the First Lien Collateral Documents as described below.

The First Lien Collateral Documents will provide for the priorities and other relative rights among the Holders of the Notes and the holders of the Additional First Lien Indebtedness, including, among other things, that:

(1) notwithstanding the date, time, method, manner or order of grant, attachment or perfection of any Liens on the Collateral securing the Notes and the Additional First Lien Indebtedness, the Liens securing all such Indebtedness shall be of equal priority; and

(2) the obligations in respect of the Notes and the Additional First Lien Indebtedness may be increased, extended, renewed, replaced, restated, supplemented, restructured, refunded, refinanced or otherwise amended from time to time, in each case, to the extent permitted by the Indenture, the First Lien Documents and the documentation governing the Additional First Lien Claims.

The First Lien Collateral Documents will contain procedures with respect to the coordination of instructions from the Holders of the Notes and the Additional First Lien Secured Parties with respect to the security interests in the Collateral. The First Lien Collateral Agent shall (subject to its rights and protections under the First Lien Documents, including its right to seek satisfactory indemnity or security) act in relation to the Collateral in accordance with the direction of the majority in aggregate amount of the then outstanding First Lien Claims (including the Additional First Lien Claims, if any) (the "*Instructing Group*"); *provided, however*, any Notes held by the Issuer or an Affiliate of the Issuer and any Additional First Lien Indebtedness held by the Issuer or an Affiliate of the Issuer shall be deemed not to be outstanding for purposes of the Instructing Group, except that in determining whether the First Lien Collateral Agent shall be protected in relying upon such direction, only the First Lien Indebtedness that the First Lien Collateral Agent actually knows to be so owned shall be so disregarded.

The First Lien Collateral Documents will also provide that, as between the Holders of the Notes and the holders of Additional First Lien Indebtedness, only the Instructing Group has the right to direct the First Lien Collateral Agent in conducting foreclosures and in taking other actions with respect to the Collateral, and the authorized representatives of other Indebtedness have no right to take actions with respect to the Collateral. The Instructing Group will have the sole right to instruct the First Lien Collateral Agent to act or refrain from acting with respect to the Collateral, and the First Lien Collateral Agent shall not follow any instructions with respect to such Collateral from any other Person. No authorized representative of any Indebtedness (other than the Instructing Group) will instruct the First Lien Collateral Agent to commence any judicial or non-judicial foreclosure proceedings with respect to, seek to have a trustee, receiver, liquidator or similar official appointed for or over, attempt any action to take possession of, exercise any right, remedy or power with respect to, or otherwise take any action to enforce its interests in or realize upon, or take any other action available to it in respect of, the Collateral.

If the Issuer or any Guarantor Incurs any Second Lien Indebtedness, a Second Lien Collateral Agent shall join the Intercreditor Agreement for the benefit of the Second Lien Secured Parties, and the representative of the holders of such Second Lien Obligations shall enter into a Second Lien Accession Agreement, and thereafter the relationship between the Second Lien Security Agreement or, if the Second Lien Security Agreement then exists, a Second Lien Secured Parties will be governed by the Second Lien Collateral Documents.

Release of Liens

The Issuer and the Guarantors will be entitled to releases of assets included in the Collateral from the Liens securing First Lien Claims under any one or more of the following circumstances, and such Liens on such assets shall automatically, without the need for any further action by any Person, be released, terminated and discharged:

(1) in connection with Asset Dispositions permitted or not prohibited under the covenant described below under ''—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock;''

(2) if any Guarantor is released from its Guarantee in accordance with the terms of the Indenture (including by virtue of such Guarantor ceasing to be a Restricted Subsidiary), that Guarantor's assets (including all Capital Stock of such Guarantor) will also be released from the Liens securing its Guarantee and the other Indenture Obligations;

(3) if required or permitted in accordance with the terms of the Intercreditor Agreement or any other First Lien Collateral Document (including as set forth under ''—Intercreditor Agreement—Release of Liens''); or

(4) with respect to any asset that becomes an Excluded Asset.

The Liens on the Collateral that secures the Indenture Obligations also will automatically, without the need for any further action by any Person, be released, terminated and discharged:

(1) upon legal defeasance or covenant defeasance or satisfaction and discharge of the Indenture as described below under the captions ''—Defeasance'' and ''—Satisfaction and Discharge''; or

(2) in whole or in part, with the consent of the Holders of the requisite percentage of Notes in accordance with the provisions described below under the caption ''—Amendment and Waivers.''

The First Lien Collateral Documents provide that the First Lien Collateral Agent will execute, upon request and at the Issuer's expense, any documents, instruments, agreements or filings reasonably requested by the Issuer to evidence the release of the Collateral.

Change of Control Offer

Upon the occurrence of a Change of Control Repurchase Event, each Holder shall have the right to require that the Issuer repurchase such Holder's Notes at a purchase price in cash equal to 101% of the principal amount thereof on the date of purchase plus accrued and unpaid interest to, but not including, the date of purchase (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date).

Within 30 days following a Change of Control Repurchase Event, we will mail or electronically transmit a notice to each Holder with a copy to the Trustee (the *"Change of Control Offer")* stating:

(1) that a Change of Control Repurchase Event has occurred and that such Holder has the right to require us to purchase such Holder's Notes at a purchase price in cash equal to 101% of the principal amount thereof on the date of purchase, plus accrued and unpaid interest to, but not including, the date of purchase (subject to the right of Holders of record on the relevant record date to receive interest on the relevant interest payment date);

(2) the circumstances and relevant facts regarding such Change of Control Repurchase Event;

(3) the purchase date (which shall be no earlier than 30 days nor later than 60 days from the date such notice is mailed or delivered);

(4) the instructions, as determined by us, consistent with the covenant described hereunder, that a Holder must follow in order to have its Notes purchased; and

(5) if such notice is sent prior to the occurrence of a Change of Control Repurchase Event, that the Change of Control Offer is conditional on the occurrence of such Change of Control Repurchase Event and describing each such condition, and, if applicable, that, in the Issuer's discretion, the payment date for the Change of Control Repurchase Event may be delayed until such time (but not more than 60 days after the notice is mailed or delivered, including by electronic transmission) as any or all such conditions shall be satisfied, or that such purchase may not occur and such notice may be rescinded in the event that the Issuer shall determine that any or all such conditions shall not have been satisfied by the relevant payment date.

We will not be required to make a Change of Control Offer following a Change of Control Repurchase Event if (1) a third party makes the Change of Control Offer in the manner, at the times and otherwise in compliance with the requirements set forth in the Indenture applicable to a Change of Control Offer made by us and purchases all Notes validly tendered and not withdrawn under such Change of Control Offer or (2) notice of redemption has been given for the redemption of all (and not less than all) of the Notes pursuant to the Indenture as described above under the caption "—Optional Redemption" or "—Redemption for Change in Taxes", unless and until there is a default in payment of the applicable redemption price.

Notwithstanding anything to the contrary contained herein, a Change of Control Offer may be made in advance of a Change of Control Repurchase Event, and conditioned upon such Change of Control Repurchase Event, if a definitive agreement is in place for the Change of Control Repurchase Event at the time of making of the Change of Control Offer.

If Holders of not less than 90% in aggregate principal amount of the outstanding Notes validly tender and do not withdraw such Notes in a Change of Control Offer and the Issuer, or any third party making a Change of Control Offer in lieu of the Issuer as described above, purchases all of the Notes validly tendered and not withdrawn by such Holders, the Issuer or such third party will have the right, upon not less than 30 nor more than 60 days' prior notice (provided that such notice is given not more than 30 days following such purchase pursuant to the Change of Control Offer described above) to redeem all Notes that remain outstanding following such purchase at a price in cash equal to 101% of the aggregate principal amount of such Notes, plus accrued and unpaid interest on the Notes that remain outstanding to, but not including, the redemption date (subject to the right of Holders of record on the relevant record date to receive interest due on the relevant interest payment date).

We will comply, to the extent applicable, with the requirements of Section 14(e) of the Exchange Act and any other securities laws or regulations in connection with the repurchase of Notes as a result of a Change of Control Repurchase Event. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the covenant described hereunder, we will comply with the applicable securities laws and regulations and shall not be deemed to have breached our obligations under the covenant described hereunder by virtue of our compliance with such securities laws or regulations.

The Change of Control purchase feature of the Notes may in certain circumstances make more difficult or discourage a sale or takeover of us. It is possible that we could decide to engage in a transaction involving a Change of Control in the future. Subject to the limitations discussed below, we could, in the future, enter into certain transactions, including acquisitions, refinancings or other recapitalizations, that would not constitute a Change of Control under the Indenture, but that could increase the amount of indebtedness outstanding at such time or otherwise affect our capital structure or credit ratings. Restrictions on our ability to Incur additional Indebtedness are contained in the covenants described under ‘‘—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock’’ and ‘‘—Certain Covenants—Limitation on Liens.’’ Such restrictions can only be waived with the consent of the Holders of a majority in principal amount of the Notes then outstanding. Except for the limitations contained in such covenants, however, the Indenture will not contain any covenants or provisions that may afford Holders of the Notes protection in the event of a highly leveraged transaction.

Future indebtedness that we may incur may contain prohibitions on the occurrence of certain events that would constitute a Change of Control or require the repurchase of such indebtedness upon a Change of Control. Moreover, the exercise by the Holders of their right to require us to repurchase their Notes could cause a default under such indebtedness, even if the Change of Control itself does not, due to the financial effect of such repurchase on us. Finally, our ability to pay cash to the Holders of Notes following the occurrence of a Change of Control Repurchase Event may be limited by our then existing financial resources. There can be no assurance that sufficient funds will be available when necessary to make any required repurchases.

The definition of ‘‘Change of Control’’ includes a disposition of all or substantially all of the properties and assets of the Issuer and its Restricted Subsidiaries to any Person (other than a Permitted Holder). Although there is a limited body of case law interpreting the phrase ‘‘substantially all,’’ there is no precise established definition of the phrase under applicable law. Accordingly, in certain circumstances there may be a degree of uncertainty as to whether a particular transaction would involve a disposition of ‘‘all or substantially all’’ of the properties and assets of the Issuer and its Restricted Subsidiaries. As a result, it may be unclear as to whether a Change of Control has occurred and whether a holder of Notes may require the Issuer to make an offer to repurchase the Notes as described above.

The provisions under the Indenture relating to our obligation to make an offer to repurchase the Notes as a result of a Change of Control Repurchase Event may be waived or modified with the written consent of the Holders of a majority in principal amount of the Notes then outstanding.

Certain Covenants

The Indenture contains covenants including, among others, the following:

Limitation on Indebtedness and Issuances of Preferred Stock

(a) The Issuer will not, and will not permit any Restricted Subsidiary to, Incur, directly or indirectly, any Indebtedness and will not permit any Restricted Subsidiary to issue any Preferred Stock; *provided, however,* that the Issuer will be entitled to Incur Indebtedness (including Acquired Indebtedness) and any Restricted Subsidiary will be entitled to Incur Indebtedness (including Acquired Indebtedness) and to issue any Preferred Stock if, on the date of such Incurrence or issuance and after giving effect thereto on a *pro forma* basis, the Consolidated Coverage Ratio would have been at least 2.00 to 1.00; *provided, however,* that the amount of Indebtedness and Preferred Stock that may be Incurred or issued pursuant to the foregoing by Restricted Subsidiaries that are not Guarantors shall not exceed $25.0 million at any time outstanding.

(b) Notwithstanding the foregoing paragraph (a), the Issuer and the Restricted Subsidiaries will be entitled to Incur any or all of the following Indebtedness:

  (1) Indebtedness of the Issuer or any Guarantor Incurred under (A) the Notes issued on the Issue Date, Additional Notes issued thereafter and the related Note Guarantees or (B) a Credit Facility constituting Additional First Lien Indebtedness, in an aggregate principal amount at any time outstanding under this clause (1), and then outstanding on the date of such Incurrence, not to exceed $310.0 million;

  (2) Indebtedness owed to and held by the Issuer or a Restricted Subsidiary and the issuance by any Restricted Subsidiary to the Issuer or any Restricted Subsidiary of shares of Preferred Stock; *provided, however,* that (A) any subsequent issuance or transfer of any Capital Stock which results in any such Restricted Subsidiary ceasing to be a Restricted Subsidiary or any subsequent transfer of such Indebtedness (other than to the Issuer or a Restricted Subsidiary) shall be deemed, in each case, to constitute the Incurrence of such Indebtedness by the obligor thereon and (B) if the Issuer is the obligor on such Indebtedness and the obligee is not a Guarantor, such Indebtedness is expressly subordinated in right of payment to the prior payment in full in cash of all obligations with respect to the Notes and (C) if a Guarantor is the obligor on such Indebtedness and the obligee is not the Issuer or another Guarantor, such Indebtedness is expressly subordinated in right of payment to the prior payment in full in cash of all obligations of such Guarantor with respect to its Note Guarantee;

(3) Indebtedness (including Second Lien Obligations) Incurred by the Issuer or any Guarantor not to exceed the greater of (A) $225.0 million and (B) an amount such that at the time of Incurrence and after giving pro forma effect thereto, the Secured Net Leverage Ratio would be no greater than 2.75 to 1.00;

(4) Indebtedness outstanding on the Issue Date (other than Indebtedness described in clause (1) or (2) of this covenant), including the Existing Notes and related Guarantees;

(5) Refinancing Indebtedness in respect of Indebtedness Incurred pursuant to paragraph (a) above or pursuant to clause (1), (3), (4), (5), (10), (12), (13) or (15) of this paragraph (b);

(6) Bank Product Obligations and Hedging Obligations; *provided* that such Hedging Obligations are entered into for bona fide hedging purposes and not for the purpose of speculation;

(7) obligations in respect of workers' compensation claims, self-insurance obligations, bankers' acceptances, performance, bid, completion and surety bonds or guarantees and similar types of obligations, in each case Incurred in the ordinary course of business or in respect of judgments or awards not resulting in an Event of Default;

(8) Indebtedness arising from the honoring by a bank or other financial institution of a check, draft or similar instrument drawn against insufficient funds in the ordinary course of business; provided, however, that such Indebtedness is extinguished within ten Business Days of its Incurrence; and Indebtedness in respect of cash management obligations and netting services, automatic clearinghouse and similar arrangements in the ordinary course of business, in each case in connection with deposit accounts;

(9) the Guarantee by the Issuer or any Restricted Subsidiary of Indebtedness of the Issuer or a Restricted Subsidiary of the Issuer that was permitted to be incurred by another provision of this covenant; provided, however, that if the Indebtedness being Guaranteed is contractually subordinated to or pari passu with the Notes or a Note Guarantee, then the Guarantee Incurred pursuant to this clause (9) shall be contractually subordinated or pari passu, as applicable, to the same extent as the Indebtedness being Guaranteed;

(10) Indebtedness (including Capital Lease Obligations, mortgage financings or purchase money obligations) of the Issuer or a Restricted Subsidiary Incurred, or Preferred Stock of any Restricted Subsidiary issued, to finance the purchase, lease, construction, development, design, installation, remodeling or improvement of any property, plant, equipment or any other fixed asset used or to be used in the business of the Issuer or such Restricted Subsidiary, whether, with respect to any such purchase, through the direct purchase of such fixed assets or the Capital Stock of any Person owning such fixed assets, in an aggregate outstanding principal amount or liquidation preference amount which, when taken together with the principal amount of all other Indebtedness Incurred or liquidation preference amount of Preferred Stock issued pursuant to this clause (10), including all Refinancing Indebtedness Incurred which serves to refund, refinance or replace any Indebtedness Incurred or Preferred Stock issued pursuant to this clause (10), and then outstanding on the date of such Incurrence, does not exceed the greater of (a) $30.0 million and (b) 2.0% of the Total Assets of the Issuer;

(11) the Incurrence by the Issuer or any of the Restricted Subsidiaries of Indebtedness consisting of earn-outs, indemnities or obligations in respect of purchase price adjustments in connection with the disposition or acquisition of assets; provided that with respect to any disposition, the maximum aggregate liability in respect of all such Indebtedness shall at no time exceed the gross proceeds including non-cash proceeds (the Fair Market Value of such non-cash proceeds being measured at the time received and without giving effect to subsequent changes in value) actually received by the Issuer and its Restricted Subsidiaries in connection with such disposition;

(12) Indebtedness Incurred on behalf of, or representing guarantees of Indebtedness of, joint ventures of the Issuer or any Restricted Subsidiary in an aggregate outstanding principal amount which, when taken together with the principal amount of all other Indebtedness Incurred pursuant to this clause (12), including all Refinancing Indebtedness Incurred which serves to refund, refinance or replace any Indebtedness Incurred pursuant to this clause (12), and then outstanding on the date of such Incurrence, does not exceed the greater of (a) $30.0 million and (b) 2.0% of the Total Assets of the Issuer;

(13) the Incurrence by the Issuer or any Restricted Subsidiary of Indebtedness or the issuance of any Preferred Stock by any Restricted Subsidiary in an aggregate outstanding principal amount or liquidation preference amount which, when taken together with the principal amount of all other Indebtedness Incurred or liquidation preference amount of Preferred Stock issued pursuant to this clause (13), including all Refinancing Indebtedness Incurred which serves to refund, refinance or replace any Indebtedness Incurred or Preferred Stock issued pursuant to this clause (13), and then outstanding on the date of such Incurrence, does not exceed the greater of (a) $50.0 million and (b) 3.5% of the Total Assets of the Issuer; provided, however, that the amount of Indebtedness and Preferred Stock that may be Incurred or issued pursuant to the foregoing by Restricted Subsidiaries that are not Guarantors shall not exceed $10.0 million at any time outstanding;

(14) Indebtedness owed to an insurance company or an Affiliate thereof for the financing of insurance premiums or Indebtedness consisting of take-or-pay obligations contracted in supply agreements;

(15) (i) Indebtedness of the Issuer or a Guarantor Incurred, or Preferred Stock of a Guarantor issued, to finance an acquisition and (ii) Indebtedness or Preferred Stock of Persons that are acquired by the Issuer or any Guarantor or merged with or into the Issuer or a Guarantor in accordance with the terms of the Indenture; *provided, however,* that in the case of such clause (15)(i) or (15)(ii) above, after giving effect to such acquisition or merger and the Incurrence of such Indebtedness or the issuance of such Preferred Stock either, (x) the Issuer would have been entitled to Incur at least $1.00 of additional Indebtedness pursuant to paragraph (a) of this covenant or (y) the Consolidated Coverage Ratio would be greater than or equal to the Consolidated Coverage Ratio calculated immediately prior to such acquisition or merger;

(16) Indebtedness representing deferred compensation or other similar arrangements to employees and directors of the Issuer or any of its Restricted Subsidiaries incurred in the ordinary course of business;

(17) the Incurrence by the Issuer or any Restricted Subsidiary of Indebtedness to the extent the proceeds thereof are used to defease or discharge Notes in accordance with the terms of the Indenture;

(18) the Incurrence by the Issuer or any Restricted Subsidiary of Indebtedness consisting of obligations to make payments to current or former directors, officers, employees or consultants, their respective Affiliates, Heirs and executors with respect to the cancellation, purchase or redemption of, Capital Stock of the Issuer or its Restricted Subsidiaries to the extent permitted under clause (4) of paragraph (b) of the covenant described below under the caption "—Limitation on Restricted Payments";

(19) Indebtedness of the Issuer or any Restricted Subsidiary supported by a letter of credit or bank guarantee issued pursuant to a Credit Facility permitted hereby, in a principal amount not in excess of the stated amount of such letter of credit or bank guarantee;

(20) Indebtedness under letters of credit, bank guarantees, performance bonds, bid bonds, customs bonds and similar credit support that supports obligations (other than obligations of the type described in clauses (1) through (3) of the definition of *"Indebtedness"*) of the Issuer and its Restricted Subsidiaries incurred in the ordinary course of business in an aggregate principal amount not to exceed $75.0 million at any one time outstanding; and

(21) Incurrence by the Issuer or any of its Restricted Subsidiaries of any liability in respect of the Indebtedness of any Unrestricted Subsidiary but only to the extent that such liability consists solely of Non-Recourse Debt.

(c) For purposes of determining compliance with this covenant:

(1) in the event that an item of Indebtedness (or any portion thereof) meets the criteria of more than one of the types of Indebtedness described above, the Issuer, in its sole discretion, may divide and classify such item of Indebtedness (or any portion thereof) at the time of Incurrence and will only be required to include the amount and type of such Indebtedness in one of the above clauses;

(2) the Issuer will be entitled to divide and classify an item of Indebtedness in more than one of the types of Indebtedness described above; and

(3) following the date of its Incurrence, any Indebtedness originally classified as Incurred pursuant to one of the clauses in paragraph (b) above may later be reclassified by the Issuer such that it will be deemed as having been Incurred pursuant to paragraph (a) above or another clause in paragraph (b) above, as applicable, to the extent that such reclassified Indebtedness could be Incurred pursuant to such new clause and the other provisions of the Indenture at the time of such reclassification; *provided*, however, that all First Lien Indebtedness shall be classified as having been incurred under clause (b)(1) above and may not later be reclassified.

(d) The Issuer will not, nor will it permit any of the Guarantors to, directly or indirectly, incur any Indebtedness which by its terms (or by the terms of any agreement governing such Indebtedness) is subordinated to any other Indebtedness of the Issuer or such Guarantor unless such Indebtedness is also by its terms (or by the terms of any agreement governing such Indebtedness) made expressly subordinate to the Indenture Obligations of the Issuer or such Guarantor, in each case, to the same extent and in the same manner as such Indebtedness is subordinated pursuant to the subordination provisions that are most favorable to the holders of any other Indebtedness of the Issuer or such Guarantor.

(e) For purposes of determining compliance with any U.S. dollar denominated restriction on the Incurrence of Indebtedness where the Indebtedness Incurred is denominated in a different currency, the amount of such Indebtedness will be the U.S. Dollar Equivalent, determined on the date of the Incurrence of such Indebtedness; *provided, however,* that if any such Indebtedness denominated in a different currency is subject to a Currency Agreement with respect to U.S. dollars covering all principal, premium, if any, and interest payable on such Indebtedness, the amount of such Indebtedness expressed in U.S. dollars will be as provided in such Currency Agreement. The principal amount of any Refinancing Indebtedness Incurred in the same currency as the Indebtedness being Refinanced will be the U.S. Dollar Equivalent of the Indebtedness Refinanced, except to the extent that (1) such U.S. Dollar Equivalent was determined based on a Currency Agreement, in which case the Refinancing Indebtedness will be determined in accordance with the preceding sentence, and (2) the principal amount of the Refinancing Indebtedness exceeds the principal amount of the Indebtedness being Refinanced, in which case the U.S. Dollar Equivalent of such excess will be determined on the date such Refinancing Indebtedness is Incurred.

Limitation on Restricted Payments

(a) The Issuer will not, and will not permit any Restricted Subsidiary, directly or indirectly, to make a Restricted Payment if at the time the Issuer or such Restricted Subsidiary makes such Restricted Payment:

(1) a Default shall have occurred and be continuing (or would result therefrom);

(2) the Issuer is not entitled to Incur an additional $1.00 of Indebtedness pursuant to paragraph (a) of the covenant described under ‘‘—Limitation on Indebtedness and Issuances of Preferred Stock’’;

(3) the aggregate amount of such Restricted Payment and all other Restricted Payments since the Issue Date (including Restricted Payments permitted by clauses (3) and (11) of the next succeeding paragraph, but excluding all other Restricted Payments permitted by the next succeeding paragraph) would exceed the sum of (without duplication):

(a) 50% of the Consolidated Net Income accrued during the period (treated as one accounting period) from January 1, 2021 to the end of the most recently ended fiscal quarter for which internal financial statements are available at the time of such Restricted Payment (or, in case such Consolidated Net Income shall be a deficit, minus 100% of such deficit); plus

(b) 100% of the aggregate Net Cash Proceeds or Fair Market Value of any assets received by the

Issuer either (x) from the issuance or sale of its Qualified Capital Stock subsequent to January 1, 2021, including Qualified Capital Stock issued upon the exercise of warrants or options, or (y) as a contribution in respect of the outstanding Capital Stock of the Issuer by its direct or indirect stockholders or members subsequent to January 1, 2021; plus

(c) the amount by which Indebtedness of the Issuer or any of the Restricted Subsidiaries is reduced on the Issuer's balance sheet upon the conversion or exchange subsequent to January 1, 2021 of any Indebtedness of the Issuer or such Restricted Subsidiary convertible or exchangeable for Capital Stock (other than Disqualified Stock) of the Issuer or any direct or indirect parent of the Issuer (including any accrued interest or unpaid fees then outstanding in respect of such Indebtedness to the extent the obligation to pay such interest or fees is extinguished as a result of such exchange); plus

(d) an amount equal to the sum of (x) the net reduction in the Investments (other than Permitted Investments) made by the Issuer or any Restricted Subsidiary in any Person resulting from repurchases, repayments or redemptions of such Investments by such Person, proceeds realized on the sale of such Investment and proceeds representing the return of capital (excluding dividends and distributions), in each case received by the Issuer or any Restricted Subsidiary, and (y) in the case of any designation of an Unrestricted Subsidiary as a Restricted Subsidiary or the merger, amalgamation or consolidation of an Unrestricted Subsidiary into the Issuer or a Restricted Subsidiary or the transfer of all or substantially all of the assets of an Unrestricted Subsidiary to the Issuer or a Restricted Subsidiary after the Issue Date, the portion (proportionate to the Issuer's equity interest in such Subsidiary) of the Fair Market Value of the net assets of such Unrestricted Subsidiary at the time such Unrestricted Subsidiary is designated a Restricted Subsidiary; *provided, however,* that the foregoing sum shall not exceed, in the case of any such Person or Unrestricted Subsidiary, the amount of Investments (excluding Permitted Investments) previously made (and treated as a Restricted Payment) by the Issuer or any Restricted Subsidiary in such Person or Unrestricted Subsidiary; plus

(e) 100% of any dividends or distributions (including the Fair Market Value of assets transferred) received by the Issuer or a Restricted Subsidiary of the Issuer after January 1, 2021 from an Unrestricted Subsidiary of the Issuer, to the extent that such dividends or distributions (including transfers of assets) were not otherwise included in the Consolidated Net Income of the Issuer for such period;

(4) the Senior Secured Leverage Ratio, calculated after giving effect to such Restricted Payment, would exceed 2.00 to 1.00; or

(5) after giving effect to such Restricted Payment, the Issuer and the Guarantors would have aggregate Liquidity of less than $75.0 million.

(b) The preceding provisions will not prohibit:

(1) any Restricted Payment made out of the Net Cash Proceeds of the substantially concurrent sale of, or made by exchange for, Qualified Capital Stock or a substantially concurrent cash capital contribution received by the Issuer; *provided, however,* that the Net Cash Proceeds from such sale or such cash capital contribution (to the extent so used for such Restricted Payment) shall be excluded from the calculation of amounts under clause (3)(b) of paragraph (a) above;

(2) any purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of Subordinated Obligations, Existing Notes, Second Lien Indebtedness or Senior Indebtedness of the Issuer or a Guarantor made by exchange for, or out of the proceeds of the substantially concurrent Incurrence of, Refinancing Indebtedness of such Person which is permitted to be Incurred pursuant to the covenant described under ‘‘—Limitation on Indebtedness and Issuances of Preferred Stock'';

(3) dividends paid within 60 days after the date of declaration thereof if at such date of declaration such dividend would have complied with this covenant and the redemption of any Subordinated Obligations within 60 days after the date on which notice of such redemption was given, if at said date of the giving of such notice, such redemption would have complied with this covenant;

(4) the redemption, repurchase or other acquisition or retirement for value of any shares of Capital Stock of the Issuer or any of its Restricted Subsidiaries, or any Restricted Payment to effect the purchase, redemption, or other acquisition of shares of Capital Stock of any direct or indirect parent of the Issuer (a) held by any current or former director, officer, employees or consultants of the Issuer or any of its Subsidiaries (or Heirs or other permitted transferees of any of the foregoing), pursuant to any management equity subscription plan or agreement, stock option or stock purchase plan or agreement or employee benefit plan or other similar agreement or arrangement as may be adopted by the Issuer or any of its Restricted Subsidiaries from time to time or pursuant to any agreement with any director, officer, employee or consultant of the Issuer or any of its Restricted Subsidiaries in existence on the Issue Date or (b) from an employee of Issuer or any of its Restricted Subsidiaries (or any direct or indirect parent of the Issuer) upon the termination of such employee's employment with Issuer or any of its Restricted Subsidiaries; *provided, however,* that the aggregate amount of such Restricted Payments shall not in any calendar year exceed the sum of:

   (a) $2.0 million plus any unused amount in any preceding calendar year subject to a maximum of $5.0 million in any calendar year; plus

   (b) the Net Cash Proceeds from the sale of Qualified Capital Stock of the Issuer or, to the extent contributed to the common equity of the Issuer, Qualified Capital Stock of any direct or indirect parent of the Issuer, to employees, directors, officers or consultants of the Issuer and the Restricted Subsidiaries that occurs after the Issue Date (in each case to the extent such Net Cash Proceeds have not otherwise been applied to the payment of Restricted Payments or included in the calculation pursuant to clause (3)(b) of paragraph (a) above); plus

   (c) the cash proceeds of key man life insurance policies received by the Issuer or any Restricted Subsidiary after the Issue Date; provided further, however, that the cancelation of Indebtedness owing to the Issuer from employees, directors, officers and consultants of the Issuer or any of the Restricted Subsidiaries in connection with the repurchase of Qualified Capital Stock of the Issuer from such Persons will not be deemed to constitute a Restricted Payment for purposes of this covenant or any other provision of the Indenture;

(5) repurchases, acquisitions or retirements of Capital Stock of the Issuer or any of its Restricted Subsidiaries, or any Restricted Payment to effect the repurchase, acquisition or retirements of Capital Stock of any direct or indirect parent of the Issuer, in any such case deemed to occur upon the exercise or vesting of stock options, warrants or restricted stock or similar rights under employee benefit plans of the Issuer, its Restricted Subsidiaries or any direct or indirect parent of the Issuer if such Capital Stock represents all or a portion of the exercise price thereof and repurchases, acquisitions or retirements of Capital Stock or options to purchase Capital Stock in connection with the exercise or vesting of stock options, warrants or restricted stock to the extent necessary to pay applicable withholding taxes;

(6) cash payments in lieu of the issuance of fractional shares in connection with the exercise of warrants, options or other securities convertible into or exchangeable for Capital Stock of the Issuer (or any direct or indirect parent of the Issuer); *provided, however,* that any such cash payment shall not be for the purpose of evading the limitation of the covenant described under this subheading (as determined in good faith by the Board of Directors of the Issuer);

(7) in the event of a Change of Control, the payment, purchase, redemption, defeasance or other acquisition or retirement of Subordinated Obligations or Disqualified Stock of the Issuer or any Restricted Subsidiary; *provided, however,* that prior to such payment, purchase, redemption, defeasance or other acquisition or retirement, the Issuer (or a third party to the extent permitted by the Indenture) has made a Change of Control Offer with respect to the Notes as a result of such Change of Control and has repurchased all Notes validly tendered and not withdrawn in connection with such Change of Control Offer;

(8) in the event of an Asset Disposition that requires the Issuer to offer to repurchase Notes pursuant to the covenant described under "—Limitation on Sales of Assets and Subsidiary Stock," the payment, purchase, redemption, defeasance or other acquisition or retirement of Second Lien Obligations, Senior Indebtedness (including the Existing Notes), Subordinated Obligations or Disqualified Stock of

the Issuer or any Restricted Subsidiary; *provided, however,* that prior to such payment, purchase, redemption, defeasance or other acquisition or retirement, the Issuer has made an offer with respect to the Notes pursuant to the provisions of the covenant described under "—Limitation on Sales of Assets and Subsidiary Stock" and has repurchased all Notes validly tendered and not withdrawn in connection with such offer;

(9) Restricted Payments to any direct or indirect parent of the Issuer or any Subsidiary of the Issuer or any direct or indirect parent of the Issuer in amounts required for such parent or Subsidiary to pay (i) consolidated, combined or unitary United States federal, state, local or foreign income taxes (and any interest, penalties and additions thereto or thereon), as the case may be, that are not payable directly by the Issuer or its Subsidiaries and that are attributable to the Issuer, any Subsidiary thereof, or any of their operations, assets and activities, and (ii) franchise, income and other taxes, fees, and assessments in lieu of income taxes;

(10) the payment of any Restricted Payment, if applicable:

(a) in amounts required for any direct or indirect parent of the Issuer, if applicable, to pay fees and expenses required to maintain its corporate existence, customary salary, bonus and other benefits payable to, and indemnities provided on behalf of, directors, officers and employees of any direct or indirect parent of the Issuer, if applicable, and general corporate overhead expenses of any direct or indirect parent of the Issuer, if applicable, in each case to the extent such fees and expenses are attributable to the ownership or operation of the Issuer, if applicable, and its Restricted Subsidiaries (for so long as such direct or indirect parent owns no assets other than the Capital Stock in the Issuer or another direct or indirect parent of the Issuer and other *de minimis* assets, if any, such fees and expenses shall be deemed for purposes of this clause (10)(a) to be so attributable to such ownership or operation) in an aggregate amount not to exceed $2.0 million in any calendar year; and

(b) in amounts required for any direct or indirect parent of the Issuer to pay fees and expenses, other than to Affiliates of the Issuer, related to any unsuccessful equity or debt offering of such parent in an aggregate amount not exceed $2.0 million to the extent the net proceeds thereof were intended to be contributed to the Issuer or to redeem, repurchase or otherwise retire for value Indebtedness of the Issuer or its Restricted Subsidiaries;

(11) the payment or distribution to dissenting equity holders pursuant to applicable law in connection with a consolidation, merger, amalgamation or transfer of assets that complies with the provisions of the Indenture applicable to mergers, consolidations, amalgamations and transfers of all or substantially all of the property and assets of the Issuer or any of the Restricted Subsidiaries;

(12) the distribution, as a dividend or otherwise, of Indebtedness owed to the Issuer or a Restricted Subsidiary by Unrestricted Subsidiaries (other than any Unrestricted Subsidiary all or substantially all of the assets of which consist of cash or Cash Equivalents);

(13) Restricted Payments to any direct or indirect parent of the Issuer to make payments and dividends permitted to be made directly by the Issuer pursuant to the covenant described under the caption "—Limitation on Affiliate Transactions" (but excluding any payments contemplated under clause (b)(4) thereof);

(14) so long as no Default shall have occurred and be continuing (or would result therefrom), other Restricted Payments in an aggregate amount not to exceed $25.0 million; provided, that after giving effect to such Restricted Payments, the Issuer and the Guarantors shall have aggregate Liquidity of at least $75.0 million; and

(15) so long as no Default shall have occurred and be continuing (or would result therefrom), any purchase, repurchase, exchange, redemption or other acquisition for value of Existing Notes in an amount such that, on a pro forma basis after giving effect to such purchase, repurchase, exchange, redemption or other acquisition for value, the Issuer and the Guarantors shall have aggregate Liquidity of at least $75.0 million.

The amount of all Restricted Payments (other than cash) will be the Fair Market Value on the date of the Restricted Payment of the asset(s) or securities proposed to be transferred or issued by the Issuer or such Restricted Subsidiary, as the case may be, pursuant to the Restricted Payment. In the event that a Restricted Payment meets the criteria of more than one of the above clauses, including clause (a) of this covenant or the definition of ''Permitted Investment'', the Issuer may classify, and from time to time may reclassify, such Restricted Payment if such classification would be permitted at the time of such reclassification; provided, however, that the Issuer may not reclassify any Investments made pursuant to clause (15) of the definition of ''Permitted Investment''. In addition, a Restricted Payment may be made in reliance in part on one clause and in part on another clause.

Notwithstanding anything to the contrary in this ''—Limitation on Restricted Payments'' covenant, the Issuer shall not, and shall not permit any Restricted Subsidiary, directly or indirectly, to make a Restricted Payment to the extent such Restricted Payment would result in a violation of the covenant contained in ''—Certain Rig Matters.''

Limitation on Restrictions on Distributions from Restricted Subsidiaries

The Issuer will not, and will not permit any Restricted Subsidiary to, create or otherwise cause or permit to exist or become effective any consensual encumbrance or restriction on the ability of any Restricted Subsidiary to (a) pay dividends or make any other distributions on its Capital Stock to the Issuer or a Restricted Subsidiary or pay any Indebtedness owed to the Issuer or a Restricted Subsidiary, (b) make any loans or advances to the Issuer or a Restricted Subsidiary or (c) transfer any of its property or assets to the Issuer or a Restricted Subsidiary, except:

(1) any encumbrance or restriction pursuant to an agreement in effect at or entered into on the Issue Date (as in effect on the Issue Date after giving effect to the issuance of the Notes on the Issue Date and the use of proceeds therefrom);

(2) any agreement or obligation of a Person acquired by the Issuer or any of its Restricted Subsidiaries as in effect at the time of such acquisition, which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Person, or the property or assets of the Person, so acquired; provided that, in the case of Indebtedness, such Indebtedness was permitted by the terms of the Indenture to be Incurred;

(3) any encumbrance or restriction pursuant to an agreement of any Unrestricted Subsidiary at the time it is designated or is deemed to become a Restricted Subsidiary, which encumbrance or restriction is not applicable to any Person, or the properties or assets of any Person, other than the Unrestricted Subsidiary;

(4) any encumbrance or restriction with respect to an asset or a Restricted Subsidiary imposed pursuant to an agreement entered into for the sale or disposition of such asset or all or substantially all the Capital Stock or assets of such Restricted Subsidiary pending the closing of such sale or disposition;

(5) any encumbrance or restriction pursuant to applicable law, rule, regulation or order;

(6) restrictions on cash, Cash Equivalents or other deposits or net worth imposed under contracts entered into in the ordinary course of business, including such restrictions imposed by customers or insurance, surety or bonding companies;

(7) provisions contained in any license, permit or other accreditation with a regulatory authority relating to a Related Business and entered into in the ordinary course of business;

(8) provisions in agreements or instruments which prohibit the payment or making of dividends or other distributions other than on a pro rata basis;

(9) customary non-assignment provisions in contracts, licenses and other agreements (including, without limitation, leases) entered into in the ordinary course of business;

(10) provisions limiting the disposition or distribution of assets or property in partnership agreements, limited liability company operating agreements, asset sale agreements, sale-leaseback agreements, stock sale agreements and other similar agreements entered into with the approval of the Board of Directors of the Issuer or otherwise in the ordinary course of business of the Issuer, which limitation is applicable only to the assets that are the subject of such agreements and any proceeds therefrom;

(11) provisions contained in the Indenture Documents;

(12) any agreement or instrument relating to other Indebtedness or Preferred Stock permitted to be incurred subsequent to the Issue Date under the provisions of the covenant described above under the caption "—Limitation on Indebtedness and Issuances of Preferred Stock" if the encumbrances and restrictions are (i) not materially more restrictive than the terms of the Indenture as in effect on the Issue Date (as determined in good faith by an Officer of the Issuer) or (ii) customary for instruments of such type in the market at such time and will not materially adversely impact the ability of the Issuer to make required payments of principal, interest or premium or Additional Amounts, if any, on the Notes;

(13) Liens permitted to be incurred under the provisions of the covenant described below under the caption "—Limitation on Liens" that limit the right of the debtor to dispose of the assets subject to such Liens;

(14) purchase money obligations for property acquired in the ordinary course of business and Capital Lease Obligations that impose restrictions on that property of the nature described in clause (c) of the first paragraph of this covenant;

(15) customary provisions in joint venture agreements and other similar agreements relating solely to such joint venture; and

(16) any amendment, modification, restatement, renewal, increase, supplement, refunding, replacement or refinancing of an agreement referred to in clauses (1) through (15) above, *provided, however* that such amendment, modification, restatement, renewal, increase, supplement, refunding, replacement or refinancing (A) is not materially more restrictive, taken as a whole, than the agreement as it existed prior to such amendment, modification, restatement, renewal, increase, supplement, refunding, replacement or refinancing as determined in good faith by an Officer of the Issuer or (B) is customary for instruments of such type in the market at such time and will not materially adversely impact the ability of the Issuer to make required payments of principal, interest or premium or Additional Amounts, if any, on the Notes.

For purposes of determining compliance with this covenant, (1) the priority of any Preferred Stock in receiving dividends or liquidating distributions prior to dividends or liquidating distributions being paid on common stock shall not be deemed a restriction on the ability to make distributions on Capital Stock and (2) the subordination of loans or advances made to the Issuer or a Restricted Subsidiary to other Indebtedness Incurred by the Issuer or any such Restricted Subsidiary shall not be deemed a restriction on the ability to make loans or advances.

Limitation on Sales of Assets and Subsidiary Stock

The Issuer will not, and will not permit any of its Restricted Subsidiaries to, consummate an Asset Disposition, unless:

(a) the Issuer or such Restricted Subsidiary, as the case may be, receives consideration at the time of such Asset Disposition at least equal to the Fair Market Value of the assets sold or otherwise disposed of (measured as of the date of the definitive agreement with respect to such Asset Disposition); and

(b) at least 75% of the consideration therefor received by the Issuer or such Restricted Subsidiary, as the case may be (which, for purposes of this clause (b), consideration will not include any contingent payment obligations related to such Asset Disposition, including, earn-out payments, purchase price adjustments and deferred purchase price payments), is in the form of cash or Cash Equivalents; provided that the amount of:

    (1) any liabilities, as shown on the Issuer's or such Restricted Subsidiary's most recent balance sheet or in the notes thereto, of the Issuer or any of its Restricted Subsidiaries (other than contingent liabilities and liabilities that are by their terms subordinated to the Notes) (A) that are assumed by the transferee of any such assets and from which the Issuer or such Restricted Subsidiary has been validly released by all creditors in writing, or (B) in respect of which neither the Issuer nor any Restricted Subsidiary following such Asset Disposition has any obligation;

    (2) any securities or other obligations received by the Issuer or such Restricted Subsidiary from such transferee that are converted by the Issuer or such Restricted Subsidiary into cash or Cash Equivalents (to the extent of the cash or Cash Equivalents received) within 180 days following the closing of such Asset Disposition;

    (3) any Capital Stock, properties or assets of the kind referred to in clause (b) of the following paragraph;

(4) cash held in escrow as security for any purchase price settlement, for damages in respect of a breach of representations and warranties or covenants or for payment of other contingent obligations in connection with such Asset Disposition; and

(5) any Designated Noncash Consideration received by the Issuer or any Restricted Subsidiary in such Asset Disposition having an aggregate Fair Market Value, taken together with all other Designated Noncash Consideration received pursuant to this clause (5) that is at that time outstanding, not to exceed the greater of (x) $20.0 million and (y) 1.5% of the Total Assets of the Issuer at the time of the receipt of such Designated Noncash Consideration, with the Fair Market Value of each item of Designated Noncash Consideration being measured at the time received and without giving effect to subsequent changes in value,

in each case, shall be deemed to be Cash Equivalents for purposes of this provision and for no other purpose.

Within 365 days after the receipt of any Net Cash Proceeds of any Asset Disposition, the Issuer or such Restricted Subsidiary, at its option, may apply the Net Cash Proceeds from such Asset Disposition to one or more of the following, or any combination,

(a) to reduce or repay:

(1) First Lien Claims (provided, that if the Issuer or any Restricted Subsidiary shall so reduce First Lien Claims other than the Notes, the Issuer will equally and ratably reduce Obligations under the Notes) and to the extent the Obligations under the Notes are reduced or repaid, they shall be reduced or repaid in accordance with the provisions set forth under "—Optional Redemption," through open market purchases of the Notes (provided, that such purchases are at or above 100% of the principal amount thereof), or through an offer to purchase Notes (in accordance with the procedures set forth below for an Asset Disposition Offer (as defined below)); provided, that all Net Cash Proceeds used to make such an offer to purchase shall be deemed to have been so applied whether or not accepted by the Holders;

(2) to the extent the property that is subject to such Asset Disposition was sold by a non-Guarantor Subsidiary, Indebtedness of a non-Guarantor Subsidiary, other than Indebtedness owed to the Issuer or another Restricted Subsidiary; or

(b) to make (1) an Investment in any one or more businesses; provided that such Investment in any business is in the form of the acquisition of Capital Stock of a Restricted Subsidiary or results in the Issuer or its Restricted Subsidiaries owning an amount of the Capital Stock of such business such that it constitutes a Restricted Subsidiary; provided further, that if such Asset Disposition is of Collateral and such Restricted Subsidiary is not already a Guarantor, such Restricted Subsidiary shall become a Guarantor and the assets that are the subject of such Investment shall at the time of such Investment constitute Collateral to the extent they are not Excluded Rigs, (2) capital expenditures in respect of the Issuer, its Restricted Subsidiaries or their respective assets or (3) acquisitions of other properties or assets to be held by the Issuer or its Restricted Subsidiaries (including assets that replace the business, properties and assets of the Issuer or any of its Restricted Subsidiaries that were the subject of such Asset Disposition), in the case of each of (1), (2) and (3), used or useful in a Related Business; provided, that if such Asset Disposition is of Collateral, in each case the property subject to such acquisitions shall at the time of such acquisitions constitute Collateral to the extent such property is not an Excluded Rig; or

provided that a binding commitment to apply Net Cash Proceeds as set forth in clause (b) above shall be treated as a permitted application of the Net Cash Proceeds from the date of such commitment so long as the Issuer or such Restricted Subsidiary enters into such commitment with the good faith expectation that such Net Cash Proceeds will be applied to satisfy such commitment within 180 days of the end of such 365-day period (an *"Acceptable Commitment")* and, in the event any Acceptable Commitment is later cancelled or terminated for any reason before the Net Cash Proceeds are applied in connection therewith, then the Issuer or such Restricted Subsidiary shall be permitted to apply the Net Cash Proceeds in any manner set forth above before the expiration of such 180-day period and, in the event the Issuer or such Restricted Subsidiary fails to do so, then such Net Cash Proceeds shall constitute Excess Proceeds (as defined below).

Any Net Cash Proceeds from an Asset Disposition that are not invested or applied as provided and within the time period set forth in the second paragraph of this covenant will be deemed to constitute "*Excess Proceeds*." The Issuer shall make an offer to all Holders of the Notes (an "*Asset Disposition Offer*") and all holders of Additional First Lien Indebtedness containing provisions similar to those set forth in the Indenture with respect to offers to purchase, prepay or redeem with the proceeds of sales of assets to purchase, prepay or redeem the maximum aggregate principal amount of the Notes (equal to $2,000 or integral multiples of $1,000 in excess thereof) and such Additional First Lien Indebtedness (plus all accrued interest on such Indebtedness and the amount of all fees and expenses, including premiums, incurred in connection therewith), that may be purchased out of the Excess Proceeds at an offer price in cash in an amount equal to 100% of the principal amount thereof (or, in the event such Notes or Additional First Lien Indebtedness were issued with original issue discount, 100% of the accreted value thereof), plus accrued and unpaid interest to, but not including, the date fixed for the closing of such offer (subject to the rights of Holders of Notes on the relevant record date to receive interest due on the relevant interest payment date), in accordance with the procedures set forth in the Indenture or the agreements governing such Additional First Lien Indebtedness, as applicable. The Issuer will commence an Asset Disposition Offer with respect to Excess Proceeds within 30 days after the date that Excess Proceeds exceed $30.0 million by delivering the notice required pursuant to the terms of the Indenture, with a copy to the Trustee. The Issuer may, at its election, satisfy the foregoing obligations with respect to any Net Cash Proceeds from an Asset Disposition by making an Asset Disposition Offer with respect to such Net Cash Proceeds prior to the expiration of the relevant 365-day period (or such longer period provided above).

To the extent that the aggregate amount of Notes and Additional First Lien Indebtedness tendered pursuant to an Asset Disposition Offer is less than the Excess Proceeds, the Issuer may use any remaining Excess Proceeds for any purpose not prohibited by the Indenture. If the aggregate principal amount of Notes and Additional First Lien Indebtedness surrendered by such holders thereof exceeds the amount of Excess Proceeds, the Trustee shall select the Notes and the applicable agent or the Issuer shall select such Additional First Lien Indebtedness to be purchased on a pro rata basis based on the accreted value or principal amount of the Notes tendered (with adjustments as necessary so that no Notes will be repurchased in part in an unauthorized denomination) or such Additional First Lien Indebtedness tendered. Upon completion of any such Asset Disposition Offer, the amount of Excess Proceeds that resulted in the Asset Disposition Offer shall be reset to zero.

Pending the final application of any Excess Proceeds, the Issuer (or the applicable Restricted Subsidiary) may temporarily reduce revolving credit borrowings or otherwise invest the Excess Proceeds in any manner that is not prohibited by the Indenture.

The Issuer will comply with the requirements of Rule 14e-1 under the Exchange Act and any other securities laws and regulations thereunder to the extent such laws or regulations are applicable in connection with the repurchase of the Notes pursuant to an Asset Disposition Offer. To the extent that the provisions of any securities laws or regulations conflict with the provisions of the Indenture, the Issuer will comply with the applicable securities laws and regulations and shall not be deemed to have breached its obligations described in the Indenture by virtue thereof.

Notwithstanding anything to the contrary in this ''—Limitation on Sales of Assets and Subsidiary Stock'' covenant, the Issuer shall not, and shall not permit any Restricted Subsidiary, directly or indirectly, to consummate any Asset Disposition that would result in a violation of the covenant contained in ''—Certain Rig Matters.''

The provisions under the Indenture relating to the Issuer's obligation to make an Asset Disposition Offer may be waived or modified with the written consent of a majority in principal amount of the Notes.

Limitation on Affiliate Transactions

(a) The Issuer will not, and will not permit any Restricted Subsidiary to, make any payment to, or sell, lease, transfer or otherwise dispose of any of its properties or assets to, or purchase any property or assets from, or enter into or make or amend any transaction, contract, agreement, understanding, loan, or advance with, or guarantee for the benefit of, any Affiliate of the Issuer involving aggregate payments or consideration in excess of $1.0 million (each of the foregoing, an *''Affiliate Transaction'')* unless:

(1) such Affiliate Transaction is on terms that are not materially less favorable to the Issuer or the relevant Restricted Subsidiary than those that would have been obtained at the time of the Affiliate Transaction in a comparable transaction by the Issuer or such Restricted Subsidiary with a Person who is not an Affiliate; and

(2) the Issuer delivers to the Trustee with respect to any Affiliate Transaction or series of related Affiliate Transactions involving aggregate payments or consideration in excess of $20.0 million, a resolution adopted by the majority of the Board of Directors approving such Affiliate Transaction and set forth in an Officer's Certificate certifying that such Affiliate Transaction complies with the Indenture, including clause (1) above.

(b) The provisions of the preceding paragraph (a) will not be applicable to:

(1) transactions between or among the Issuer and/or its Restricted Subsidiaries and any merger of the Issuer and any direct parent of the Issuer; provided that at the time of such merger such parent shall have no material liabilities and no material assets other than cash, Cash Equivalents and the Capital Stock of the Issuer and such merger is otherwise in compliance with the terms of the Indenture;

(2) Permitted Investments and Restricted Payments permitted to be made pursuant to the covenant described under ''—Limitation on Restricted Payments'';

(3) employment arrangements and stock option and stock ownership plans and any issuance of securities of the Issuer, any direct or indirect parent of the Issuer or a Restricted Subsidiary, or other payments, awards or grants in cash, securities or otherwise pursuant thereto, in each case, approved by the Board of Directors of the Issuer;

(4) director, officer, employee and consultant compensation, benefit, reimbursement and indemnification agreements, plans and arrangements entered into by the Issuer, any of the Restricted Subsidiaries or any direct or indirect parent company of the Issuer in the ordinary course of business, and any payments pursuant thereto;

(5) the issuance or sale of any Capital Stock (other than Disqualified Stock) of the Issuer or any direct or indirect parent company of the Issuer or the granting or performance of registration rights in respect of any such Capital Stock, which rights have been approved by the Board of Directors of such Person;

(6) the provision of services in the ordinary course of business at rates comparable to those offered to third party customers to an Affiliate which would constitute an Affiliate Transaction solely as a result of the Issuer or any of the Restricted Subsidiaries being in or under common control with such Affiliate;

(7) payments by the Issuer or any Restricted Subsidiary to the Equity Sponsors or their respective Affiliates made for any financial advisory, financing, underwriting or placement services or in respect of other investment banking activities, including, without limitation, in connection with acquisitions or divestitures which payments are approved by a majority of the Board of Directors of the Issuer in good faith;

(8) transactions in which the Issuer or any Restricted Subsidiary, as the case may be, delivers to the Trustee a letter from an Independent Qualified Party stating that such transaction is fair to the Issuer or such Restricted Subsidiary from a financial point of view or meets the requirements of clause (1) of the preceding paragraph;

(9) any agreement as in effect on the Issue Date or any amendment thereto (so long as any such amendment, taken as a whole, is not materially less favorable to the Issuer and its Restricted Subsidiaries than the agreement as in effect on Issue Date (as determined by the Board of Directors of the Issuer in good faith));

(10) the existence of, or the performance by the Issuer or any of its Restricted Subsidiaries of its obligations under the terms of, any equityholders agreement (including any registration rights agreement or purchase agreement related thereto) to which it is a party as of the Issue Date and any similar agreements which it may enter into thereafter; provided, however, that the existence of, or the performance by the Issuer or any Restricted Subsidiary of obligations under any future amendment to any such existing agreement or under any similar agreement entered into after the Issue Date shall only be permitted by this clause (10) to the extent that the terms of any such amendment or new agreement, taken as a whole, are not materially less favorable to the Issuer and its Restricted Subsidiaries than any agreement in effect on the Issue Date (as determined by the Board of Directors of the Issuer in good faith);

(11) entering into any tax sharing agreement or arrangement;

(12) transactions with customers, clients, suppliers, purchasers or sellers of goods or services or Unrestricted Subsidiaries, in each case in the ordinary course of business and otherwise in compliance with the terms of the Indenture which are fair to the Issuer and the Restricted Subsidiaries, in the reasonable determination of the Board of Directors of the Issuer or the senior management thereof, or are on terms at least as favorable as might reasonably have been obtained at such time from an unaffiliated party (as determined by the Board of Directors of the Issuer in good faith);

(13) transactions in the ordinary course with joint ventures in which the Issuer or a Restricted Subsidiary of the Issuer holds or acquires an ownership interest (whether by way of Capital Stock or otherwise) so long as the terms of any such transactions are not materially less favorable to the Issuer or Restricted Subsidiary participating in such joint ventures than they are to other joint venture partners;

(14) any contribution to the capital of the Issuer;

(15) pledges of Capital Stock of Unrestricted Subsidiaries permitted by clause (25)(b) of the definition of "Permitted Liens" and any guarantee given solely to support such pledge, which guarantee constitutes Non-Recourse Debt;

(16) intercompany transactions undertaken in good faith (as certified by a responsible financial or accounting officer of the Issuer in an Officer's Certificate) for the purpose of improving the tax efficiency of the Issuer and its Subsidiaries for consolidated, combined or unitary United States federal, state or local income taxes, as the case may be, and not for the purpose of circumventing any covenant set forth in the Indenture; *provided, however,* that such transactions shall not result in a deemed taxable exchange of the Notes by the Holders for United States federal income tax purposes;

(17) transactions with Affiliates of the Issuer solely in their capacity as holders of Indebtedness or Capital Stock of the Issuer or any Restricted Subsidiary, *provided,* that (i) a significant amount of the Indebtedness or Capital Stock of the same class is also held by persons that are not Affiliates of the Issuer, (ii) any such transaction is with all holders of the applicable class of Indebtedness or Capital Stock and (iii) such Affiliates are treated no more favorably than non-Affiliate holders of such Indebtedness or Capital Stock generally; and

(18) transactions with a Person (other than an Unrestricted Subsidiary of the Issuer) that is an Affiliate of the Issuer solely because the Issuer owns, directly or through a Restricted Subsidiary, Capital Stock in, or controls, such Person.

Limitation on Line of Business

The Issuer will not, and will not permit any Restricted Subsidiary, to engage in any business other than a Related Business.

Limitation on Liens

The Issuer will not, and will not permit any Restricted Subsidiary to, directly or indirectly, Incur or permit to exist any Lien (other than Permitted Liens) of any nature whatsoever on any of its properties or assets.

Merger and Consolidation

(a) The Issuer will not consolidate with or merge with or into, or convey, transfer or lease, in one transaction or a series of related transactions, directly or indirectly, all or substantially all of the properties and assets of it and its Restricted Subsidiaries (determined on a consolidated basis) to, any other Person, unless:

(1) the resulting, surviving or transferee Person (the *"Successor Company")* shall be an entity organized and existing under the laws of the Cayman Islands, the United States of America, any State thereof or the District of Columbia (provided that if such entity is not a corporation, a co-obligor of the Notes is a corporation), the Successor Company (if not the Issuer) shall expressly assume, by an indenture supplemental thereto, executed and delivered to the Trustee, all the obligations of the Issuer under the Notes and the Indenture and shall assume by written agreement all of the obligations of the Issuer under the First Lien Collateral Documents and the Successor Company (if not the Issuer) shall cause such amendments, supplements or other instruments to be executed, filed and recorded in such jurisdiction as may be required by applicable law to preserve and protect the Lien on the Collateral pledged by or transferred to such Person, together with such financing statements or comparable documents as may be required to perfect any security interests in such Collateral which may be perfected by the filing of a financing statement or a similar document under the UCC or other similar statute or regulation of the relevant states or jurisdictions;

(2) immediately after giving *pro forma* effect to such transaction (and treating any Indebtedness which becomes an obligation of the Successor Company or any Subsidiary as a result of such transaction as having been Incurred by such Successor Company or such Subsidiary at the time of such transaction), no Default shall have occurred and be continuing;

(3) immediately after giving *pro forma* effect to such transaction, the Successor Company (a) would be able to Incur an additional $1.00 of Indebtedness pursuant to paragraph (a) of the covenant described under ‘‘—Limitation on Indebtedness and Issuances of Preferred Stock’’ or (b) would have a Consolidated Coverage Ratio that is greater than or equal to the Consolidated Coverage Ratio calculated immediately prior to such transaction;

(4) immediately after giving effect to such transaction or series of transactions, the Collateral owned by or transferred to the Successor Company shall (A) constitute Collateral under the Indenture and the First Lien Collateral Documents, (B) be subject to the Lien for the benefit of the Holders of the Notes, and (C) not be subject to any Lien other than Permitted Liens;

(5) each Guarantor shall have by supplemental indenture confirmed that its Guarantee shall apply to the Successor Company's obligations under the Indenture, the Notes and the First Lien Collateral Documents; and

(6) the Issuer shall have delivered to the Trustee an Officer's Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer and such supplemental indenture (if any) comply with the Indenture.

Clauses (3) and (6) of this covenant will not apply to (a) any merger or consolidation of the Issuer with or into one of its Restricted Subsidiaries for any purpose, (b) any conveyance, transfer or lease of all or substantially all of the properties and assets of the Issuer and its Restricted Subsidiaries (determined on a consolidated basis) to one or more of its Restricted Subsidiaries or (c) the merger of the Issuer with or into an Affiliate solely for the purpose of reincorporating the Issuer in another jurisdiction or the conversion of the Issuer into a limited liability company (provided that a co-obligor of the Notes is a corporation) so long as the amount of Indebtedness of the Issuer and its Restricted Subsidiaries is not increased thereby. To the extent the Successor Company shall be an entity other than a corporation, the Issuer shall, prior to such consolidation, merger, conveyance, transfer or lease, deliver to the Trustee an Opinion of Counsel confirming that, subject to customary assumptions and exclusions, the Holders of the outstanding Notes will not recognize income, gain or loss for United States federal income tax purposes with respect to their ownership of the Notes solely as a result of such consolidation, merger, conveyance, transfer or lease and will be subject to United States federal income tax with respect to their ownership of the Notes on the same amounts, in the same manner and at the same times as would have been the case if such merger, conveyance, transfer or lease had not occurred.

For purposes of this covenant, the sale, lease, conveyance, assignment, transfer or other disposition of all or substantially all of the properties and assets of one or more Subsidiaries of the Issuer, which properties and assets, if held by the Issuer instead of such Subsidiaries, would constitute all or substantially all of the properties and assets of the Issuer on a consolidated basis, shall be deemed to be the transfer of all or substantially all of the properties and assets of the Issuer.

The Successor Company will be the successor to the Issuer and shall succeed to, and be substituted for, and may exercise every right and power of, the Issuer under the Indenture, and the predecessor company (and, to the extent the Successor Company is not a Restricted Subsidiary of the Issuer, the Issuer), except in the case of a lease, shall be released from its obligations under the Indenture Documents.

(b) The Issuer will not permit any Guarantor to consolidate with or merge with or into, or convey, transfer or lease, in one transaction or a series of related transactions, all or substantially all of its assets to any Person unless:

(1) except in the case of a Guarantor (x) that has been disposed of in its entirety to another Person (other than to the Issuer or a Subsidiary of the Issuer), whether through a merger, consolidation or sale of Capital Stock or assets (including as provided in the sixth paragraph under ‘‘—Guarantees’’) or (y) that, as a result of the disposition of all or a portion of its Capital Stock, ceases to be a Subsidiary, the resulting, surviving or transferee Person (if not such Subsidiary) shall be a Person organized and existing under the laws of the jurisdiction under which such Subsidiary was organized or under the laws of the United States of America, or any State thereof or the District of Columbia, and such Person (if not such Subsidiary) shall expressly assume, by a Guaranty Agreement, all the obligations of such

Subsidiary, if any, under its Note Guarantee and shall have by written agreement confirmed that its obligations under the First Lien Collateral Documents shall continue to be in effect and shall cause such amendments, supplements or other instruments to be executed, filed and recorded in such jurisdictions as may be required by applicable law to preserve and protect the Lien on the Collateral pledged by or transferred to such Guarantor, together with such financing statements or comparable documents as may be required to perfect any security interests in such Collateral which may be perfected by the filing of a financing statement or a similar document under the UCC or other similar statute or regulation of the relevant states or jurisdictions;

(2) immediately after giving effect to such transaction or transactions on a *pro forma* basis (and treating any Indebtedness which becomes an obligation of the resulting, surviving or transferee Person as a result of such transaction as having been Incurred by such Person at the time of such transaction), no Default shall have occurred and be continuing;

(3) the Issuer delivers to the Trustee an Officer's Certificate and an Opinion of Counsel, each stating that such consolidation, merger or transfer and such Guaranty Agreement, if any, complies with the Indenture; and

(4) immediately after giving effect to such transaction or series of transactions, the Collateral owned by or transferred to the Successor Company shall (i) constitute Collateral under the Indenture and the First Lien Collateral Documents, (ii) be subject to the Lien for the benefit of the Holders of the Notes, and (iii) not be subject to any Lien other than Permitted Liens.

Notwithstanding the foregoing, (1) a Guarantor may merge, amalgamate or consolidate with an Affiliate incorporated solely for the purpose of reincorporating such Guarantor in the Cayman Islands, the United States of America, or any State or territory thereof or the District of Columbia so long as the amount of Indebtedness and Preferred Stock of the Guarantor is not increased thereby and (2) a Guarantor may merge, amalgamate or consolidate with, or convey, transfer or lease all or substantially all of its assets to, another Guarantor or the Issuer.

Future Guarantors

The Issuer (a) will cause each Restricted Subsidiary that provides a Guarantee or otherwise becomes an obligor under (I) the Existing Notes, (II) any Additional First Lien Indebtedness, (III) any Second Lien Obligations or (IV) other Senior Indebtedness owed to a Person other than the Issuer or a Restricted Subsidiary with an aggregate outstanding principal amount in excess of $25 million (when combined with the aggregate outstanding principal amount of all other such Senior Indebtedness) Incurred by a Restricted Subsidiary that is not a Guarantor, to execute and deliver to the Trustee a Guaranty Agreement pursuant to which such Restricted Subsidiary will Guarantee payment of the Notes on the same terms and conditions as those set forth in the Indenture by the later of (i) 10 Business Days after such Restricted Subsidiary provides a Guarantee or otherwise becomes an obligor under the Existing Notes or any Additional First Lien Indebtedness or Second Lien Obligations, as applicable, and (ii) the Issue Date, (b) will cause (i) each Person that after the Issue Date is or becomes a Restricted Subsidiary that is not an Excluded Subsidiary and (ii) each Restricted Subsidiary that was an Excluded Subsidiary but ceases to be an Excluded Subsidiary, to execute and deliver to the Trustee a Guaranty Agreement pursuant to which such Restricted Subsidiary will Guarantee payment of the Notes on the same terms and conditions as those set forth in the Indenture within (1) 30 days if such Restricted Subsidiary is organized in a jurisdiction in which a Guarantor as of the Issue Date is organized and (2) 90 days, in the case of each of clauses (1) and (2) after (in the case of clause (b)(i)) such Person becomes such a Restricted Subsidiary or (in the case of clause (b)(ii)) an Officer of the Issuer acquires actual knowledge (or would reasonably be expected to know) that such Restricted Subsidiary ceases to be an Excluded Subsidiary, and (c) at the Issuer's option may cause any other Restricted Subsidiary or Permitted Joint Venture to execute and deliver to the Trustee a Guaranty Agreement pursuant to which such Restricted Subsidiary or Permitted Joint Venture (as applicable) will Guarantee payment of the Notes on the same terms and conditions as those set forth in the Indenture; *provided*, that (x) in the case of clause (a), if (1) such Restricted Subsidiary is an Egyptian Subsidiary as of the Issue Date, (2) such Restricted Subsidiary has not provided a Guarantee of any other outstanding Indebtedness of the Issuer other than the Existing Notes, and (3) such Restricted Subsidiary's execution and delivery of such a Guaranty Agreement requires the consent or approval of a third party that has not been obtained, and (y) in the case of clause (b), if such Restricted Subsidiary's execution and delivery of such a Guaranty Agreement requires the consent or approval of a third party that has not been obtained, then clause (a) or clause (b) (as applicable) shall be deemed satisfied with respect to such Restricted Subsidiary for so long as the Issuer is using commercially reasonable efforts to obtain such consent or approval (provided, that the Issuer shall be deemed to be using such commercially reasonable efforts if it has been advised in writing by its counsel in the jurisdiction of organization of such Restricted Subsidiary that such consent or approval is not reasonably expected to be obtained through the use of commercially reasonable efforts within such 90 day period or otherwise, but in the case of Restricted Subsidiaries that are Egyptian Subsidiaries as of the Issue Date, only as a result of a change in applicable law that occurs after the Issue Date), regardless of whether such consent or approval has been obtained.

Each Person that becomes a Guarantor on or after the Issue Date shall also become a party to the applicable First Lien Collateral Documents and shall as promptly as practicable execute and deliver such security instruments, financing statements, mortgages, deeds of trust (in substantially the same form, if applicable, as those executed and delivered with respect to the Collateral) and certificates and take such other actions as may be required under the First Lien Collateral Documents, subject to the Security Principles, to vest in the First Lien Collateral Agent a perfected security interest (subject to Permitted Liens) in properties and assets of such Guarantor that constitute Collateral as security for the Notes or the Note Guarantees and as may be necessary to have such property or asset added to the Collateral as required under the First Lien Collateral Documents and the Indenture, and thereupon all provisions of the Indenture and the First Lien Collateral Documents relating to the Collateral shall be deemed to relate to such properties and assets (excluding for the avoidance of doubt, such properties and assets constituting Excluded Assets) to the same extent and with the same force and effect.

To the extent such Guarantor owns a Rig that is not an Excluded Rig, such Guarantor will be obligated to comply with the covenants pertaining to Rigs under ''—After-Acquired Property.''

Impairment of Security Interest

The Issuer will not, and will not permit any of its Restricted Subsidiaries to, take or knowingly or negligently omit to take, any action which action or omission might or would have the result of materially impairing the security interest with respect to the Collateral for the benefit of the Trustee, the First Lien Collateral Agent and the Holders of the Notes, and the Issuer will not, and will not permit any of the Restricted Subsidiaries to, except as permitted under the terms of the Indenture and the Intercreditor Agreement, grant to any Person other than the First Lien Collateral Agent, for the benefit of the First Lien Secured Parties, the counterparties of the Credit Facility Hedging Obligations and the other beneficiaries described in the First Lien Collateral Documents, and the Second Lien Collateral Agent, for the benefit of the Second Lien Secured Parties, any interest whatsoever in any of the Collateral.

After-Acquired Property

As promptly as practicable following the acquisition by the Issuer or any Guarantor of any After-Acquired Property (other than the Rigs), such Issuer or such Guarantor shall execute and deliver, subject to the Security Principles, such mortgages, deeds of trust, security instruments, financing statements and certificates and Opinions of Counsel as shall be reasonably necessary to vest in the First Lien Collateral Agent a perfected security interest in such After-Acquired Property to the extent required by the First Lien Collateral Documents and the Indenture and to have such After-Acquired Property added to the Collateral and thereupon all provisions of the Indenture and the First Lien Collateral Documents relating to the Collateral shall be deemed to relate to such After-Acquired Property to the same extent and with the same force and effect.

With respect to any Rigs (other than any Excluded Rig) that are owned as of the Issue Date or acquired thereafter by the Issuer or any Guarantor, as applicable, subject to the Security Principles, the Issuer or such Guarantor shall, within 90 days after the later of the Issue Date or the date such Rig is so acquired:

(a) duly authorize, execute and deliver, and cause to be recorded in the ship registry of the principal jurisdiction in which such Rig is flagged, a Collateral Rig Mortgage with respect to such Rig and such Collateral Rig Mortgage shall be effective to create in favor of the First Lien Collateral Agent for the benefit of the Notes Secured Parties a legal, valid and enforceable security interest, in and Lien upon such Rig in such jurisdiction, subject only to Permitted Liens;

(b) ensure that all filings, deliveries of instruments and other actions required under the Indenture and the First Lien Collateral Documents to perfect and preserve the security interests described in clause (a) above and in such other assets, including insurance, as set forth in the Indenture and the First Lien Collateral Documents, have been duly effected and the First Lien Collateral Agent has received evidence thereof in form and substance reasonably satisfactory to it, including, without limitation, any legal opinions and other documents confirming the creation, perfection and enforceability of the security interest created by the Collateral Rig Mortgages; provided, that after the Issue Date, this clause (b) shall be deemed satisfied if such evidence, legal opinions and other documents delivered to the First Lien Collateral Agent are in a form substantially similar to those provided to the First Lien Collateral Agent on the Issue Date or after the Issue Date as required pursuant to the covenant contained in ''—Post-Closing'';

(c) deliver to the First Lien Collateral Agent each of the following:

(i) certificates of ownership from appropriate authorities showing (or confirmation updating previously reviewed certificates and indicating) the registered ownership of such Rig by the Issuer or relevant Guarantor;

(ii) the results of maritime registry searches with respect to such Rig, indicating no record liens other than Liens in favor of the First Lien Collateral Agent and Permitted Liens related thereto; and

(iii) an Officer's Certificate stating that the foregoing items (a) and (b) have been satisfied;

provided, that this covenant with respect to Rigs (other than Excluded Rigs) shall be deemed satisfied with respect to Rig 141 so long as it is owned by an Egyptian Subsidiary unless and until such Egyptian Subsidiary has become a Guarantor.

Certain Rig Matters

The Issuer shall not permit any Subsidiary that is not a Guarantor to own (a) any Modern Rig described by clause (2) of the definition thereof that is owned as of the Issue Date by the Issuer or a Guarantor, (b) any Modern Rig described by clause (1) of the definition thereof that is purchased after the Issue Date, directly or indirectly, with all or a portion of the Net Cash Proceeds from the sale or other disposition of a Modern Rig described by clause (2) of the definition thereof or (c) any other Rig (other than an Excluded Rig that is an Immaterial Rig) that is owned as of the Issue Date by the Issuer or a Guarantor or that is purchased after the Issue Date, directly or indirectly, with all or a portion of the Net Cash Proceeds from the sale or other disposition of such other Rig. Neither the Issuer nor any Guarantor shall contribute or otherwise transfer any Net Cash Proceeds from the sale, disposition or Asset Disposition of any Modern Rig to a Subsidiary that is not a Guarantor or otherwise use any such Net Cash Proceeds to make an Investment in a Subsidiary that is not a Guarantor.

Post-Closing

The Issuer shall, and shall cause its Restricted Subsidiaries to, complete the actions to be listed on an exhibit or schedule to the Indenture as promptly as practicable following the Issue Date and, in any event, within the time periods set forth in respect of each such action on such exhibit or schedule.

Reports

Whether or not required by the rules and regulations of the SEC, so long as any Notes are outstanding, the Issuer will furnish to the Holders of the Notes and the Trustee within the time periods specified in the SEC's rules and regulations applicable to a registrant that is not an accelerated filer or a large accelerated filer:

(1) all quarterly and annual reports that would be required to be filed with the SEC on Forms 10-Q and 10-K (but only to the extent similar information is included in this offering memorandum, except that such limitation shall not apply to any unaudited quarterly or audited year-end, as the case may be, consolidated financial statements of the Parent and its Subsidiaries or ''Management's Discussion and Analysis of Financial Condition and Results of Operations'' section which are to be included in such reports) if the Parent were required to file such reports and a presentation of EBITDA for (A) in the case of a quarterly report, the fiscal quarter with respect to which such quarterly report was prepared and (B) in the case of an annual report, the fourth fiscal quarter with respect to which such annual report was prepared as well as EBITDA for the immediately preceding three consecutive fiscal quarters; and

(2) all current reports that would be required to be filed with the SEC on Form 8-K if the Parent were required to file such reports, *provided, however,* that no such current report will be required to be furnished if the Parent determines in its good faith judgment that such event is not material to holders of Notes or the business, assets, operations, financial position or prospects of the Issuer and its Restricted Subsidiaries, taken as a whole;

provided, however, that:

(a) *Sarbanes-Oxley.* No certifications or attestations concerning the financial statements or disclosure controls and procedures or internal controls that would otherwise be required pursuant to the Sarbanes-Oxley Act of 2002 will be required (provided further, however, that nothing contained in the terms herein shall otherwise require the Issuer or Parent to comply with the terms of the Sarbanes-Oxley Act of 2002 at any time when it would not otherwise be subject to such statute);

(b) *Item 402 of Regulation S-K.* The information disclosed in such reports in respect of Item 402 of Regulation S-K under the Securities Act may be limited to the information identified in Item 402 that is included in this offering memorandum (which disclosure regarding such types of information shall be presented in a manner consistent in all material respects with the disclosure contained in this offering memorandum);

(c) *Non-GAAP Financial Measures.* Compliance with the requirements of Item 10(e) of Regulation S-K and Regulation G will not be required;

(d) *Exhibits.* No exhibits pursuant to Item 601 of Regulation S-K under the Securities Act (other than in respect of material agreements governing Indebtedness) will be required;

(e) *Subsidiary Financials.* No separate financial information for Guarantors or Subsidiaries whose securities may be pledged to secure the Notes contemplated by Rule 13-01 or Rule 13-02 of Regulation S-X under the Securities Act will be required; provided, that if the Issuer has designated any of its Subsidiaries as Unrestricted Subsidiaries, then the quarterly and annual financial information required by clause (1) above will include a reasonably detailed presentation, either on the face of the financial statements or in the footnotes thereto, and in ''Management's Discussion and Analysis of Financial Condition and Results of Operations,'' of the financial condition and results of operations of the Issuer and its Restricted Subsidiaries separate from the financial condition and results of operations of the Unrestricted Subsidiaries of the Issuer unless such Unrestricted Subsidiaries, individually or taken together, would not constitute a Significant Subsidiary;

(f) *Financial Statements of Acquired Entities.* The financial statements required of acquired businesses shall be limited to the financial statements (in whatever form) that the Issuer receives in connection with the acquisition, and whether or not audited;

(g) *Financial Statements of Unconsolidated Entities.* Subject to clause (k) below, no financial statements of unconsolidated entities shall be required;

(h) *Segment Reporting.* Financial statements shall not be required to be prepared in accordance with SFAS No. 131 or any successor thereto;

(i) *Supplemental Schedules.* The schedules identified in Section 5-04 of Regulation S-X under the Securities Act shall not be required;

(j) *Supplemental Information.* In addition to the foregoing, the Issuer will also include in such reports financial information and related explanations with respect to differences between the consolidated financial results of the Parent and the consolidated financial results of the Issuer, in a manner substantially consistent with the presentation set forth under ''Selected consolidated financial data'' in this offering memorandum; provided that no such supplemental financial information shall be required if financial statements are included in such report pursuant to (k) below; and

(k) *Non-SDHL Operations.* If the financial statements of the Parent include any activities or operations not conducted in, or any assets not owned by, the Issuer or any direct or indirect Subsidiary of the Issuer that in the aggregate would constitute a Significant Subsidiary of the Parent, then the reports required under clause (1) and (2) above shall also be provided for the Issuer.

The Issuer will post such information and reports on a website no later than the date the Issuer is required to provide those reports to the Holders of the Notes and maintain such posting for so long as any Notes remain outstanding; *provided, however,* that such website may be password protected so long as the Issuer makes reasonable efforts to notify the Holders of postings to the website (including through the information dissemination procedures of the depositary for the Notes) and to provide the Holders with access to such website. If access to such website is not available to the general public, the Issuer will provide such information and reports directly to the Trustee via physical delivery.

The posting or delivery, if any, of any such reports, information and documents to the Trustee is for informational purposes only, and the Trustee's receipt of such shall not constitute actual or constructive notice of any information contained therein or determinable from information contained therein, including the Issuer's compliance with any of the covenants under the Indenture (as to which the Trustee is entitled to rely exclusively on an Officer's Certificate in accordance with the terms of the Indenture).

To the extent the Parent or any other direct or indirect parent company of the Issuer provides a Guarantee that continues to be in effect in respect of the Notes, the Indenture permits the Issuer to satisfy its obligations in this covenant by furnishing financial information relating to such parent; provided that the same is accompanied by supplemental information substantially similar to the information described in clause (j) above that explains in reasonable detail the differences between the information relating to such parent, on the one hand, and the consolidated information relating to the Issuer and its Restricted Subsidiaries on a standalone basis, on the other hand. As the Parent will be a guarantor of the Notes at the closing of this offering, the Issuer and the Parent intend to utilize this provision and to provide financial information of Parent as contemplated above.

In addition, the Issuer will, for so long as any Notes remain outstanding, use its commercially reasonable efforts to hold and participate in quarterly conference calls with the Holders of the Notes, beneficial owners of the Notes, bona fide prospective investors, securities analysts and market makers to discuss such financial information no later than ten Business Days after distribution of such financial information.

Furthermore, the Issuer agrees that, for so long as any Notes remain outstanding, it will furnish to the Holders of Notes, beneficial owners of the Notes, bona fide prospective investors, securities analysts and market makers, upon their request, the information and reports described above and any other information required to be delivered pursuant to Rule 144A(d)(4) under the Securities Act.

Payments for Consent

The Issuer shall not, and shall not permit any of its Subsidiaries to, directly or indirectly, pay or cause to be paid any consideration to or for the benefit of any Holder for or as an inducement to any consent, waiver or amendment of any of the terms or provisions of the Indenture or the Notes unless such consideration is offered to be paid and is paid to all Holders that consent, waive or agree to amend in the time frame set forth in the solicitation documents relating to such consent, waiver or agreement; *provided*, *however*, that this covenant will not be breached if a Holder refuses such payment.

Effectiveness of Covenants

The covenants described under ''—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock,'' ''—Certain Covenants—Limitation on Restricted Payments,'' ''—Certain Covenants—Limitation on Restrictions on Distributions from Restricted Subsidiaries'', ''—Certain Covenants—Limitation on Affiliate Transactions,'' ''—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock,'' ''—Certain Covenants—Limitation on Line of Business,'' and clause (3) of the first paragraph of ''—Certain Covenants—Merger and Consolidation'' (collectively, the *''Suspended Covenants'')* will be suspended upon the Issuer attaining Investment Grade Status.

If at any time the Issuer is downgraded from Investment Grade Status, then the Suspended Covenants will thereafter be reinstated (the *''Reinstatement Date'')* with respect to future events and be applicable pursuant to the terms of the Indenture, unless and until the Issuer subsequently attains Investment Grade Status and no Default or Event of Default is in existence (in which event the Suspended Covenants shall no longer be in effect for such time that the Issuer maintains Investment Grade Status); *provided, however,* that no Default, Event of Default or breach of any kind shall be deemed to exist or have occurred under the Indenture, the Notes, the Guarantees or any of the First Lien Collateral Documents with respect to the Suspended Covenants based on, and none of the Issuer or any of its Subsidiaries shall bear any liability for, any actions taken or events occurring during the Suspension Period (as defined below), or any actions taken at any time pursuant to any contractual obligation arising prior to the Reinstatement Date, regardless of whether such actions or events would have been permitted if the applicable

Suspended Covenants remained in effect during such period. The period of time between the date of suspension of the covenants and the Reinstatement Date is referred to as the *"Suspension Period"*.

On the Reinstatement Date, all Indebtedness Incurred during the Suspension Period will be deemed to have been outstanding on the Issue Date, so that it is classified as permitted under clause (b)(1) of the "Limitation on Indebtedness and Issuances of Preferred Stock" covenant. Calculations made after the Reinstatement Date of the amount available to be made as Restricted Payments under the "Limitation on Restricted Payments" covenant will be made as though the "Limitation on Restricted Payments" covenant had been in effect since the Issue Date and throughout the Suspension Period.

Accordingly, Restricted Payments made during the Suspension Period will reduce the amount available to be made as Restricted Payments under the "Limitation on Restricted Payments" covenant to the extent such Restricted Payments were not otherwise permitted to be made pursuant to clauses (1) through (15) of part (b) of the "Limitation on Restricted Payments" covenant; provided that the amount available to be made as Restricted Payments on the Reinstatement Date under the "Limitation on Restricted Payments" covenant shall not be reduced below zero solely as a result of such Restricted Payments made during the Suspension Period. The Issuer will provide the Trustee with written notice of the commencement of any Suspension Period or Reinstatement Date. Until the Trustee receives such notice, it shall be entitled to assume no such Suspension Period or Reinstatement Date, as applicable, has occurred and will have no obligation to notify any Holder thereof until it has received such notice. The Trustee shall have no duty to monitor the ratings of the Notes and shall not be deemed to have any knowledge of the ratings of the Notes.

During any period when the Suspended Covenants are suspended, the Board of Directors of the Issuer may not designate any of its Subsidiaries as Unrestricted Subsidiaries pursuant to the Indenture.

Defaults

Each of the following is an "*Event of Default*":

(1) a default in the payment of interest on the Notes when due, continued for 30 days;

(2) a default in the payment of principal of or premium, if any, on any Note when due at its Stated Maturity, upon optional redemption, upon required purchase or redemption, upon declaration of acceleration or otherwise;

(3) the failure by the Issuer to comply with its obligations in the covenants described above under "—Certain Covenants—Merger and Consolidation;"

(4) the failure by the Issuer or any Guarantor to comply for 60 days after notice (as specified below) with its other agreements contained in any Indenture Document;

(5) Indebtedness of the Issuer or any Restricted Subsidiary is not paid within any applicable grace period after Stated Maturity or is accelerated by the holders thereof because of a default and the total amount of such Indebtedness unpaid or accelerated exceeds $25.0 million or its foreign currency equivalent;

(6) certain events of bankruptcy, insolvency or reorganization of the Issuer, any Significant Subsidiary or any group of Restricted Subsidiaries that, taken together (if applicable, as of the date of the most recent audited consolidated financial statements of the Issuer and its Restricted Subsidiaries), would constitute a Significant Subsidiary;

(7) any final judgment or decree entered by a court or courts of competent jurisdiction that is non-appealable for the payment of money in excess of $25.0 million or its foreign currency equivalent (net of any amounts which are covered by enforceable insurance policies issued by solvent carriers that have not denied coverage) is entered against the Issuer, any Significant Subsidiary or any group of Restricted Subsidiaries that, taken together (if applicable, as of the date of the most recent audited consolidated financial statements of the Issuer and its Restricted Subsidiaries), would constitute a Significant Subsidiary, remains outstanding for a period of 60 consecutive days following such judgment and is not discharged, waived or stayed;

(8) any Note Guarantee of a Significant Subsidiary or group of Guarantors that, taken together (if applicable, as of the date of the most recent audited consolidated financial statements of the Issuer and its Restricted Subsidiaries), would constitute a Significant Subsidiary ceases to be in full force and effect (except as contemplated by the terms of such Note Guarantee) or is declared null and void in a judicial proceeding or any Guarantor denies or disaffirms its obligations under its Note Guarantee;

(9) unless all of the Collateral has been released from the Liens in accordance with the provisions of the First Lien Collateral Documents, the Issuer or any Subsidiary shall assert, in any pleading in any court of competent jurisdiction, that any security interest in any Collateral having a Fair Market Value in excess of $25.0 million, individually or in the aggregate, is invalid or unenforceable and, in the case of any such Subsidiary, the Issuer fails to cause such Subsidiary to rescind such assertions within 30 days after the Issuer has actual knowledge of such assertions; or

(10) with respect to any Collateral having a Fair Market Value in excess of $25.0 million, individually or in the aggregate, the failure of the security interest with respect to such Collateral under the First Lien Collateral Documents, at any time, to be in full force and effect for any reason, or any of the First Lien Collateral Documents ceases to give the Holders the Liens purported to be created thereby, or any of the First Lien Collateral Documents is declared null and void (in each case, other than (a) in accordance with their terms and the terms of the Indenture, (b) upon the discharge of the Indenture Obligations or (c) to the extent that any such loss of perfection or priority results from the failure of the First Lien Collateral Agent to maintain possession of certificates or instruments actually delivered to it representing securities pledged under the Indenture Documents) unless the Issuer cures (or causes the cure of) such failure within 60 days.

However, a default under clause (4) will not constitute an Event of Default until the Trustee or the Holders of 25% in aggregate principal amount of the outstanding Notes notify the Issuer (with a copy to the Trustee if notified by the Holders) in writing of the default demanding that the default be remedied and stating that such notice is a ''Default Notice'' and the Issuer does not cure such default within the time specified in such clause after receipt of such notice.

If an Event of Default (other than an Event of Default described in clause (6) above) occurs and is continuing, the Trustee or the Holders of at least 25% in aggregate principal amount of the outstanding Notes may declare the principal of and accrued but unpaid interest and premium, if any, on all the Notes to be due and payable by notice in writing to the Issuer (with a copy to the Trustee if notified by the Holders) specifying such Event of Default and stating that such notice is a ''Default Notice of Acceleration.'' Upon such a declaration, such principal, interest and premium, if any, shall be due and payable immediately. If an Event of Default described in clause (6) above occurs and is continuing, the principal of and interest and premium, if any, on all the Notes will ipso facto become and be immediately due and payable without any declaration or other act on the part of the Trustee or any Holders of the Notes. Subject to certain exceptions, the Holders of at least a majority in principal amount of the outstanding Notes by written notice to the Issuer and to the Trustee, may waive all past Defaults and rescind and annul a declaration of acceleration and its consequences if (x) all existing Events of Default, other than the nonpayment of the principal of, premium, if any, and interest on the Notes that have become due solely by such declaration of acceleration, have been cured or waived, (y) the rescission would not conflict with any judgment or decree of a court of competent jurisdiction and (z) all outstanding fees and expenses of the Trustee incurred in connection with such default have been paid. For information as to the waiver of defaults, see ''—Amendments and Waivers.''

If the principal amount of the Notes is paid on or prior to September 15, 2023 following acceleration pursuant to the preceding paragraph, any premium (including, without limitation, the Applicable Premium) provided under the caption ''—Optional Redemption'' shall be paid and shall be equal to the redemption price set forth under the caption ''—Optional Redemption'' as if the Notes were redeemed on the date the applicable Default Notice of Acceleration was given. The Company will pay any premium (including without limitation, the Applicable Premium) provided under the caption ''—Optional Redemption'', as compensation to the Holders for the loss of their investment opportunity and not as a penalty, whether or not an Event of Default specified in in clause (6) has occurred and (if an Event of Default specified in clause (6) has occurred) without regard to whether the event causing such Event of Default is voluntary or involuntary, or whether payment occurs pursuant to a motion, plan of reorganization, or otherwise, and without regard to whether the Notes and other Indenture Obligations are satisfied or released by foreclosure (whether or not by power of judicial proceeding), deed in lieu of foreclosure or by any other means. Any premium (including, without limitation, any Applicable Premium) provided under the caption ''—Optional Redemption'' shall be presumed to be the liquidated damages sustained by each Holder as a result of the early repayment of the Notes and the Company agrees that it is reasonable under the circumstances currently existing. THE COMPANY EXPRESSLY WAIVES (TO THE FULLEST EXTENT IT MAY LAWFULLY DO SO) THE PROVISIONS OF ANY PRESENT OR FUTURE STATUTE OR LAW THAT PROHIBITS OR MAY PROHIBIT THE COLLECTION OF ANY PREMIUM (INCLUDING, WITHOUT LIMITATION, ANY APPLICABLE PREMIUM) PROVIDED UNDER THE CAPTION ''—OPTIONAL REDEMPTION'' IN CONNECTION WITH

ANY SUCH ACCELERATION. The Company expressly agrees (to the fullest extent it may lawfully do so) that: (A) all such premium (including, without limitation, any Applicable Premium) is reasonable and the product of an arm's length transaction between sophisticated business people, ably represented by counsel; (B) all such premium (including, without limitation, any Applicable Premium) shall be payable notwithstanding the then prevailing market rates at the time payment is made; (C) there has been a course of conduct among the Holders and the Company giving specific consideration in this transaction for such agreement to pay all such premium (including, without limitation, any Applicable Premium); and (D) the Company shall be estopped hereafter from claiming differently than as agreed to in this paragraph. The Company expressly acknowledges that its agreement to pay all such premium (including, without limitation, any Applicable Premium) to the Trustee for the ratable benefit of the Holders as herein described is a material inducement to Holders to purchase the Notes.

In the event of any Event of Default specified in clause (5) of the first paragraph above, such Event of Default and all consequences thereof (excluding, however, any resulting payment default) will be annulled, waived and rescinded, automatically and without any action by the Trustee or the Holders of the Notes, if within 30 days after such Event of Default arose the Issuer delivers an Officer's Certificate to the Trustee stating that (x) the Indebtedness or guarantee that is the basis for such Event of Default has been discharged or (y) the holders thereof have rescinded or waived the acceleration, notice or action (as the case may be) giving rise to such Event of Default or (z) the default that is the basis for such Event of Default has been cured, it being understood that in no event shall an acceleration of the principal amount of the Notes as described above be annulled, waived or rescinded upon the happening of any such events.

The Trustee will be under no obligation to exercise any of the rights or powers under the Indenture at the request or direction of any of the Holders of the Notes unless such Holders have offered to the Trustee indemnity or security satisfactory to it against any loss, liability or expense. Except to enforce the right to receive payment of principal, premium (if any) or interest when due, no Holder of a Note may pursue any remedy with respect to the Indenture or the Notes unless:

(1) such Holder has previously given the Trustee notice that an Event of Default is continuing;

(2) Holders of at least 25% in aggregate principal amount of the outstanding Notes have requested the Trustee to pursue the remedy;

(3) such Holders have offered the Trustee security or indemnity satisfactory to it against any loss, liability or expense;

(4) the Trustee has not complied with such request within 60 days after the receipt thereof and the offer of security or indemnity, and

(5) Holders of a majority in aggregate principal amount of the outstanding Notes have not given the Trustee a direction inconsistent with such request within such 60-day period.

Subject to certain restrictions, the Holders of a majority in principal amount of the outstanding Notes are given the right to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee or of exercising any trust or power conferred on the Trustee. The Trustee, however, may refuse to follow any direction that conflicts with law or the Indenture or is unduly prejudicial to the rights of any other holder of a Note or that would involve the Trustee in personal liability; provided, however, that the Trustee shall not be deemed to have an affirmative duty to determine whether any such direction is unduly prejudicial to the rights of any Holder.

If a Default occurs, is continuing and is actually known to a Trust Officer of the Trustee, the Trustee shall mail to each Holder of the Notes notice of the Default within 90 days after it is actually known to a Trust Officer of the Trustee. Except in the case of a Default in the payment of principal of, premium, if any, or interest on any Note, the Trustee may withhold notice if and so long as a Trust Officer in good faith determines that withholding notice is not opposed to the interest of the Holders of the Notes. In addition, we are required to deliver to the Trustee, within 120 days after the end of each fiscal year, an Officer's Certificate indicating whether the signers thereof know of any Default that occurred during the previous year. We are required to deliver to the Trustee, within 30 days after we become aware of any event that would constitute a Default, written notice of such event, its status and what action we are taking or propose to take in respect thereof.

Amendments and Waivers

Subject to certain exceptions, the Indenture Documents may be amended with the consent of the Holders of a majority in principal amount of the Notes then outstanding (including consents obtained in connection with a tender offer or exchange for the Notes) and any past default or compliance with any provisions may also be waived with the consent of the Holders of a majority in principal amount of the Notes then outstanding. However, without the consent of each Holder of an outstanding Note affected thereby, an amendment or waiver may not, among other things, with respect to the Notes held by such Holder:

(1) reduce the principal amount of Notes whose Holders must consent to an amendment;

(2) reduce the rate of or extend the time for payment of interest on any Note;

(3) reduce the principal of or change the Stated Maturity of any Note;

(4) reduce the premium payable upon redemption or change the time at which any Note may be redeemed as described under ''—Optional Redemption,'' *provided* that any amendment to the minimum notice requirement may be made with the consent of the Holders of a majority in aggregate principal amount of the Notes then outstanding;

(5) make any Note payable in money other than that stated in the Note;

(6) amend the contractual right expressly set forth in the Indenture or the Notes of any Holder of the Notes to receive payment of principal of and interest on such Holder's Notes on or after the due dates therefor or to institute suit for the enforcement of any payment on or with respect to such Holder's Notes;

(7) make any change in the amendment provisions which require each Holder's consent or in the waiver provisions;

(8) (i) make the Notes subordinated in right of payment to any other Indebtedness or (ii) otherwise amend or modify the lien priority or payment ranking of the Indenture Obligations under any First Lien Collateral Document or other Indenture Document, including the ranking set forth in Section 4.1 (*Application of Proceeds*) of the Intercreditor Agreement (or any corresponding provision in any amended, restated, modified or supplemented Intercreditor Agreement) in any manner that would be adverse to such Holder;

(9) except as expressly permitted in the Indenture Documents, modify the terms of any Note Guarantee of a Significant Subsidiary or the Note Guarantees of one or more Restricted Subsidiaries that, taken together (if applicable, as of the date of the most recent audited consolidated financial statements of the Issuer and its Restricted Subsidiaries), would constitute a Significant Subsidiary, in any manner that would materially and adversely affect the Holders;

(10) waive a default or Event of Default in the payment of principal of, premium, if any, or interest on the Notes (except a rescission of acceleration of the Notes by the Holders of at least a majority in principal amount of the outstanding Notes and a waiver of the payment default that results from such acceleration);

(11) make any change in the provisions described under ''—Additional Amounts'' that adversely affects the rights of any Holder of a Note or beneficial owner thereof or amend the terms of any Note or the Indenture in a way that would result in the loss of an exemption from any of the Taxes described thereunder; or

(12) subordinate the Lien in favor of the First Lien Collateral Agent securing the First Lien Claims.

In addition, without the consent of the Holders of at least 66 2/3% in aggregate principal amount of the Notes then outstanding, no amendment, supplement or waiver may (a) amend or modify the terms of the Intercreditor Agreement in any manner adverse to the Holders in any material respect or (b) release (i) all or substantially all of the Collateral or (ii) any Modern Rig, in the case of each of clauses (i) and (ii) other than in accordance with the Indenture Documents (including as permitted by ''—Release of Liens'').

Notwithstanding the preceding, without the consent of any Holder of the Notes, the Issuer, the Guarantors, the Trustee and the First Lien Collateral Agent may amend, modify or supplement the Indenture Documents:

(1) to cure any ambiguity, omission, mistake, defect or inconsistency;

(2) to provide for the assumption by a Successor Company of the obligations of the Issuer or any Guarantor under the Indenture Documents;

(3) to provide for uncertificated Notes in addition to or in place of Certificated Notes (provided that the uncertificated Notes are issued in registered form for purposes of Section 163(f) of the Code);

(4) to add Guarantees or collateral with respect to the Notes or to release Guarantees with respect to the Notes in accordance with the applicable provisions of the Indenture;

(5) to add to the covenants of the Issuer or any Restricted Subsidiary for the benefit of the Holders of the Notes or to surrender any right or power conferred upon the Issuer or any Restricted Subsidiary;

(6) to make any change that would provide additional rights or benefits to the Holders or that does not adversely affect the legal rights of any Holder of the Notes in any material respect;

(7) to make any amendment to the provisions of the Indenture relating to the form, authentication, transfer and legending of Notes or to otherwise comply with the rules of any applicable securities depositary; *provided, however,* that (a) compliance with the Indenture as so amended would not result in Notes being transferred in violation of the Securities Act or any other applicable securities law and (b) such amendment does not materially and adversely affect the rights of Holders to transfer Notes;

(8) to conform the text of any Indenture Document to any provision of the ''Description of Notes'' section of the final offering memorandum relating to the initial offering of the Notes, to the extent that such provision in such ''Description of Notes'' was intended to be a verbatim recitation of a provision of such Indenture Document (as evidenced by an Officer's Certificate);

(9) in connection with any addition or release of Collateral permitted under the terms of the Indenture or the First Lien Collateral Documents or to confirm or complete the grant of, secure or expand the Collateral;

(10) to provide for the issuance of Additional Notes in accordance with the limitations set forth in the Indenture;

(11) to provide for a successor or replacement First Lien Collateral Agent;

(12) in order to subject the security interests in the Collateral in respect of Additional First Lien Claims to the terms of the First Lien Collateral Documents and Intercreditor Agreement, to the extent the Incurrence of such Indebtedness and the grant of all Liens on Collateral held for the benefit of such Indebtedness was permitted hereunder; or

(13) to evidence and provide for acceptance and appointment under the Indenture of a successor Trustee thereunder pursuant to the requirements thereof.

The consent of the Holders of the Notes is not necessary under the Indenture to approve the particular form of any proposed amendment, waiver or consent. It is sufficient if such consent approves the substance of the proposed amendment, waiver or consent.

After an amendment under the Indenture becomes effective, we are required to mail or electronically transmit to Holders of the Notes a notice briefly describing such amendment. However, the failure to give such notice to all Holders of the Notes, or any defect therein, will not impair or affect the validity of the amendment.

The First Lien Collateral Agent will sign any amendment, restatement, modification, supplement, consent or waiver authorized or permitted pursuant to any of the First Lien Collateral Documents or Intercreditor Agreement in accordance with the terms thereof (including, without limitation, without the further consent or agreement of the Holders if so provided in such First Lien Collateral Document or Intercreditor Agreement) if the amendment, restatement, modification, supplement, consent or waiver does not adversely affect the rights, duties, liabilities or immunities of the First Lien Collateral Agent.

Transfer and Exchange

A Holder may transfer or exchange Notes in accordance with the Indenture. The registrar, the Trustee and any paying or transfer agent may require a Holder to furnish appropriate endorsements and transfer documents in connection with a transfer of Notes and the Issuer may require a Holder to pay all taxes and fees due on transfer required by law or permitted by the Indenture. The Issuer is not required to transfer or exchange any Note selected for redemption. Also, the Issuer is not required to transfer or exchange any Note for a period of 15 days before a selection of Notes to be redeemed. No service charge will be made for any registration of transfer or exchange of the Notes, but the Issuer may require payment of a sum sufficient to cover any tax or other governmental charge payable in connection with the transfer or exchange.

Satisfaction and Discharge

When (1) we deliver to the Trustee all outstanding Notes for cancelation or (2) all outstanding Notes (A) have become due and payable, whether at maturity or otherwise, (B) will become due and payable at their Stated Maturity within one year or (C) if redeemable at the option of the Issuer, are to be called for redemption within one year under arrangements satisfactory to the Trustee for the giving of notice of redemption in the name, and at the expense, of the Issuer, and, in the case of clause (2), we irrevocably deposit with the Trustee funds sufficient to pay at Stated Maturity or upon redemption all outstanding Notes, including premium, if any, and interest thereon to Stated Maturity or such redemption date, and if in either case we pay all other sums payable under the Indenture by us, then the Indenture, the Note Guarantees and all Liens on Collateral under the First Lien Collateral Documents (other than in respect of such deposited amounts) shall, subject to certain exceptions, cease to be of further effect.

Defeasance

The Issuer may, at its option and at any time, elect to have all of its obligations discharged with respect to the Notes issued under the Indenture and the First Lien Collateral Documents, cause the release of all Liens on the Collateral granted under the First Lien Collateral Documents, and have each Guarantor's obligation discharged with respect to its Note Guarantee *("Legal Defeasance")* and cure all then existing Events of Default except for:

(1) the rights of Holders of outstanding Notes to receive payments in respect of the principal of, or interest or premium, if any, on such Notes when such payments are due from the trust referred to below;

(2) the Issuer's obligations with respect to the Notes concerning issuing temporary Notes, mutilated, destroyed, lost or stolen Notes and the maintenance of an office or agency for payment and money for security payments held in trust;

(3) the rights, powers, trusts, duties and immunities of the Trustee, and the Issuer's obligations in connection therewith; and

(4) the Legal Defeasance provisions of the Indenture.

In addition, the Issuer may, at its option and at any time, elect to have the Liens on the Collateral granted under the First Lien Collateral Documents released and its obligations and those of each Guarantor released with respect to clause (3) of paragraph (a) under "—Certain Covenants—Merger and Consolidation" and all other covenants described herein under "Certain Covenants" ("Covenant Defeasance") and thereafter any omission to comply with such obligations shall not constitute a Default or Event of Default with respect to the Notes. In the event Covenant Defeasance occurs, certain events (not including failure to pay or bankruptcy, receivership, rehabilitation and insolvency events pertaining to the Issuer) described under "—Defaults" will no longer constitute an Event of Default with respect to the Notes.

We may exercise our Legal Defeasance option notwithstanding our prior exercise of our Covenant Defeasance option. If we exercise our Legal Defeasance option, payment of the Notes may not be accelerated because of an Event of Default with respect thereto. If we exercise our Covenant Defeasance option, payment of the Notes may not be accelerated because of an Event of Default specified in clause (4), (5), (6) (with respect only to Significant Subsidiaries), (7), (8), (9) or (10) under "—Defaults" above or because of the failure of the Issuer to comply with clause (3) of the first paragraph under "—Certain Covenants—Merger and Consolidation" above. If we exercise our Legal Defeasance option or our Covenant Defeasance option, each Guarantor will be released from all of their respective obligations with respect to the Note Guarantees and the First Lien Collateral Documents.

In order to exercise either Legal Defeasance or Covenant Defeasance:

(1) the Issuer must irrevocably deposit with the Trustee, in trust, for the benefit of the Holders of the Notes, cash in U.S. dollars, U.S. Government Obligations, or a combination of cash in U.S. dollars and U.S. Government Obligations, in amounts as will be sufficient, in the opinion of a nationally recognized firm of independent public accountants, to pay the principal of, or interest and premium, if any, on the outstanding Notes on the Stated Maturity or on the applicable redemption date, as the case may be, and the Issuer must specify whether the Notes are being defeased to Stated Maturity or to a particular redemption date;

(2) in the case of Legal Defeasance, the Issuer has delivered to the Trustee an Opinion of Counsel confirming that, subject to customary assumptions and exclusions, (a) the Issuer has received from, or there has been published by, the Internal Revenue Service a ruling or (b) since the issuance of the Notes, there has been

a change in the applicable United States federal income tax law, in either case to the effect that, and based thereon such Opinion of Counsel will confirm that, subject to customary assumptions and exclusions, the Holders of the outstanding Notes will not recognize income, gain or loss for United States federal income tax purposes with respect to their ownership of the Notes solely as a result of such Legal Defeasance and will be subject to United States federal income tax with respect to their ownership of the Notes on the same amounts, in the same manner and at the same times as would have been the case if such Legal Defeasance had not occurred;

(3) in the case of Covenant Defeasance, the Issuer has delivered to the Trustee an Opinion of Counsel confirming that, subject to customary assumptions and exclusions, the Holders of the outstanding Notes will not recognize income, gain or loss for United States federal income tax purposes with respect to their ownership of the Notes solely as a result of such Covenant Defeasance and will be subject to United States federal income tax with respect to their ownership of the Notes on the same amounts, in the same manner and at the same times as would have been the case if such Covenant Defeasance had not occurred;

(4) no Default or Event of Default has occurred and is continuing on the date of such deposit (other than a Default or Event of Default resulting from the borrowing of funds to be applied to make such deposit and the grant of any Lien securing such borrowing);

(5) such Legal Defeasance or Covenant Defeasance will not result in a breach or violation of, or constitute a default under any material agreement or instrument (other than the Indenture) to which the Issuer or any of its Subsidiaries is a party or by which the Issuer or any of its Subsidiaries is bound (other than resulting from the borrowing of funds to be applied to make such deposit and the grant of any Lien securing such borrowing);

(6) the Issuer must deliver to the Trustee an Officer's Certificate stating that the deposit was not made by the Issuer with the intent of preferring the Holders of Notes over the other creditors of the Issuer with the intent of defeating, hindering, delaying or defrauding creditors of the Issuer or others; and

(7) the Issuer must deliver to the Trustee an Officer's Certificate and an Opinion of Counsel, each stating that all conditions precedent relating to the Legal Defeasance or the Covenant Defeasance have been complied with.

Concerning the Trustee

Wilmington Trust, National Association is to be the Trustee under the Indenture. We have appointed the Trustee as registrar and Paying Agent with regard to the Notes and Wilmington Trust, National Association, will be the First Lien Collateral Agent under the Indenture and the First Lien Collateral Documents. Wilmington Trust, National Association, is also the trustee under the indenture governing the Existing Notes.

The Indenture contains certain limitations on the rights of the Trustee, should it become a creditor of the Issuer, to obtain payment of claims in certain cases, or to realize on certain property received in respect of any such claim as security or otherwise. The Trustee will be permitted to engage in other transactions; *provided, however,* if it acquires any conflicting interest it must either eliminate such conflict within 90 days or resign.

The Holders of a majority in principal amount of the outstanding Notes will have the right to direct the time, method and place of conducting any proceeding for exercising any remedy available to the Trustee, subject to certain exceptions. If an Event of Default occurs (and is not cured), the Trustee will be required, in the exercise of its power, to use the degree of care of a prudent man in the conduct of his own affairs. The Trustee will be under no obligation to exercise any of its rights or powers under the Indenture at the request of any Holder of Notes, unless such Holder shall have offered to the Trustee security and indemnity satisfactory to it against any loss, liability or expense and then only to the extent required by the terms of the Indenture.

No Personal Liability of Directors, Officers, Employees and Stockholders

No director, officer, employee, incorporator or stockholder of the Issuer or any Guarantor will have any liability for any obligations of the Issuer or any Guarantor under the Notes, any Note Guarantee, the First Lien Collateral Documents or the Indenture or for any claim based on, in respect of, or by reason of such obligations or their creation. Each Holder of the Notes by accepting a Note waives and releases all such liability. The waiver and release are part of the consideration for issuance of the Notes. Such waiver and release may not be effective to waive liabilities under the United States federal securities laws, and it is the view of the SEC that such a waiver is against public policy.

Consent to Jurisdiction

The Indenture Documents will provide that each of the Issuer and the Guarantors will irrevocably submit to the jurisdiction of any New York State or United States federal court sitting in the Borough of Manhattan of the City of New York over any suit, action or proceeding arising out of or relating to the Indenture or any other Indenture Document. Each of the Issuer and the Guarantors will irrevocably waive, to the fullest extent permitted by applicable law, any objection which it may now or hereafter have to the laying of venue of any such suit, action or proceeding brought in such courts and any claim that any such suit, action or proceeding brought in such courts, has been brought in an inconvenient forum and any right to which it may be entitled on account of place of residence or domicile. Each of the Issuer and the Guarantors will agree that final judgment in any such suit, action or proceeding brought in such a court shall be conclusive and binding on them and may be enforced in any court to the jurisdiction of which each of them is subject by a suit upon such judgment; *provided,* that service of process is effected upon the Issuer or such applicable Guarantor, as the case may be, in the manner specified in the following paragraph or as otherwise permitted by applicable law.

As long as any of the Notes remain outstanding, each of the Issuer and the Guarantors will at all times have an authorized agent in the City of New York, upon whom process may be served in any legal action or proceeding arising out of or relating to the Indenture or any other Indenture Document. Service of process upon such agent and written notice of such service mailed or delivered to the Issuer or the applicable Guarantor, as the case may be, shall to the extent permitted by applicable law be deemed in every respect effective service of process upon the Issuer or such Guarantor, as the case may be, in any such legal action or proceeding. Each of the Issuer and the Guarantors will appoint Corporation Service Company in New York, New York as its agent for such purpose, and covenants and agrees that service of process in any suit, action or proceeding may be made upon it at the office of such agent at 19 West 44th Street, Suite 200, New York, New York 10036, USA (or at such other address or at the office of such other authorized agent, in each case, located in New York, New York as the Issuer or any Guarantor may designate by written notice to the Trustee).

No Immunity

The Indenture Documents will provide that to the extent that the Issuer or any Guarantor, as the case may be, may be entitled, in any jurisdiction in which judicial proceedings may at any time be commenced with respect to the Indenture or any other Indenture Document, to claim for itself or its revenues, assets or properties any immunity from suit, the jurisdiction of any court, attachment prior to judgment, attachment in aid of execution of judgment, set-off, execution of a judgment or any other legal process, and to the extent that in any such jurisdiction there may be attributed to such Person such an immunity (whether or not claimed), each of the Issuer and the Guarantors irrevocably agrees not to claim and hereby irrevocably waives such immunity to the fullest extent permitted by the law of the applicable jurisdiction.

Judgment Currency

The Indenture Documents will provide that the transactions contemplated thereby are part of an international transaction in which the specification of United States dollars and payment in the United States of America is of the essence, and the obligations of each of the Issuer and the Guarantors under the Indenture and the other Indenture Documents to make payment to (or for the account of) each Notes Secured Party in United States dollars shall not be discharged or satisfied by any tender or recovery pursuant to any judgment expressed in or converted into any other currency or in another place except to the extent that such tender or recovery results in the effective receipt by such Notes Secured Party in the United States of America of the full amount of United States dollars payable to such Notes Secured Party under the Indenture Documents to which such Notes Secured Party is party or otherwise bound. If for the purpose of obtaining or enforcing judgment in any court it is necessary to convert a sum due under any Indenture Document in United States dollars into another currency (for the purposes of this ''—Judgment Currency'' provision, hereinafter the ''*judgment currency*''), the rate of exchange which shall be applied shall be that at which in accordance with normal banking procedures such Notes Secured Party could purchase such United States dollars in the United States of America with the judgment currency on the Business Day next preceding the day on which such judgment is rendered. The obligation of each of the Issuer and the Guarantors in respect of any such sum due from it to such Notes Secured Party hereunder (in this ''—Judgment Currency'' provision called an ''Entitled Person'') shall, notwithstanding the rate of exchange actually applied in rendering such judgment, be discharged only to the extent that on the Business Day following the receipt by such Entitled Person of any sum adjudged to be due hereunder in the judgment currency such Entitled Person may in accordance with normal banking procedures purchase and transfer United States dollars to the United States of America with the amount of the judgment currency so adjudged to be due; and each of the Issuer and the Guarantors hereby, as a separate obligation and notwithstanding any such judgment, agrees to indemnify such Entitled Person on demand, in United States dollars, for the amount (if any) by which the sum originally due to such Entitled Person in United States dollars hereunder exceeds the amount of the United States dollars so purchased and transferred.

English Language

The Indenture and all other Indenture Documents shall be in the English language, except as required by applicable law (in which event certified English translations thereof shall be provided by the Issuer to the First Lien Collateral Agent and the Trustee upon request by the Trustee and upon which the Trustee and the First Lien Collateral Agent shall have the right to rely for all purposes). All documents, certificates, reports or notices to be delivered or communications to be given or made by any party thereto pursuant to the terms thereof or any other Indenture Document shall be in the English language or, if originally written in another language, shall be accompanied by an accurate English translation upon which any party to any Indenture Document shall have the right to rely for all purposes of the Indenture and the other Indenture Documents.

Governing Law

The Indenture, the First Lien Collateral Documents (other than particular documents that relate to Collateral in other jurisdictions), the Notes and the Note Guarantees will be governed by, and construed in accordance with, the laws of the State of New York.

Certain Definitions

"Acquired Indebtedness" means, with respect to any specified Person, (1) Indebtedness of any other Person existing at the time such other Person is merged with or into or became a Restricted Subsidiary of such specified Person, including, without limitation, Indebtedness incurred in connection with, or in contemplation of, such other Person merging with or into or becoming a Restricted Subsidiary of such specified Person, and (2) Indebtedness secured by a Lien encumbering any asset acquired by such specified Person.

''*Additional First Lien Claims*'' means all Obligations in respect of any Additional First Lien Indebtedness or arising under any Credit Facility relating to any Additional First Lien Indebtedness and related documents identified in a Supplement A to the Intercreditor Agreement.

"Additional First Lien Indebtedness" means any additional Indebtedness (1) that is permitted to be Incurred under clause (1) of the second paragraph of the covenant described above under ''—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock'', and (2) that is secured on a pari passu (and, for the avoidance of doubt, not a junior or subordinated) basis with the Notes and the Note Guarantees by a Permitted Lien described in clause (7) or (14) of the definition of Permitted Liens; provided that in respect of each of clause (1) and (2), (i) (A) the principal amount of such Indebtedness and related Lien with such priority is also permitted under each other then existing First Lien Document and Second Lien Document at the time such principal amount of Indebtedness is incurred, and (B) such Indebtedness is so designated as Additional First Lien Indebtedness in an Officer's Certificate delivered to the First Lien Collateral Agent and (ii) an authorized representative of the holders of such Indebtedness shall have executed and delivered a Supplement A to the Intercreditor Agreement and a First Lien Accession Agreement. Any such Indebtedness that does not meet the requirements set forth above in this definition shall not constitute Additional First Lien Indebtedness for purposes of the Intercreditor Agreement or the Indenture.

''*Additional First Lien Secured Parties*'' means, collectively, the agent, trustee or other representative, if any, and any additional lenders or holders of First Lien Indebtedness identified in a Supplement A to the Intercreditor Agreement and a First Lien Accession Agreement.

"Additional Second Lien Secured Parties" means, collectively, the agent, trustee or other representative, if any, and any additional lenders or holders of Second Lien Indebtedness identified in a Supplement A to the Intercreditor Agreement and, if applicable, a Second Lien Accession Agreement.

"Affiliate" of any specified Person means any other Person, directly or indirectly, controlling or controlled by or under direct or indirect common control with such specified Person. For the purposes of this definition, ''control'' when used with respect to any Person means the power to direct the management and policies of such Person, directly or indirectly, whether through the ownership of voting securities, by contract or otherwise; and the terms ''controlling'' and ''controlled'' have meanings correlative to the foregoing.

"*After-Acquired Property*" means any and all assets or property acquired after the Issue Date, including any property or assets acquired by the Issuer or a Guarantor from another Guarantor, other than Excluded Assets.

"Agents" means, collectively, the First Lien Collateral Agent and the Second Lien Collateral Agent (if any).

"Asset Disposition" means any sale, lease, transfer or other disposition (or series of related sales, leases, transfers or dispositions) by the Issuer or any Restricted Subsidiary, including any disposition by means of a merger, consolidation or similar transaction or issuances of Capital Stock (each referred to for the purposes of this definition as a "disposition"), of:

(1) any shares of Capital Stock of a Restricted Subsidiary (other than directors' qualifying shares, shares required by applicable law to be held by a Person other than the Issuer or a Restricted Subsidiary or Preferred Stock of Restricted Subsidiaries issued in compliance with the covenant described under "—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock");

(2) all or substantially all the assets of any division or line of business of the Issuer or any Restricted Subsidiary;

(3) any Rig; or

(4) any other assets of the Issuer or any Restricted Subsidiary outside of the ordinary course of business of the Issuer or such Restricted Subsidiary other than, in the case of clauses (1) through (3) above and this clause (4),

  (A) a disposition by a Subsidiary to the Issuer or by the Issuer or a Subsidiary to a Restricted Subsidiary;

  (B) for purposes of the covenant described under "—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock" only, (x) a disposition that constitutes a Permitted Investment, or that constitutes a Restricted Payment (or would constitute a Restricted Payment but for the exclusions from the definition thereof) that is not prohibited by the covenant described under "—Certain Covenants—Limitation on Restricted Payments" and (y) a disposition of all or substantially all the properties and assets of the Issuer and its Restricted Subsidiaries in accordance with the covenant described under "—Certain Covenants—Merger and Consolidation";

  (C) a disposition of assets with a Fair Market Value of less than $20.0 million;

  (D) a disposition of cash or Cash Equivalents;

  (E) the granting of Liens not prohibited by the covenant described above under the caption "—Certain Covenants—Limitation on Liens" or the granting of Liens by an Unrestricted Subsidiary or in the Capital Stock of an Unrestricted Subsidiary;

  (F) licensing or sublicensing of intellectual property or other general intangibles and licenses, leases or subleases of other property in the ordinary course of business that do not materially interfere with the business of the Issuer and the Restricted Subsidiaries;

  (G) dispositions (including without limitation surrenders and waivers) of accounts receivable or other contract rights in connection with the compromise, settlement or collection thereof;

  (H) any sale or disposition of any property or equipment that has become damaged, worn-out, no longer necessary or useful or obsolete or pursuant to a program for the maintenance or upgrading of such property or equipment;

  (I) any disposition of assets that constitutes a Change of Control to the extent the Issuer has complied with the provisions under "—Change of Control Offer";

  (J) the unwinding of any Hedging Obligations;

  (K) the termination, surrender or sublease of leases (as lessee), licenses (as licensee), subleases (as sublessee) and sublicenses (as sublicensee) in the ordinary course of business;

  (L) any surrender or waiver of contract rights or the settlement, release, recovery on or surrender of contract, tort or other claims of any kind;

(M) transfers of property that is the subject of a casualty event or eminent domain or condemnation proceeding;

(N) dispositions of Investments in joint ventures to the extent required by any buy/sell arrangement or similar binding arrangement; and

(O) to the extent allowable under Section 1031 of the Code, any exchange of like property (excluding any boot thereon) for use in a Related Business.

"Attributable Debt" in respect of a Sale and Leaseback Transaction means, at any date of determination,

(a) if such Sale and Leaseback Transaction is a Capital Lease Obligation, the amount of Indebtedness represented thereby according to the definition of "Capital Lease Obligations"; and

(b) in all other instances, the present value (discounted at the interest rate set forth or implicit in the transaction (as determined in good faith by the Issuer), compounded annually) of the total obligations of the lessee or charterer for rental payments during the remaining term of the lease or bareboat charter included in such Sale and Leaseback Transaction (including any period for which such lease has been extended).

"Average Life" means, as of the date of determination, with respect to any Indebtedness, the quotient obtained by dividing:

(1) the sum of the products of the numbers of years from the date of determination to the dates of each successive scheduled principal payment of or redemption or similar payment with respect to such Indebtedness multiplied by the amount of such payment by

(2) the sum of all such payments.

"Bank Product Obligations" means all Obligations with respect to facilities or services related to cash management, including treasury, depository, overdraft, credit or debit card, purchase card, electronic funds transfer, cash pooling and other cash management arrangements and commercial credit card and merchant card services, and, when such term is used in the Intercreditor Agreement, such Obligations must be secured Obligations under a Credit Facility.

"Board of Directors" means:

(1) with respect to a corporation, the board of directors of the corporation or any committee thereof duly authorized to act on behalf of such board;

(2) with respect to a partnership, the Board of Directors of the general partner of the partnership;

(3) with respect to a limited liability company, the managing member or members or any controlling committee of managing members thereof; and

(4) with respect to any other Person, the board or committee of such Person serving a similar function.

"Business Day" means each day which is not a Legal Holiday.

"Capital Lease Obligation" means, at the time the determination is to be made, an obligation that is required to be classified and accounted for as a capital lease for financial reporting purposes in accordance with GAAP, and the amount of Indebtedness represented by such obligation shall be the capitalized amount of such obligation determined in accordance with GAAP, in each case, as in effect on the Issue Date. The Stated Maturity thereof shall be the date of the last payment of rent or any other amount due under such lease prior to the first date upon which such lease may be terminated by the lessee without payment of a penalty. For purposes of the covenant described under "—Certain Covenants—Limitation on Liens," a Capital Lease Obligation will be deemed to be secured by a Lien on the property being leased.

"Capital Stock" of any Person means any and all shares, interests (including partnership interests or membership interests), rights to purchase, warrants, options, participations or other equivalents of or interests in (however designated) equity of such Person, including any Preferred Stock and any interest or participation that confers the right to receive a share of the profits and losses of, or distributions of property of, such Person, but excluding any debt securities convertible or exchangeable into such equity.

"Cash-Collateralized Credit Support" means letters of credit or bank guarantees issued under any Credit Facility up to an aggregate outstanding face amount of $75,000,000, so long as such letters of credit and bank guarantees have been cash collateralized at least at 100% of their aggregate outstanding face amount.

"Cash Equivalents" means any of the following:

(1) U.S. dollars, pounds sterling, euros, or the national currency of any member state in the European Union;

(2) any investment in direct obligations of, or obligations guaranteed or insured by, the United States of America or any agency thereof, the United Kingdom or any country that is a member of the European Union or any agency or instrumentality thereof maturing within two years of the date of acquisition thereof;

(3) investments in demand and time deposit accounts, certificates of deposit and money market deposits and Eurodollar time deposits maturing within one year of the date of acquisition thereof issued by a bank or trust company which bank or trust company has capital, surplus and undivided profits aggregating in excess of $250.0 million and has outstanding debt which is rated "A" (or such similar equivalent rating) or higher by at least one nationally recognized statistical rating organization (as defined in Section 3(a)(62) of the Exchange Act) or a reasonably equivalent rating of another internationally recognized ratings agency;

(4) repurchase obligations for underlying securities of the types described in clauses (2) and (3) above entered into with a financial institution meeting the qualifications described in clause (3) above;

(5) investments in commercial paper, maturing not more than one year after the date of acquisition, issued by a corporation (other than an Affiliate of the Issuer) organized and in existence under the laws of the United States of America or any foreign country recognized by the United States of America with a rating at the time as of which any investment therein is made of "P-1" (or higher) according to Moody's or "A-1" (or higher) according to S&P (or reasonably equivalent ratings of another internationally recognized ratings agency if both Moody's and S&P cease publishing ratings of investments);

(6) investments in securities with maturities of two years or less from the date of acquisition issued or fully guaranteed by any state, commonwealth or territory of the United States of America, or by any political subdivision or taxing authority thereof, and rated at least "A" by S&P or "A" by Moody's (or reasonably equivalent ratings of another internationally recognized ratings agency if both Moody's and S&P cease publishing ratings of investments);

(7) Indebtedness issued by Persons (other than the Permitted Holders or any of their Affiliates) with a rating of "A" or higher from S&P or "A-2" or higher from Moody's (or reasonably equivalent ratings of another internationally recognized ratings agency if both Moody's and S&P cease publishing ratings of investments);

(8) investments in money market funds that invest substantially all their assets in securities of the types described in clauses (1) through (7) above; and

(9) instruments equivalent to those referred to in clauses (1) through (8) above denominated in euros or any other foreign currency comparable in credit quality and tenor to those referred to above and commonly used by corporations for cash management purposes in any jurisdiction outside the United States to the extent reasonably required in connection with any business conducted by any Restricted Subsidiary organized in such jurisdiction.

"Change of Control" means the occurrence of any one or more of the following:

(1) the direct or indirect sale, transfer, conveyance or other disposition (other than by way of merger, amalgamation or consolidation), in one or a series of related transactions, of all or substantially all of the properties and assets of the Issuer and its Restricted Subsidiaries, taken as a whole, to any "person" or "group" (as each such term is used in Section 13(d) of the Exchange Act) other than to the Issuer, any of its Restricted Subsidiaries or one or more Permitted Holders;

(2) the adoption by holders of the Capital Stock of the Issuer of a plan for the liquidation or dissolution of the Issuer (other than a transaction that complies with the provisions described under the caption "—Certain Covenants—Merger and Consolidation"); or

(3) any ''person'' or ''group'' (each as defined in clause (1) above), other than one or more Permitted Holders, is or becomes the ''beneficial owner'' (as defined in Rules 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than 50% of the total voting power of the Voting Stock of the Issuer.

Notwithstanding the foregoing, a transaction will not be deemed to involve a Change of Control under clause (3) above if (i) the Issuer becomes a direct or indirect wholly-owned subsidiary of an ultimate parent holding company and (ii)(a) the direct or indirect holders of the Voting Stock of such ultimate parent holding company immediately following that transaction are substantially the same as the holders of the Issuer's Voting Stock immediately prior to that transaction or (b) immediately following that transaction, no ''person'' or ''group'' (each as defined in clause (1) above), other than one or more Permitted Holders, is the ''beneficial owner'' (as defined in Rule 13d-3 and 13d-5 under the Exchange Act), directly or indirectly, of more than 50% of the total voting power of the Voting Stock of the ultimate parent holding company.

''Change of Control Repurchase Event'' means the occurrence of a Change of Control.

''Code'' means the Internal Revenue Code of 1986, as amended.

''*Collateral*'' means all of the assets and properties of any kind whatsoever of the Issuer or any Guarantor, whether now owned or hereafter existing, whether real, personal or mixed, tangible or intangible, and wherever located, which secure the Indenture Obligations.

''*Collateral Rig Mortgage*'' means a mortgage, substantially in a form delivered on the Issue Date or in such other form as may be reasonably satisfactory to the First Lien Collateral Agent and the Issuer, as such mortgage may be amended, modified or supplemented from time to time in accordance with the terms hereof and thereof.

''Commodity Agreement'' means any swap, cap, collar, forward sale or other agreement or arrangement designed to protect against fluctuations in commodity prices.

''Consolidated Coverage Ratio'' as of any date of determination means the ratio of (x) the aggregate amount of EBITDA for the period of the most recently ended four full consecutive fiscal quarters for which internal financial statements are available prior to the date of such determination to (y) Consolidated Interest Expense for such four fiscal quarters; *provided, however,* that:

(1) if the Issuer or any Restricted Subsidiary has Incurred any Indebtedness since the beginning of such period that remains outstanding or if the transaction giving rise to the need to calculate the Consolidated Coverage Ratio is an Incurrence of Indebtedness, or both, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving effect on a pro forma basis to such Indebtedness as if such Indebtedness had been Incurred on the first day of such period;

(2) if the Issuer or any Restricted Subsidiary has repaid, repurchased, defeased or otherwise discharged any Indebtedness since the beginning of such period or if any Indebtedness is to be repaid, repurchased, defeased or otherwise discharged (in each case other than Indebtedness Incurred under any revolving credit facility unless such Indebtedness has been permanently repaid and has not been replaced) on the date of the transaction giving rise to the need to calculate the Consolidated Coverage Ratio, EBITDA and Consolidated Interest Expense for such period shall be calculated on a *pro forma* basis as if such repayment, repurchase, defeasance or other discharge had occurred on the first day of such period and as if the Issuer or such Restricted Subsidiary had not been required to pay or accrue the Consolidated Interest Expense during such period in respect of the Indebtedness being repaid, repurchased, defeased or otherwise discharged;

(3) if since the beginning of such period the Issuer or any Restricted Subsidiary shall have made any Asset Disposition, EBITDA for such period shall be reduced by an amount equal to EBITDA (if positive) directly attributable to the assets which are the subject of such Asset Disposition for such period, or increased by an amount equal to EBITDA (if negative), directly attributable thereto for such period and Consolidated Interest Expense for such period shall be reduced by an amount equal to the Consolidated Interest Expense directly attributable to any Indebtedness of the Issuer or any Restricted Subsidiary repaid, repurchased, defeased or otherwise discharged with respect to the Issuer and its continuing Restricted Subsidiaries in connection with such Asset Disposition for such period (or, if the Capital Stock of any Restricted

Subsidiary is sold, the Consolidated Interest Expense for such period directly attributable to the Indebtedness of such Restricted Subsidiary to the extent the Issuer and its continuing Restricted Subsidiaries are no longer liable for such Indebtedness after such sale);

(4) if since the beginning of such period the Issuer or any Restricted Subsidiary (by merger or otherwise) shall have made an Investment or an acquisition of assets, including any acquisition of assets occurring in connection with a transaction requiring a calculation to be made hereunder, which constitutes all or substantially all of an operating unit of a business, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving *pro forma* effect thereto (including the Incurrence of any Indebtedness) as if such Investment or acquisition had occurred on the first day of such period; and

(5) if since the beginning of such period any Person that subsequently became a Restricted Subsidiary or was merged with or into the Issuer or any Restricted Subsidiary since the beginning of such period shall have made any Asset Disposition, any Investment or acquisition of assets that would have required an adjustment pursuant to clause (3) or (4) above if made by the Issuer or a Restricted Subsidiary during such period, EBITDA and Consolidated Interest Expense for such period shall be calculated after giving *pro forma* effect thereto as if such Asset Disposition, Investment or acquisition had occurred on the first day of such period.

For purposes of this definition, whenever *pro forma* effect is to be given to an acquisition of assets, the amount of income or earnings relating thereto and the amount of Consolidated Interest Expense associated with any Indebtedness Incurred in connection therewith, the *pro forma* calculations shall be determined in good faith by a responsible financial or accounting Officer of the Issuer. If any Indebtedness bears a floating rate of interest and is being given *pro forma* effect, the interest on such Indebtedness shall be calculated based upon the actual rates in effect during such period (taking into account any Interest Rate Agreement applicable to such Indebtedness). If any Indebtedness is incurred under a revolving credit facility and is being given *pro forma* effect, the interest on such Indebtedness shall be calculated based on the average daily balance of such Indebtedness for the four fiscal quarters subject to the *pro forma* calculation to the extent that such Indebtedness was incurred solely for working capital purposes.

Any *pro forma* calculations may include the reduction in costs for the applicable period resulting from, or in connection with, the acquisition of assets or other transaction or event which is being given *pro forma* effect that have been realized or for which the steps necessary for realization have been taken or will be taken within 12 months following such acquisition or other transaction or event (including *pro forma* cost reductions regardless of whether the cost savings could then be reflected in *pro forma* financial statements in accordance with Regulation S-X under the Securities Act); *provided, however,* that such adjustments must be made in good faith by a responsible financial or accounting officer of the Issuer.

"Consolidated Interest Expense" means, for any period, the total interest expense of the Issuer and its consolidated Restricted Subsidiaries, as determined in accordance with GAAP, (a) plus, to the extent not included in such total interest expense, and to the extent incurred by the Issuer or the Restricted Subsidiaries, without duplication:

(1) interest expense attributable to Capital Lease Obligations;

(2) amortization of original issue discount and bond premium;

(3) net payments and receipts (if any) pursuant to interest rate Hedging Obligations *(provided, however,* that if interest rate Hedging Obligations result in net benefits rather than costs, such benefits shall be credited to reduce Consolidated Interest Expense);

(4) non-cash interest expense (but excluding any non-cash interest expense attributable to the movement in the mark to market valuation of Hedging Obligations or other derivative instruments pursuant to GAAP); and

(5) all cash dividend payments in respect of all Disqualified Stock and all other Preferred Stock of the Issuer and its Restricted Subsidiaries, in each case, held by Persons other than the Issuer or a Wholly Owned Subsidiary (other than dividends payable solely in Capital Stock (other than Disqualified Stock) of the Issuer);

minus

(1) interest income for such period; and

(2) amortization of deferred financing fees, debt issuance costs, commissions, fees and expenses and expensing of any financing fees.

"Consolidated Net Income" means, for any period, the net income of the Issuer and its consolidated Restricted Subsidiaries, as determined in accordance with GAAP; *provided, however,* that there shall not be included in such Consolidated Net Income:

(1) any net income of any Person (other than the Issuer) if such Person is not a Restricted Subsidiary, except that the Issuer's equity in the net income of any such Person for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed by such Person during such period to the Issuer or a Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to a Restricted Subsidiary, to the limitations contained in clause (2) below);

(2) any net income of any Restricted Subsidiary (other than a Guarantor) if such Restricted Subsidiary is subject to restrictions, directly or indirectly, on the payment of dividends or the making of distributions by such Restricted Subsidiary, directly or indirectly, to the Issuer, except that:

(A) the Issuer's equity in the net income of any such Restricted Subsidiary for such period shall be included in such Consolidated Net Income up to the aggregate amount of cash actually distributed (or, if greater, for purposes of the calculation of the Consolidated Coverage Ratio only, permitted at the date of determination to be distributed) by such Restricted Subsidiary during such period to the Issuer or another Restricted Subsidiary as a dividend or other distribution (subject, in the case of a dividend or other distribution paid to another Restricted Subsidiary, to the limitation contained in this clause); and

(B) the Issuer's equity in a net loss of any such Restricted Subsidiary for such period shall be included in determining such Consolidated Net Income;

(3) any gain (or loss) from discontinued operations and any gain (or loss) realized upon the sale or other disposition of any assets of the Issuer, its consolidated Subsidiaries or any other Person (including pursuant to any sale-and-leaseback arrangement) which are not sold or otherwise disposed of in the ordinary course of business and any gain (or loss) realized upon the sale or other disposition of any Capital Stock of any Person;

(4) any after tax effect of extraordinary, non-recurring or unusual gains or losses (including relating to severance, relocation, one-time compensation and restructuring charges);

(5) the cumulative effect of a change in accounting principles;

(6) any unrealized non-cash gains or losses or charges in respect of Hedging Obligations (including those resulting from the application of FASB ASC 815); provided that Consolidated Net Income shall include realized gains or losses in respect of Hedging Obligations;

(7) any non-cash compensation charge arising from any grant of stock, stock options or other equity-based awards of the Issuer, any of its Subsidiaries or any direct or indirect parent of the Issuer;

(8) any fees, expenses or charges (other than depreciation, depletion or amortization expense) related to any equity offering, Permitted Investment, acquisition, disposition, recapitalization or the Incurrence of Indebtedness permitted to be incurred by the Indenture (including a refinancing thereof) (whether or not successful), including such fees, expenses and charges relating to the issuance of the Notes, the Existing Notes or other Indebtedness;

(9) any non-cash goodwill or intangible asset impairment charges pursuant to FASB ASC 350;

(10) any increase or decrease in expenses resulting from the application of purchase accounting principles in connection with any acquisition, including any increase in expenses (including, but not limited to, depreciation, depletion or amortization expense) associated with any gain resulting from the impact of a bargain purchase in a business combination;

(11) mobilization and activation costs in respect of any Rig that is, or in the good faith judgment of the Issuer is reasonably expected to be, the subject of a drilling contract;

(12) legal and other related costs associated with lobbying and similar activities;

(13) an amount equal to the amount of tax distributions actually made to any direct or indirect parent of the Issuer in respect of such period in accordance with clause (b)(9) under ''—Certain Covenants—Limitation on Restricted Payments'' shall be included in the calculation of Consolidated Net Income as though such amounts had been paid as income taxes directly by the Issuer for such period; and

(14) an amount equal to the amount of income, business, personal property and franchise or similar taxes paid by a third party (other than any direct or indirect parent of the Issuer) for or on behalf of the Issuer or any of its consolidated Restricted Subsidiaries shall be included in the calculation of Consolidated Net Income as though such amounts had been paid as taxes directly by the Issuer or such consolidated Restricted Subsidiary to the extent such amounts did not already reduce Consolidated Net Income for the respective period.

Notwithstanding the foregoing, for the purposes of the covenant described under ''—Certain Covenants—Limitation on Restricted Payments'' only, there shall be excluded from Consolidated Net Income any repurchases, repayments or redemptions of Investments, proceeds realized on the sale of Investments or return of capital to the Issuer or a Restricted Subsidiary to the extent such repurchases, repayments, redemptions, proceeds or returns increase the amount of Restricted Payments permitted under such covenant pursuant to clause (a)(3)(d) thereof.

''Credit Facility'' means one or more debt facilities or other financing arrangements designated by the Issuer from time to time (including commercial paper facilities or indentures) providing for revolving credit loans, term loans, letters of credit, bank guarantees or other long-term indebtedness, including any notes, Guarantees, collateral documents, instruments and agreements executed in connection therewith, and in each case, as amended, extended, renewed, restated, supplemented, replaced (whether or not upon termination and whether with the original lenders, institutional investors or otherwise), refinanced (including through the issuance of debt securities), restructured or otherwise modified (in whole or in part, and without limitation as to amount, terms, conditions, covenants and other provisions) from time to time, and any agreement (and related document) governing Indebtedness incurred to refinance, in whole or in part, the borrowings, other extensions of credit and commitments then outstanding or permitted to be outstanding under such Credit Facility or successor Credit Facility, whether by the same or any other agent, lender or group of lenders or institutional investors or whether with the same or any different borrower.

''*Credit Facility Cash Management Obligations*'' means any Bank Product Obligations described in clause (7)(ii) of the definition of Permitted Liens and owing to a First Lien Secured Party, an Affiliate thereof or another financial institution that constitutes a ''secured party'' under a First Lien Collateral Document; provided that any Liens relating thereto are subject to the terms of the Intercreditor Agreement.

''*Credit Facility Hedging Obligations*'' means any Hedging Obligations described in clause (7)(i) of the definition of Permitted Liens and owing to a First Lien Secured Party or an Affiliate thereof which have been entered into for bona fide hedging purposes and not for the purpose of speculation (it being understood and agreed that, in any event, with respect to any Hedging Obligation entered into after the Issue Date, an Officer's Certificate delivered to the Agents at the time that such Hedging Obligation is entered into or within 20 days thereafter certifying that such Hedging Obligation has been entered into for a bona fide hedging purpose and not for the purpose of speculation shall be conclusive and binding for purposes of classifying such Hedging Obligation as a Credit Facility Hedging Obligation under the Intercreditor Agreement) and which are secured by one or more First Lien Collateral Documents.

''Currency Agreement'' means any foreign exchange contract, currency swap agreement or other similar agreement with respect to currency values.

''Customary Recourse Exceptions'' means, with respect to any Non-Recourse Debt, exclusions from the exculpation provisions with respect to such Non-Recourse Debt for the voluntary bankruptcy of such Unrestricted Subsidiary, fraud, misapplication of cash, environmental claims, waste, willful destruction and other circumstances customarily excluded by lenders from exculpation provisions or included in separate indemnification agreements in non-recourse financings as determined in good faith by the Issuer.

"Default" means any event which is, or after notice or passage of time or both would be, an Event of Default.

"Designated Noncash Consideration" means the Fair Market Value of noncash consideration received by the Issuer or a Restricted Subsidiary in connection with an Asset Disposition that is so designated as Designated Noncash Consideration pursuant to an Officer's Certificate, setting forth the basis of such valuation, executed by an Officer of the Issuer, less the amount of cash or Cash Equivalents received in connection with a subsequent sale of such Designated Noncash Consideration.

"Discharge of First Lien Claims" means, subject to ''—Intercreditor Agreement—Matters Related to First Lien Documents,'' (a) with respect to the Indenture Obligations, the earliest to occur of: (i) the payment in full in cash of (1) the principal of and interest and premium (including all fees and premium incurred and interest accruing on or after the commencement of an Insolvency or Liquidation Proceeding, whether or not such interest would be allowed in such proceeding), if any, on all outstanding Indenture Obligations, and (2) all other Indenture Obligations that are due and payable or otherwise accrued and owing at or prior to the time such principal, interest and premium are paid; (ii) the Issuer's exercise of its legal defeasance option or covenant defeasance option in accordance with the Indenture; and (iii) the satisfaction and discharge of the Indenture in accordance with the terms of the Indenture, and (b) with respect to all other First Lien Claims, the termination or expiration of all commitments to extend credit that would constitute such First Lien Claims and the earliest to occur of: (i) the payment in full in cash of (A) the principal of and interest and premium (including all fees and premium incurred and interest accruing on or after the commencement of an Insolvency or Liquidation Proceeding, whether or not such interest would be allowed in such proceeding) and fees, if any, on all such First Lien Claims (including, without limitation, Credit Facility Hedging Obligations and Credit Facility Cash Management Obligations) outstanding under the applicable First Lien Documents and, with respect to letters of credit and bank guarantees outstanding thereunder, delivery of cash collateral (in an amount of no more than the lesser of 105% of the undrawn and drawn and unreimbursed amount thereof and the aggregate amount required to cash collateralize such letters of credit and bank guarantees under the applicable First Lien Documents) or backstop letters of credit or bank guarantees in respect thereof in compliance with the applicable First Lien Documents, in each case concurrently with termination of all commitments to extend credit thereunder, and (B) any other such First Lien Claims that are due and payable or otherwise accrued and owing at or prior to the time such principal, interest, fees and premiums are paid; (ii) to the extent applicable to such First Lien Claims, the Issuer's exercise of its legal defeasance option or covenant defeasance option in accordance with the First Lien Documents governing such First Lien Claims; and (iii) to the extent applicable to such First Lien Claims, the satisfaction and discharge of the First Lien Documents governing such First Lien Claims in accordance with the terms of such First Lien Documents.

"Discharge of Second Lien Obligations" means, subject to ''—Intercreditor Agreement—Matters Related to Second Lien Documents,'' the termination or expiration of all commitments to extend credit that would constitute Second Lien Obligations and the earliest to occur of: (A) the payment in full in cash of (i) the principal of and interest (including interest accruing on or after the commencement of an Insolvency or Liquidation Proceeding, whether or not such interest would be allowed in such proceeding) and fees and premiums, if any, on all Second Lien Obligations outstanding under the Second Lien Documents and, with respect to letters of credit and bank guarantees outstanding thereunder, delivery of cash collateral (in an amount of no more than 105% of the undrawn and drawn and unreimbursed amount thereof) or backstop letters of credit or bank guarantees in respect thereof in compliance with the Second Lien Documents, in each case concurrently with termination of all commitments to extend credit thereunder, and (ii) any other Second Lien Obligations that are due and payable or otherwise accrued and owing at or prior to the time such principal and interest are paid, (B) the Issuer's exercise of its legal defeasance option or covenant defeasance option in accordance with the Second Lien Documents and (C) the satisfaction and discharge of the Second Lien Documents in accordance with their terms.

"Disqualified Stock" means, with respect to any Person, any Capital Stock which by its terms (or by the terms of any security into which it is convertible or for which it is exchangeable at the option of the holder) or upon the happening of any event:

(1) matures or is mandatorily redeemable (other than redeemable only for Capital Stock of such Person which is not itself Disqualified Stock) pursuant to a sinking fund obligation or otherwise;

(2) is convertible or exchangeable at the option of the holder for Indebtedness or Disqualified Stock; or

(3) is mandatorily redeemable or must be purchased upon the occurrence of certain events or otherwise, in whole or in part;

in each case on or prior to the date that is 91 days after the Stated Maturity of the Notes; *provided, however,* that any Capital Stock that would not constitute Disqualified Stock but for provisions thereof giving holders thereof the right to require such Person to purchase or redeem such Capital Stock upon the occurrence of an ‘‘asset sale’’ or ‘‘change of control’’ or similar provision occurring prior to the date that is 91 days after the Stated Maturity of the Notes shall not constitute Disqualified Stock if any such requirement only becomes operative after compliance with such terms applicable to the Notes, including the purchase of any Notes tendered pursuant thereto; provided, further, however, that if such Capital Stock is issued to any employee or to any plan for the benefit of employees of the Issuer, its Subsidiaries or any direct or indirect parent of the Issuer or by any such plan to such employees, such Capital Stock shall not constitute Disqualified Stock solely because it may be required to be repurchased by the Issuer or any direct or indirect parent of the Issuer in order to satisfy applicable statutory or regulatory obligations or as a result of such employee’s termination, death or disability.

The amount of any Disqualified Stock that does not have a fixed redemption, repayment or repurchase price will be calculated in accordance with the terms of such Disqualified Stock as if such Disqualified Stock were redeemed, repaid or repurchased on any date on which the amount of such Disqualified Stock is to be determined pursuant to the Indenture; *provided, however,* that if such Disqualified Stock could not be required to be redeemed, repaid or repurchased at the time of such determination, the redemption, repayment or repurchase price will be the book value of such Disqualified Stock as reflected in the most recent financial statements of such Person.

‘‘*Drilling Contract Lien Restrictions*’’ means any provisions in a drilling contract for a Rig that were requested by a Person that is not the Parent or a Subsidiary thereof that could reasonably be interpreted by the Issuer in good faith as restricting or prohibiting the placing of the mortgage proposed to be placed upon such Rig for the benefit of the First Lien Collateral Agent on the Rig subject to such drilling contract.

“EBITDA” for any period means the sum of Consolidated Net Income, plus the following to the extent deducted in calculating such Consolidated Net Income, without duplication:

(1) (a) all income, business, personal property and franchise or similar taxes of the Issuer and its consolidated Restricted Subsidiaries, paid or accrued (including any such taxes paid by a third party (other than any direct or indirect parent of the Issuer) for or on behalf of the Issuer or any of its consolidated Restricted Subsidiaries) and (b) an amount equal to the amount of tax distributions actually made to any direct or indirect parent of the Issuer in respect of such period in accordance with clause (b)(9) under ‘‘—Certain Covenants—Limitation on Restricted Payments’’;

(2) Consolidated Interest Expense;

(3) depreciation and amortization expense of the Issuer and its consolidated Restricted Subsidiaries (excluding amortization expense attributable to a prepaid item that was paid in cash in a prior period);

(4) all other non-cash charges of the Issuer and its consolidated Restricted Subsidiaries (excluding any such non-cash charge to the extent that it represents an accrual of or reserve for cash expenditures in any future period) less all non-cash items of income of the Issuer and its consolidated Restricted Subsidiaries (other than accruals of revenue by the Issuer and its consolidated Restricted Subsidiaries in the ordinary course of business);

(5) amortization of deferred financing fees, debt issuance costs, commissions, fees and expenses and expensing of any financing fees;

(6) the amount of any restructuring charge, integration costs or other business optimization expenses or reserve; and

(7) any fair value gains or losses (expressed as a negative number in the case of gains and a positive number in the case of losses) recorded in the income statement of the Issuer or its direct or indirect parent as a result of adjusting the earn-out liability in respect of the earn-out payments recorded on the opening balance sheet of the Issuer or its direct or indirect parent immediately after giving effect to any acquisition,

in each case for such period. Notwithstanding the foregoing, the provision for taxes based on the income or profits of, and the depreciation and amortization and non-cash charges of, a Restricted Subsidiary shall be added to Consolidated Net Income to compute EBITDA only to the extent (and in the same proportion, including by reason of minority interests) that the net income or loss of such Restricted Subsidiary was included in calculating Consolidated Net Income.

"Equity Sponsors" means collectively, Castle Harlan, Inc., Lime Rock Partners VI, L.P. and China Merchants & Great Wall Ocean Strategy & Technology Fund (L.P.).

"Excess First Lien Claims" means any outstanding principal amount of First Lien Claims (excluding Cash-Collateralized Credit Support, Credit Facility Hedging Obligations, Credit Facility Cash Management Obligations and any capitalization of interest and fees on such principal amount that did not initially exceed the Maximum First Lien Principal Amount) in excess of the Maximum First Lien Principal Amount and any interest on or fees with respect to such excess principal amount, which principal amount will be allocated among the holders of First Lien Claims in the order of priority set forth in the definition of ''First Lien Claims.''

"Excess Second Lien Obligations" means any outstanding principal amount of Second Lien Obligations outstanding in excess of the Maximum Second Lien Principal Amount and any interest on or fees with respect to such excess principal amount.

"Exchange Act" means the U.S. Securities Exchange Act of 1934, as amended.

"Excluded Subsidiary" means (A) any Restricted Subsidiary that is prohibited by the laws or rules (including licensing requirements and notarial requirements) of its jurisdiction of organization from Guaranteeing the Notes or such laws or rules render such a Guarantee impracticable, so long as the Issuer is using commercially reasonable efforts to obtain any consent or approval that would remove such prohibitions or otherwise to resolve such impracticalities (it being agreed that the Issuer shall be deemed to be using such commercially reasonable efforts if it has been advised in writing by counsel in the jurisdiction of organization of such Restricted Subsidiary that such consent or approval is not reasonably expected to be obtained, or such impracticalities are not reasonably expected to be resolved, as applicable, through the use of commercially reasonable efforts), (B) Shelf Drilling Offshore Services (India) Private Limited for so long as it is organized in India, and any other Subsidiaries that are organized in India and (C) any Immaterial Subsidiary; *provided*, that the sum of (i) the aggregate Fair Market Value of average closing balances for any 30 consecutive day period of cash and Cash Equivalents held in all accounts of Excluded Subsidiaries, and (ii) the aggregate carrying value of Rigs (other than Excluded Rigs) of all Excluded Subsidiaries, shall at no time exceed $25 million.

"Existing Notes" means the aggregate principal amount outstanding as of the Issue Date of the ''Notes'' as defined in that certain Indenture, dated as of February 7, 2018 (as amended, restated, modified or supplemented from time to time), by and among the Issuer, the Guarantors party thereto, and Wilmington Trust, National Association, as trustee.

"Fair Market Value" means, with respect to any asset or property, the price which could be negotiated in an arm's length, free market transaction, for cash, between a willing seller and a willing and able buyer, neither of whom is under undue pressure or compulsion to complete the transaction determined in good faith by the chief financial officer, chief accounting officer or controller of the Issuer or the Restricted Subsidiary with respect to valuations not in excess of $20.0 million or determined in good faith by the Board of Directors of the Issuer or the Restricted Subsidiary with respect to valuations equal to or in excess of $20.0 million, as applicable, which determination will be conclusive.

"First Lien" means a Lien granted by the Issuer or any Guarantor in favor of the First Lien Collateral Agent, at any time, upon any property of the Issuer or any Guarantor to secure First Lien Claims.

"First Lien Accession Agreement" means any accession agreement to the Security Agreement, in substantially the form provided therein, entered into by the Issuer, the Guarantors, the trustee, agent or other representative for the holders of the applicable First Lien Indebtedness, and the First Lien Collateral Agent.

"First Lien Claims" means (a) all Indenture Obligations, (b) all Obligations under a Credit Facility in respect of First Lien Indebtedness, and (c) all other Obligations of the Issuer and the Guarantors under the documents relating to Indebtedness described in clauses (a) and (b) above; provided that, notwithstanding the foregoing, if the aggregate principal amount of the First Lien Indebtedness (excluding Cash-Collateralized Credit Support, Credit Facility Hedging Obligations, Credit Facility Cash Management Obligations and any capitalization of interest and fees on such principal amount that did not initially exceed the Maximum First Lien Principal Amount) exceeds the Maximum First Lien Principal Amount, then all such principal amounts in excess thereof (and any interest on and fees with respect to such excess principal amounts) shall not constitute First Lien Claims but shall instead constitute Excess

First Lien Claims, and any such Excess First Lien Claims shall be allocated first to the Obligations under the above clause (c) (*pro rata* to the holders of Indebtedness described in clauses (a) and (b) according to the amounts owing to such holders), second, to the Obligations under the above clause (b), and last to the Indenture Obligations.

"First Lien Collateral Agent" means Wilmington Trust, National Association, as collateral agent for the Noteholders, and its successors and assigns.

"First Lien Collateral Documents" means the Security Agreement and the other security agreements, pledge agreements, control agreements, mortgages, collateral assignments or other security documents, and related agreements and instruments, as amended, supplemented, restated, renewed, refunded, replaced, restructured, repaid, refinanced or otherwise modified from time to time, creating (or purporting to create) First Liens.

"First Lien Documents" means (a) the Indenture Documents and (b) any other loan agreement, credit agreement, note agreement, purchase agreement, indenture or similar agreement relating to the First Lien Claims and related documents, including the applicable First Lien Collateral Documents, in the case of this clause (b) as identified in a Supplement A to the Intercreditor Agreement as "First Lien Documents."

"First Lien Indebtedness" means (a) the Notes and the Note Guarantees outstanding on the Issue Date and (b) Additional First Lien Indebtedness.

"First Lien Secured Parties" means, collectively, the First Lien Collateral Agent, the Notes Secured Parties and the Additional First Lien Secured Parties, if any.

"GAAP" means generally accepted accounting principles in the United States of America as in effect from time to time.

"Guarantee" means any obligation, contingent or otherwise, of any Person directly or indirectly guaranteeing any Indebtedness of any other Person and any obligation, direct or indirect, contingent or otherwise, of such other Person:

(1) to purchase or pay (or advance or supply funds for the purchase or payment of) such Indebtedness of such other Person (whether arising by virtue of partnership arrangements, or by agreements to keep-well, to purchase assets, goods, securities or services, to take-or-pay or to maintain financial statement conditions or otherwise); or

(2) entered into for the purpose of assuring in any other manner the obligee of such Indebtedness of the payment thereof or to reimburse such obligee against loss in respect thereof (in whole or in part);

provided, however, that the term "Guarantee" shall not include endorsements for collection or deposit in the ordinary course of business. The term "Guarantee" used as a verb has a corresponding meaning.

"Guarantors" means each Restricted Subsidiary of the Issuer that Guarantees the Notes in accordance with the terms of the Indenture. Notwithstanding anything to the contrary contained in the Indenture, no Restricted Subsidiary shall constitute a Guarantor if it has not either (a) executed and delivered the Indenture to the Trustee or (b) executed and delivered a Guaranty Agreement in accordance with the terms of the Indenture to the Trustee.

"Guaranty Agreement" means a supplemental indenture, substantially in the form specified in the Indenture, or otherwise in a form reasonably satisfactory to the Trustee, pursuant to which a Guarantor guarantees the Issuer's obligations with respect to the Notes on the terms provided for in the Indenture.

"Hedging Obligations" of any Person means the Obligations of such Person pursuant to any Interest Rate Agreement, Commodity Agreement or Currency Agreement.

"Heirs" means, with respect to any individual, such individual's estate, spouse, lineal relatives (including adoptive descendants), administrator, committee or other personal representative or other estate planning vehicle and any custodian or trustee for the benefit of any spouse or lineal relatives (including adoptive descendants) of such individual.

"Holder" or *"Noteholder"* means the Person in whose name a Note is registered on the registrar's books.

"Immaterial Rigs" means (i) each of the Rigs named Key Hawaii (registered as of the Issue Date in Vanuatu under Official Number 1591), Galveston Key (registered as of the Issue Date in Vanuatu under Official Number 1496), Trident 15 (registered as of the Issue Date in Liberia under Official Number 9990) or Randolph Yost

(registered as of the Issue Date in the Marshall Islands under Official Number 1744), in each case for so long as such Rig is held for sale and is not conducting drilling or similar operations, and (ii) any other Rig (other than a Modern Rig) for so long as it has a carrying value of less than $10,000,000, is not conducting drilling or similar operations and has been designated as an Immaterial Rig in an Officer's Certificate delivered to the First Lien Collateral Agent.

"Immaterial Subsidiary" means, as of any date of determination, any Restricted Subsidiary (a) whose total assets as of the last day of the most recently ended fiscal quarter for which consolidated financial statements have been delivered pursuant to paragraph (1) of "*—Certain Covenants—Reports*" did not exceed the greater of $25,000,000 and 1.75% of Total Assets as of such date or (b) whose gross revenues for the most recently ended Test Period for which consolidated financial statements have been delivered pursuant to paragraph (1) of "*—Certain Covenants—Reports*" did not exceed the greater of $25,000,000 and 1.75% of the consolidated gross revenues of Issuer and its Restricted Subsidiaries for such Test Period; provided, that (x) a Restricted Subsidiary that no longer meets the foregoing requirements of this definition shall no longer constitute an Immaterial Subsidiary for purposes of the Indenture and (y) notwithstanding the foregoing, the Issuer may elect to cause an Immaterial Subsidiary to become a Guarantor pursuant to the Indenture, as the case may be, in which case such Immaterial Subsidiary shall, upon Guaranteeing the Notes and thereafter, no longer constitute an Immaterial Subsidiary. Notwithstanding the foregoing, (i) the total assets of all Immaterial Subsidiaries as of the last day of the most recently ended fiscal quarter for which consolidated financial statements have been delivered pursuant to paragraph (1) of "*—Certain Covenants—Reports*" shall not exceed the greater of $50,000,000 and 3.5% of the Total Assets as of such date as shown on such consolidated financial statements, (ii) the gross revenues of all Immaterial Subsidiaries for the most recently ended Test Period for which consolidated financial statements have been delivered pursuant to paragraph (1) of "*—Certain Covenants—Reports*" shall not exceed the greater of $50,000,000 and 3.5% of the consolidated gross revenues of the Issuer and its Restricted Subsidiaries for such Test Period and (iii) no Restricted Subsidiary that either (x) owns a Rig (other than an Immaterial Rig) or the related material machinery and equipment required to operate a Rig (other than an Immaterial Rig) or (y) guarantees Indebtedness incurred under any First Lien Claims, Second Lien Obligations or the Existing Notes shall be deemed an Immaterial Subsidiary.

"Incur" means issue, assume, Guarantee, incur or otherwise become liable for; *provided, however,* that any Indebtedness of a Person existing at the time such Person becomes a Restricted Subsidiary (whether by merger, consolidation, acquisition or otherwise) shall be deemed to be Incurred by such Person at the time it becomes a Restricted Subsidiary. The term "*Incurrence*" when used as a noun shall have a correlative meaning. Solely for purposes of determining compliance with "—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock":

(1) amortization of debt discount or the accretion of principal with respect to a non-interest bearing or other discount security;

(2) the payment of regularly scheduled interest in the form of additional Indebtedness of the same instrument or the payment of regularly scheduled dividends on Capital Stock in the form of additional Capital Stock of the same class and with the same terms;

(3) the obligation to pay a premium in respect of Indebtedness arising in connection with the issuance of a notice of redemption or the making of a mandatory offer to purchase such Indebtedness; and

(4) unrealized losses or changes in respect of Hedging Obligations (including those resulting from FASB ASC 815), in each case, will not be deemed to be the Incurrence of Indebtedness.

"Indebtedness" means, with respect to any Person on any date of determination (without duplication):

(1) the principal in respect of (A) indebtedness of such Person for money borrowed and (B) indebtedness evidenced by notes, debentures, bonds or other similar instruments for the payment of which such Person is responsible or liable, including, in each case, any premium on such indebtedness to the extent such premium has become due and payable;

(2) all Capital Lease Obligations of such Person and Attributable Debt of such Person;

(3) all obligations of such Person issued or assumed as the deferred purchase price of property due more than

six months from the date the obligation is incurred, all conditional sale obligations of such Person and all obligations of such Person under any title retention agreement (but excluding any accounts payable (including royalty payments, licensing fees or other similar payments) or other liability to trade creditors arising in the ordinary course of business);

(4) all obligations of such Person for the reimbursement of any obligor on any letter of credit, bankers' acceptance or similar credit transaction;

(5) all Disqualified Stock issued by such Person with the amount of Indebtedness represented by such Disqualified Stock being equal to the maximum amount that such Person may become obligated to pay upon the maturity of, or pursuant to any mandatory redemption provisions of, such Disqualified Stock, exclusive of accrued dividends; and

(6) to the extent not otherwise included in this definition, Hedging Obligations of such Person,

if and to the extent any of the preceding items (other than letters of credit and Hedging Obligations) would appear as a liability upon a balance sheet (excluding the footnotes thereto) of the specified Person prepared in accordance with GAAP. In addition, the term ''Indebtedness'' includes, to the extent not otherwise included, all Indebtedness of others secured by a Lien on any asset of the specified Person (whether or not such Indebtedness is assumed by the specified Person), *provided, however,* that the amount of such Indebtedness will be the lesser of (a) the Fair Market Value of such asset at such date of determination and (b) the amount of such Indebtedness of such other Person and, to the extent not otherwise included, the Guarantee by the specified Person of any indebtedness of any other Person.

Notwithstanding the foregoing, in connection with the purchase by the Issuer or any Restricted Subsidiary of any business or assets, the term ''Indebtedness'' will exclude post-closing earn outs and other payment adjustments to which the seller may become entitled to the extent such payment is determined by a final closing balance sheet or such payment depends on the performance of such business after the closing (including based upon the favorable settlement or resolution of claims or other similar parameters); *provided, however,* that, at the time of closing, the amount of any such payment is not determinable and, to the extent such payment thereafter becomes fixed and determined, the amount is paid within 90 days thereafter.

Notwithstanding the foregoing, Indebtedness shall also be deemed to exclude (a) contingent obligations incurred in the ordinary course of business (not in respect of borrowed money); (b) deferred or prepaid revenues or marketing fees; (c) purchase price holdbacks in respect of a portion of the purchase price of an asset to satisfy warranty or other unperformed obligations of the respective seller; and (d) obligations to make payments in respect of funds held under escrow arrangements in the ordinary course of business.

The amount of Indebtedness of any Person at any date shall be the outstanding balance at such date of all unconditional obligations as described above; *provided, however,* that in the case of Indebtedness sold at a discount, the amount of such Indebtedness at any time will be the accreted value thereof at such time.

Notwithstanding anything in the Indenture to the contrary, Indebtedness shall not include, and shall be calculated without giving effect to, the effects of FASB ASC 815 and related interpretations to the extent such effects would otherwise increase or decrease an amount of Indebtedness for any purpose under the Indenture as a result of accounting for any embedded derivatives created by the terms of such Indebtedness; and any such amounts that would have constituted Indebtedness under the Indenture but for the application of this sentence shall not be deemed an Incurrence of Indebtedness under the Indenture.

''Indenture Documents'' means, collectively, the Indenture, the Notes, the Note Guarantees and the First Lien Collateral Documents.

''Indenture Obligations'' means all Obligations in respect of the Notes or arising under the Indenture Documents.

''Independent Qualified Party'' means an investment banking firm, accounting firm or appraisal firm of internationally recognized standing; *provided, however,* that such firm is not an Affiliate of the Issuer.

''Intercreditor Agreement'' means the intercreditor agreement, dated as of the Issue Date (as it may be amended, restated, modified or supplemented from time to time in accordance with the Indenture and the Intercreditor Agreement), by the First Lien Collateral Agent, the Second Lien Collateral Agent from time to time party thereto and acknowledged and agreed to by the Issuer and the Guarantors.

"Insolvency Laws" means the Bankruptcy Code of the United States, and all other insolvency, bankruptcy, receivership, liquidation, conservatorship, assignment for the benefit of creditors, moratorium, rearrangement, reorganization, or similar legal requirements of the United States or other applicable jurisdictions from time to time in effect and affecting the rights of creditors generally.

"Insolvency or Liquidation Proceeding" means (a) any voluntary or involuntary case or proceeding under any Insolvency Law with respect to the Issuer or any Guarantor, (b) any other voluntary or involuntary insolvency, reorganization or bankruptcy case or proceeding, or any receivership, liquidation, reorganization or other similar case or proceeding with respect to the Issuer or any Guarantor or with respect to any of their respective assets, (c) any liquidation, dissolution, reorganization or winding up of the Issuer or any Guarantor whether voluntary or involuntary and whether or not involving insolvency or bankruptcy or (d) any assignment for the benefit of creditors or any other marshalling of assets and liabilities of the Issuer or any Guarantor.

"Interest Rate Agreement" means any interest rate swap agreement, interest rate cap agreement or other financial agreement or arrangement with respect to exposure to interest rates.

"Investment" in any Person means any direct or indirect advance (other than advances to customers in the ordinary course of business), loan or other extensions of credit (including by way of Guarantee or similar arrangement) or capital contribution to (by means of any transfer of cash or other property to others or any payment for property or services for the account or use of others), or any purchase or acquisition of Capital Stock, Indebtedness or other similar instruments issued by such Person and all other items that are or would be classified as investments on a balance sheet prepared in accordance with GAAP. The acquisition by the Issuer or any Restricted Subsidiary of a Person that holds an Investment in a third Person will be deemed to be an Investment by the Issuer or such Restricted Subsidiary in such third Person at such time. Except as otherwise provided for herein, the amount of an Investment shall be its Fair Market Value at the time the Investment is made, reduced by any return or repayment of capital received in cash by such Person in respect of such Investment and without giving effect to subsequent changes in value.

For purposes of the definition of *"Unrestricted Subsidiary,"* the definition of *"Restricted Payment"* and the covenant described under "—Certain Covenants—Limitation on Restricted Payments":

(1) *"Investment"* shall include the portion (proportionate to the Issuer's equity interest in such Subsidiary) of the Fair Market Value of the net assets of any Subsidiary of the Issuer at the time that such Subsidiary is designated an Unrestricted Subsidiary; and

(2) any property transferred to or from an Unrestricted Subsidiary shall be valued at its Fair Market Value at the time of such transfer.

"Investment Grade Status" shall occur when the Notes receive a rating of "BBB-" or higher from S&P and a rating of "Baa3" or higher from Moody's, in each case with a stable or better outlook.

"*Issue Date*" means March 26, 2021.

"Labuan Subsidiary" means Shelf Drilling (Labuan) Ltd.

"Legal Holiday" means a Saturday, a Sunday or a day on which banking institutions are not required to be open in the State of New York or any other place of payment.

"*Lien*" means any mortgage, pledge, security interest, encumbrance, lien or charge of any kind (including any conditional sale or other title retention agreement or lease in the nature thereof).

"*Liquidity*" means, at any time, an amount equal to (a) the sum of (1) the aggregate amount of Unrestricted cash and Cash Equivalents of the Issuer and the Guarantors at such time and (2) any amounts available to be borrowed under a Credit Facility at such time (to the extent then available) less (b) to the extent not deducted from the amount available to be borrowed from the applicable Credit Facility in the foregoing clause (a)(2), the face amount of any letters of credit or bank guarantees outstanding under the Credit Facility referred to in immediately preceding clause (2) that have not been cash collateralized.

"Maximum First Lien Principal Amount" means $341,000,000. The Maximum First Lien Principal Amount shall be reduced by the principal amount of First Lien Indebtedness constituting First Lien Claims (excluding Cash-Collateralized Credit Support, Credit Facility Hedging Obligations, Credit Facility Cash Management

Obligations and any capitalization of interest and fees on such principal amount that did not initially exceed the Maximum First Lien Principal Amount) that has been satisfied using funds that were obtained pursuant to an enforcement action in accordance with Section 3 of the Intercreditor Agreement.

"Maximum Second Lien Principal Amount" means, with respect to any principal amount of Second Lien Indebtedness, the maximum aggregate principal amount of Second Lien Indebtedness that is permitted under the First Lien Documents and the Second Lien Documents at the time such principal amount of Second Lien Indebtedness is incurred.

"Modern Rigs" means (1) any Rig with a build date of 2007 or later and (2) the Rigs named:

(a) the Shelf Drilling Achiever (registered as of the Issue Date in Liberia under Official Number 19250),

(b) the Shelf Drilling Chaophraya (registered as of the Issue Date in Liberia under Official Number 16767),

(c) the Shelf Drilling Enterprise (registered as of the Issue Date in Liberia under Official Number 19767),

(d) the Shelf Drilling Krathong (registered as of the Issue Date in Liberia under Official Number 16768),

(e) the Shelf Drilling Mentor (registered as of the Issue Date in Vanuatu under Official Number 2457),

(f) the Shelf Drilling Resourceful (registered as of the Issue Date in Vanuatu under Official Number 2458),

(g) the Shelf Drilling Scepter (registered as of the Issue Date in Vanuatu under Official Number 2497), and

(h) the Shelf Drilling Tenacious (registered as of the Issue Date in Vanuatu under Official Number 2459).

"Moody's" means Moody's Investors Service, Inc. and its successors.

"Net Cash Proceeds" means:

(a) with respect to any issuance or sale of Capital Stock or Indebtedness, means the cash proceeds of such issuance or sale net of attorneys' fees, accountants' fees, underwriters' or placement agents' fees, discounts or commissions and brokerage, consultant and other fees actually Incurred in connection with such issuance or sale and net of taxes paid or payable as a result thereof; and

(b) with respect to any Asset Disposition, payments of cash and Cash Equivalents received therefrom (including any cash received upon the sale or other disposition of any Designated Noncash Consideration received in any Asset Disposition, net of the direct costs relating to such Asset Disposition and the sale or disposition of such Designated Noncash Consideration, cash payments received by way of deferred payment of principal pursuant to a note or installment receivable, earn-out payment, deferred purchase price payment or otherwise and cash proceeds from the sale or other disposition of any securities received as consideration, but only as and when received, but excluding any other consideration received in the form of assumption by the acquiring Person of Indebtedness or other obligations relating to such properties or assets or received in any other non-cash form), in each case net of, without duplication: (i) all legal, title and recording tax expenses, commissions and other fees and expenses incurred, and all United States federal, state, provincial, foreign and local taxes required to be accrued as a liability under GAAP, as a consequence of such Asset Disposition; (ii) all repayments of Indebtedness (other than First Lien Indebtedness or any Second Lien Indebtedness) that is secured by a Permitted Lien on the property or assets that are the subject of such Asset Disposition and is required to be repaid in connection with such Asset Disposition; (iii) all distributions and other payments required to be made to minority interest holders in Restricted Subsidiaries as a result of such Asset Disposition (or, in the case of an Asset Disposition by an Unrestricted Subsidiary, to minority interest holders of such Unrestricted Subsidiary); (iv) the deduction of appropriate amounts provided by the seller as a reserve, in accordance with GAAP, against any liabilities associated with the property or other assets disposed in such Asset Disposition and retained by the Issuer or any Restricted Subsidiary after such Asset Disposition; and (v) any portion of the purchase price from an Asset Disposition placed in escrow, whether as a reserve for adjustment of the purchase price or for satisfaction of indemnities in respect of such Asset Disposition in connection with that Asset Disposition; *provided, however,* that upon the termination of that escrow, Net Cash Proceeds will be increased by any portion of funds in the escrow that are released to the Issuer or any Restricted Subsidiary to the extent such funds are not used to satisfy an indemnity or other similar obligation.

"Non-Recourse Debt" means Indebtedness as to which neither the Issuer nor any of its Restricted Subsidiaries (a) provides credit support of any kind (including any undertaking, agreement or instrument that would constitute Indebtedness), except for Customary Recourse Exceptions or (b) is directly or indirectly liable as a guarantor or otherwise, except, in the case of each of subclauses (a) and (b) for (i) Liens permitted pursuant to clause (25)(b) of the definition of "Permitted Liens" and (ii) any guarantee given solely to support such Liens, which guarantee is not recourse to the Issuer or any Restricted Subsidiary.

"Note Guarantee" means any Guarantee of payment of the Notes pursuant to the terms of the Indenture and any supplemental indenture thereto and, collectively, all such Note Guarantees. Each Note Guarantee shall be in the form prescribed in the Indenture.

"Notes Secured Parties" means, collectively, the First Lien Collateral Agent, the Trustee and the Holders of the Notes.

"Obligations" means, with respect to any Indebtedness, all obligations for principal, premium, interest (including, without limitation, interest occurring after an insolvency, bankruptcy or similar proceeding, whether or not such interest is an allowed claim in any such proceeding), penalties, fees, indemnifications, reimbursements and other amounts payable pursuant to the documentation governing such Indebtedness.

"Officer" means the Chairman of the Board, the President, the Chief Executive Officer, the Chief Financial Officer, any Vice President, the Treasurer or the Secretary of the Issuer.

"Officer's Certificate" means a certificate signed by an Officer.

"Opinion of Counsel" means a written opinion of counsel, which is reasonably acceptable to the Trustee. The opinion must be from legal counsel who may be an employee of or counsel to the Issuer.

"Parent" means Shelf Drilling, Ltd., a Cayman Islands company.

"*Paying Agent*" means the Trustee in its capacity as paying agent with regard to the Notes.

"Permitted Holders" means (1) each Specified Equity Sponsor and any person controlling, controlled by, or under common control with, and any account controlled or managed by or under common control or management with such Specified Equity Sponsor, (2) each Equity Sponsor and any successor thereto and of its Subsidiaries, (3) one or more investment funds managed or controlled by any Equity Sponsor and any successor thereto or any of its Affiliates, (4) any employee, member of management or director of (including any of their Heirs) any of the foregoing entities and their respective Affiliates and (5) any group within the meaning of Section 13(d) of the Exchange Act of which a Person described in clauses (1) through (4) is a member and in which such Persons beneficially own or control a majority of the Voting Stock of the Issuer held by such group and which such group collectively beneficially owns or controls more Voting Stock of the Issuer than any other group of which any Equity Sponsor or any of its Affiliates is not a member. Except for a Permitted Holder specifically identified by name, in determining whether Voting Stock is owned by a Permitted Holder, only Voting Stock acquired by a Permitted Holder in its described capacity will be treated as "beneficially owned" by such Permitted Holder. Any Person or group whose acquisition of beneficial ownership constitutes a Change of Control in respect of which a Change of Control Offer is made in accordance with the requirements of the Indenture will thereafter, together with its Affiliates, constitute an additional Permitted Holder.

"Permitted Investment" means an Investment by the Issuer or any Restricted Subsidiary in:

(1) the Issuer, a Guarantor or a Person that will, upon the making of such Investment, become a Guarantor; *provided, however,* that the primary business of such Guarantor is a Related Business;

(2) another Person, if as a result of such Investment, such other Person, in one transaction or a series of related transactions, is merged, consolidated or amalgamated with or into, or transfers or conveys all or substantially all of its assets to, or is liquidated into, the Issuer or a Guarantor; *provided, however,* that the primary business of such Guarantor is a Related Business;

(3) Investments of a Restricted Subsidiary acquired after the Issue Date or of an entity merged into the Issuer or merged into or consolidated with a Restricted Subsidiary after the Issue Date to the extent that such Investments were not made in contemplation of or in connection with such acquisition, merger or consolidation and were in existence on the date of such acquisition, merger or consolidation;

(4) cash and Cash Equivalents;

(5) receivables owing to the Issuer or any Restricted Subsidiary if created or acquired in the ordinary course of business and payable or dischargeable in accordance with customary trade terms; *provided, however,* that such trade terms may include such concessionary trade terms as the Issuer or any such Restricted Subsidiary deems reasonable under the circumstances;

(6) payroll, travel, moving and similar advances to cover matters that are expected at the time of such advances ultimately to be treated as expenses for accounting purposes and that are made in the ordinary course of business;

(7) loans or advances to directors, officers or employees made in the ordinary course of business of the Issuer or such Restricted Subsidiary in an amount not to exceed $5.0 million at any one time outstanding;

(8) stock, obligations or securities received in settlement of debts or other liabilities created in the ordinary course of business and owing to the Issuer or any Restricted Subsidiary or in satisfaction of judgments;

(9) any Person to the extent such Investment represents the non-cash portion of the consideration received for (i) an Asset Disposition as permitted pursuant to the covenant described under ''—Certain Covenants—Limitation on Sales of Assets and Subsidiary Stock'' or (ii) a disposition of assets not constituting an Asset Disposition;

(10) any Person where such Investment was acquired by the Issuer or any of the Restricted Subsidiaries (a) in exchange for any other Investment or accounts receivable held by the Issuer or any such Restricted Subsidiary in connection with or as a result of a bankruptcy, workout, reorganization or recapitalization of the issuer of such other Investment or accounts receivable or (b) as a result of a foreclosure by the Issuer or any of the Restricted Subsidiaries with respect to any secured Investment or other transfer of title with respect to any secured Investment in default;

(11) any Person to the extent such Investments consist of prepaid expenses, negotiable instruments held for collection and lease, utility and workers' compensation, performance and other similar deposits made in the ordinary course of business by the Issuer or any Restricted Subsidiary;

(12) any Person to the extent such Investments consist of Hedging Obligations otherwise permitted under the covenant described under ''—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock'';

(13) any Person to the extent such Investment exists on the Issue Date or is made pursuant to a binding commitment existing on the Issue Date, and any extension, modification or renewal of any such Investments, but only to the extent not involving additional advances, contributions or other Investments of cash or other assets or other increases thereof (other than as a result of the accrual or accretion of interest or original issue discount or the issuance of pay-in-kind securities, in each case, pursuant to the terms of such Investment as in effect on the Issue Date or the terms of any binding commitment existing on the Issue Date);

(14) Guarantees of performance on other obligations (other than Indebtedness) arising in the ordinary course of business;

(15) Investments in other Persons (including Unrestricted Subsidiaries and Permitted Joint Ventures) engaged in a Related Business to the extent such Investments, when taken together with all other Investments made pursuant to this clause (15) and outstanding on the date such Investment is made, do not exceed $50.0 million; provided that, for purposes of determining availability under this clause (15), each outstanding Investment shall be valued at the Fair Market Value of such Investment at the time made without giving effect to subsequent changes in value; provided further, that after giving to each such Investment, the Issuer and the Guarantors shall have aggregate Liquidity of at least $75.0 million;

(16) loans and advances by the Issuer or any of the Restricted Subsidiaries to directors or officers of the Issuer or any of the Restricted Subsidiaries to finance the purchase by such directors or officers of Capital Stock of the Issuer and/or the Restricted Subsidiaries or any direct or indirect parent of the Issuer, in an amount not to exceed $5.0 million at any one time outstanding; *provided, however,* that at the time of each such payment, no Default shall have occurred and be continuing (or result therefrom);

(17) repurchases of the Notes and other First Lien Claims;

(18) Investments consisting of the licensing or contribution of intellectual property pursuant to joint marketing arrangements with other Persons;

(19) Investments consisting of purchases and acquisitions of inventory, supplies, materials, services and equipment or purchases of contract rights or licenses or leases of intellectual property, in each case in the ordinary course of business; and

(20) any Guarantee of Indebtedness permitted to be incurred pursuant to the covenant described under ''—Limitation on Indebtedness and Issuances of Preferred Stock''.

"Permitted Joint Venture" means any joint venture that the Issuer or any of its Restricted Subsidiaries is a party to that is engaged in a Related Business.

"Permitted Liens" means, with respect to any Person:

(1) pledges or deposits by such Person under worker's compensation laws, unemployment insurance laws or similar legislation, or good faith deposits in connection with performance, bids, tenders, contracts (other than for the payment of Indebtedness) or leases to which such Person is a party, or deposits to secure public or statutory obligations of such Person or deposits of cash or United States government bonds to secure surety or appeal bonds to which such Person is a party, or deposits as security for contested taxes or import duties or for the payment of rent, in each case Incurred in the ordinary course of business;

(2) Liens imposed by law, such as carriers', warehousemen's, repairmens' and mechanics' Liens, in each case for sums not yet overdue for a period of more than 30 days or being contested in good faith by appropriate proceedings or other Liens arising out of judgments or awards against such Person with respect to which such Person shall then be proceeding with an appeal or other proceedings for review and Liens arising solely by virtue of any statutory or common law or contractual provision relating to banker's Liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a creditor depository institution; provided, however, that (A) such deposit account is not a dedicated cash collateral account and is not subject to restrictions against access by the Issuer in excess of those set forth by regulations promulgated by the Federal Reserve Board and (B) such deposit account is not intended by the Issuer or any Restricted Subsidiary to provide collateral to the depository institution;

(3) Liens for taxes, assessments or governmental charges not yet subject to penalties for non-payment or which are being contested in good faith by appropriate proceedings;

(4) Liens in favor of issuers of performance, bid, environmental or surety bonds, or completion guarantees, or Liens securing reimbursement obligations with respect to commercial letters of credit or bank guarantees that encumber documents and other property relating to such letters of credit or bank guarantees and products and proceeds thereof, in each case, in the ordinary course of business;

(5) survey exceptions, encumbrances, easements or reservations of, or rights of others for, licenses, rights-of-way, sewers, electric lines, telegraph and telephone lines and other similar purposes, or zoning or other restrictions as to the use of real property or Liens incidental to the conduct of the business of such Person or to the ownership of its properties which were not Incurred in connection with Indebtedness and which do not in the aggregate materially adversely affect in any material respect the value of said properties or materially impair their use in the operation of the business of such Person;

(6) Liens to secure Indebtedness permitted under clause (b)(10) under ''—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock''; provided, however, that the Lien may not extend to any other property owned by such Person or any of the Restricted Subsidiaries at the time the Lien is Incurred (other than assets and property affixed or appurtenant thereto and the proceeds thereof);

(7) Liens securing Indebtedness and related Obligations Incurred pursuant to (i) any Hedging Obligations described in clause (b)(6) under ''—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock'' and secured pursuant to one or more Credit Facilities and (ii) Bank Product Obligations which are secured by one or more Credit Facilities; provided that, in the case of both immediately foregoing clauses (i) and (ii), such Liens are subject to the terms of the Intercreditor Agreement;

(8) Liens existing on the Issue Date (other than Liens securing the Notes Incurred or deemed to have been Incurred pursuant to clause (b)(1) of ''—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock'');

(9) Liens on property or shares of Capital Stock of another Person at the time such other Person becomes a Subsidiary of such Person; provided, however, that (i) the Liens were not created in contemplation of or in connection with such Person becoming a Subsidiary and (ii) the Liens may not extend to any other property owned by such Person or any of the Restricted Subsidiaries (other than assets and property affixed or appurtenant thereto);

(10) Liens on property at the time such Person or any of its Subsidiaries acquires the property, including any acquisition by means of a merger or consolidation with or into such Person or a Subsidiary of such Person; provided, however, that (i) the Liens were not created in contemplation of or in connection with such acquisition and (ii) the Liens may not extend to any other property owned by such Person or any of the Restricted Subsidiaries (other than assets and property affixed or appurtenant thereto);

(11) Liens securing Indebtedness or other obligations of a Subsidiary of such Person owing to such Person or a Restricted Subsidiary of such Person;

(12) Liens securing Hedging Obligations or Bank Product Obligations constituting Excluded Assets pursuant to clause (5)(iv) of the definition of Excluded Assets, so long as such Hedging Obligations or Bank Product Obligations are permitted to be Incurred pursuant to clause (b)(6) of ''—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock'' and not secured pursuant to a Credit Facility; provided that if all or a portion of such Hedging Obligations or Bank Product Obligations constitute First Lien Indebtedness, such Liens may only be created pursuant to the First Lien Collateral Documents ;

(13) Liens to secure any Refinancing (or successive Refinancings) as a whole, or in part, of any Indebtedness secured by any Lien referred to in clause (6), (8), (9), (10) or (14) of this definition; *provided, however,* that:

(A) such new Lien shall be limited to all or part of the same property and assets that secured or, under the written agreements pursuant to which the original Lien arose, could secure the original Lien (plus improvements and accessions to, such property or proceeds or distributions thereof);

(B) such new Lien shall have the same or junior Lien priorities as the prior Lien;

(C) the Indebtedness secured by such Lien at such time is not increased to any amount greater than the sum of (x) the outstanding principal amount or, if greater, committed amount of the Indebtedness described under clause (6), (8), (9), (10) or (14) of this definition at the time the original Lien became a Permitted Lien and (y) an amount necessary to pay any fees and expenses, including premiums, related to such refinancing, refunding, extension, renewal or replacement; and

(D) the Indebtedness incurred to Refinance such Indebtedness constitutes Refinancing Indebtedness.

(14) Liens securing

(A) the Notes issued on the Issue Date, Additional Notes issued thereafter and the related Note Guarantees and any obligations owing to the Trustee or the First Lien Collateral Agent under the Indenture Documents; and

(B) any other First Lien Claims,

in each case to the extent such Indebtedness was permitted to be incurred pursuant to clause (b)(1) of ''—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock;''

(15) Liens arising by reason of any judgment, decree or order of any court not giving rise to an Event of Default;

(16) Liens upon specific items of inventory or other goods and proceeds from any Person securing such Person's obligations in respect of bankers' acceptances issued or created for the account of such Person to facilitate the purchase, shipment or storage of such inventory or other goods;

(17) Liens in favor of an insurer or an Affiliate thereof (or other Persons financing the payment of insurance premiums) for the premiums payable in respect of insurance policies issued by such insurer; provided that such Liens are limited to such insurance policies, premium refunds and the proceeds of such insurance policies;

(18) Liens for salvage;

(19) Liens securing Indebtedness constituting Second Lien Obligations permitted to be Incurred under clause (b)(3) of the covenant described above under ‘‘—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock’’; provided that such Liens constitute Second Liens under, and shall be governed by, and subject to, the terms of each of the Intercreditor Agreement;

(20) licenses, sublicenses, leases or subleases granted to others in the normal course of business which do not materially interfere with the ordinary conduct of the business of the Issuer or any of the Restricted Subsidiaries;

(21) Liens arising from precautionary UCC financing statements or consignments entered into in connection with any transaction otherwise permitted under the Indenture;

(22) customary restrictions on equipment of the Issuer or any Restricted Subsidiary granted in the ordinary course of business to the Issuer’s or such Restricted Subsidiary’s customer at which such equipment is located;

(23) Liens arising out of conditional sale, title retention, consignment or similar arrangements for the sale of goods entered into in the ordinary course of business;

(24) Liens arising by virtue of any statutory or common law provisions relating to banker’s liens, rights of set-off or similar rights and remedies as to deposit accounts or other funds maintained with a depository or financial institution or as to purchase orders and other agreements entered into with customers in the ordinary course of business;

(25) (a) any encumbrance or restriction (including put and call arrangements) with respect to Capital Stock of any joint venture or similar arrangement pursuant to any joint venture or similar agreement and (b) any Liens on the Capital Stock of an Unrestricted Subsidiary to the extent securing Non-Recourse Debt;

(26) Liens in favor of customs and revenue authorities arising as a matter of law to secure payment of customs duties in connection with the importation of goods;

(27) customary restrictions on assets to be disposed of pursuant to merger agreements, stock or asset purchase agreements and similar agreements;

(28) Liens solely on any cash earnest money deposits made by the Issuer or any of its Restricted Subsidiaries in connection with any letter of intent or purchase agreement in respect of any Investment permitted hereunder;

(29) Liens on cash and cash equivalents securing Indebtedness permitted to be Incurred pursuant to clause (b)(20) of ‘‘—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock’’; and

(30) Liens incurred in the ordinary course of business for drydocking, maintenance, repairs and improvements to Rigs, crews’ wages and maritime Liens (other than in respect of Indebtedness).

For purposes of determining compliance with this definition, (A) Permitted Liens need not be incurred solely by reference to one category of Permitted Liens described above but are permitted to be incurred in part under any combination thereof and (B) in the event that a Lien (or any portion thereof) meets the criteria of one or more of the categories of Permitted Liens described above, the Issuer may, in its sole discretion, classify or reclassify such item of Permitted Liens (or any portion thereof) in any manner that complies with this definition and the Issuer may divide and classify a Lien in more than one of the types of Permitted Liens in one of the above clauses; provided, however, that any Permitted Lien securing First Lien Claims incurred under clause (14) shall be classified under clause (14) and any Permitted Lien securing Second Lien Obligations shall be classified under clause (19) and, in each case, may not be reclassified.

“Person” means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization, government or any agency or political subdivision thereof or any other entity.

“Preferred Stock,” as applied to the Capital Stock of any Person, means Capital Stock of any class or classes (however designated) which is preferred as to the payment of dividends or distributions, or as to the distribution of assets upon any voluntary or involuntary liquidation or dissolution of such Person, over shares of Capital Stock of any other class of such Person.

"Qualified Capital Stock" means Capital Stock of such Person other than Disqualified Stock; *provided, however,* that such Capital Stock shall not be deemed Qualified Capital Stock to the extent sold to a Subsidiary of such Person or financed, directly or indirectly, using funds (1) borrowed from such Person or any Subsidiary of such Person or (2) contributed, extended, guaranteed or advanced by such Person or any Subsidiary of such Person (including, in respect of any employee stock ownership or benefit plan). Unless otherwise specified, Qualified Capital Stock refers to Qualified Capital Stock of the Issuer.

"Qualified Equity Offering" means any issuance and sale of Qualified Capital Stock by the Issuer or any direct or indirect parent of the Issuer; *provided, however,* that in the case of an issuance and sale of Qualified Capital Stock of any direct or indirect parent of the Issuer, cash proceeds therefrom are contributed to common equity of the Issuer. Notwithstanding the foregoing, the term ''Qualified Equity Offering'' shall not include:

(1) any issuance and sale with respect to the Issuer's or any direct or indirect parent's common stock registered on Form S-4 or Form S-8; or

(2) any issuance and sale of Qualified Capital Stock to any Subsidiary of the Issuer.

"Refinance" means, in respect of any Indebtedness, to refinance, extend, renew, refund, repay, prepay, purchase, redeem, defease or retire, or to issue other Indebtedness in exchange or replacement for, such Indebtedness. ''Refinanced'' and ''Refinancing'' shall have correlative meanings.

"Refinancing Indebtedness" means Indebtedness or Preferred Stock that Refinances any Indebtedness or Preferred Stock of the Issuer or any Restricted Subsidiary existing on the Issue Date or Incurred or issued in compliance with the Indenture, including Indebtedness or Preferred Stock that Refinances Refinancing Indebtedness or Preferred Stock; *provided, however,* that:

(1) if the Stated Maturity of the Indebtedness or Preferred Stock being Refinanced is earlier than the Stated Maturity of the Notes, the Refinancing Indebtedness or Preferred Stock has a Stated Maturity no earlier than the Stated Maturity of the Indebtedness or Preferred Stock being Refinanced or (b) if the Stated Maturity of the Indebtedness or Preferred Stock being Refinanced is later than the Stated Maturity of the Notes, the Refinancing Indebtedness or Preferred Stock has a Stated Maturity at least 91 days later than the Stated Maturity of the Notes;

(2) such Refinancing Indebtedness has an Average Life at the time such Refinancing Indebtedness is Incurred that is equal to or greater than the Average Life of the Indebtedness or Preferred Stock being Refinanced;

(3) such Refinancing Indebtedness has an aggregate principal amount (or if Incurred with original issue discount, an aggregate issue price) or Preferred Stock has a liquidation preference amount that is equal to or less than the aggregate principal amount (or if Incurred with original issue discount, the aggregate accreted value) then outstanding (plus fees and expenses, including any premium and defeasance costs, and accrued and unpaid interest) or liquidation preference amount under the Indebtedness or Preferred Stock being Refinanced;

(4) if the Indebtedness being Refinanced is subordinated in right of payment to the Notes, such Refinancing Indebtedness is subordinated in right of payment to the Notes at least to the same extent as the Indebtedness being Refinanced; and

(5) to the extent such Indebtedness being Refinanced extends, replaces, refunds, refinances, renews or defeases the Existing Notes, such Refinancing Indebtedness shall, to the extent secured, constitute Additional First Lien Claims or Second Lien Indebtedness (subject to the Intercreditor Agreement) or, to the extent initially unsecured, shall be so unsecured at all times and, in each case, no Subsidiary of the Issuer (other than a Guarantor) shall be an obligor (whether a borrower or otherwise), guarantor or surety under, or for, such Refinancing Indebtedness and shall not provide any Guarantee of any such Refinancing Indebtedness;

provided further, however, that Refinancing Indebtedness shall not include Indebtedness of a non-Guarantor Subsidiary that refinances Indebtedness of the Issuer or a Guarantor.

For purposes of this definition, (i) any Refinancing Indebtedness in respect of Attributable Debt shall not be subject to clause (2) above and the "Stated Maturity" in respect of any Attributable Debt shall be the expiration or termination date of the applicable lease (without regard to any option for extension) and (ii) for purposes of clause (3), the principal amount with respect to Sale and Leaseback Transactions shall be the amount of Attributable Debt in respect thereof.

"Related Business" means any business in which the Issuer or any of the Restricted Subsidiaries was engaged on the Issue Date and any business related, ancillary, supplemental or complementary to such business, including, but not limited to, accommodation and fixed production units.

"Restricted" means, when referring to cash or Cash Equivalents of the Issuer or any Guarantor, that such cash or Cash Equivalents appear (or would be required to appear) as "restricted" on a consolidated balance sheet of the Issuer or any Guarantor (unless such appearance is related to (x) the First Lien Documents or Liens created thereunder, or (y) any Second Lien Documents or the Liens created thereunder so long as the Intercreditor Agreement is in effect).

"Restricted Payment" with respect to any Person means:

(1) the declaration or payment of any dividends or any other distributions in respect of its Capital Stock (including any payment in connection with any merger or consolidation involving such Person) or similar payment to the direct or indirect holders of its Capital Stock (other than (A) dividends or distributions payable solely in its Capital Stock (other than Disqualified Stock), (B) dividends or distributions payable solely to the Issuer or a Restricted Subsidiary and (C) pro rata dividends or other distributions made by a Subsidiary that is not a Wholly Owned Subsidiary to minority stockholders (or owners of an equivalent interest in the case of a Subsidiary that is an entity other than a corporation));

(2) the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value of any Capital Stock of the Issuer held by any Person (other than by a Restricted Subsidiary) or of any Capital Stock of a Restricted Subsidiary held by any Person (other than by the Issuer or a Restricted Subsidiary), including in connection with any merger or consolidation;

(3) the purchase, repurchase, redemption, defeasance or other acquisition or retirement for value, prior to scheduled maturity, scheduled repayment or scheduled sinking fund payment of (i) any Subordinated Obligations of the Issuer or any Guarantor (other than (A) from the Issuer or a Restricted Subsidiary or (B) the purchase, repurchase, redemption, defeasance or other acquisition or retirement of Subordinated Obligations purchased in anticipation of satisfying a sinking fund obligation, principal installment or final maturity, in each case due within one year of the date of such purchase, repurchase, redemption, defeasance or other acquisition or retirement), (ii) any Existing Notes, (iii) any Second Lien Indebtedness or (iv) any Senior Indebtedness; or

(4) the making of any Investment (other than a Permitted Investment) in any Person.

"Restricted Subsidiary" means any Subsidiary of the Issuer that is not an Unrestricted Subsidiary.

"Rigs" means, collectively, offshore drilling rigs, including, without limitation, semisubmersibles, drillships, jack-ups, semisubmersible tender assist vessels and submersible rigs and barges, and, individually, any of such rigs or barges.

"S&P" means Standard & Poor's Financial Services LLC, a division of The McGraw-Hill Companies, Inc., and its successors.

"Sale and Leaseback Transaction" means any direct or indirect arrangement relating to property now owned or hereafter acquired by the Issuer or a Restricted Subsidiary whereby the Issuer or such Restricted Subsidiary transfers such property to another Person (other than the Issuer, any of its Subsidiaries or any of their joint ventures) and the Issuer or a Restricted Subsidiary leases it from such Person.

"SEC" means the United States Securities and Exchange Commission.

"Second Lien" means a Lien granted by the Issuer or any Guarantor in favor of the Second Lien Collateral Agent, at any time, upon any property of the Issuer or any Guarantor to secure Second Lien Obligations.

"*Second Lien Accession Agreement*" means any accession agreement to the Second Lien Collateral Documents, in substantially the form provided therein, entered into by the Issuer, the Guarantors, the trustee, agent or other representative for the holders of the applicable Second Lien Indebtedness, and the Second Lien Collateral Agent.

"*Second Lien Collateral Agent*" means the collateral agent under the Second Lien Documents.

"Second Lien Collateral Documents" means the security agreements, pledge agreements, control agreements, mortgages, collateral assignments, or other security documents and related agreements and instruments, as amended, supplemented, restated, renewed, refunded, replaced, restructured, repaid, refinanced or otherwise modified from time to time in accordance with the Intercreditor Agreement, creating (or purporting to create) Second Liens.

"*Second Lien Documents*" means any loan agreement, credit agreement, note agreement, purchase agreement, indenture or similar agreement relating to the Second Lien Obligations and related documents, including the applicable Second Lien Collateral Documents, and identified in a Supplement A to the Intercreditor Agreement as "Second Lien Documents."

"*Second Lien Indebtedness*" means any Indebtedness (1) that is permitted to be Incurred under clause (b)(3) of the covenant described above under "—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock", (2) that is secured on a junior basis with the Notes and the Note Guarantees by a Permitted Lien described in clause (19) of the definition of Permitted Liens and (3) that does not mature earlier than 91 days after the Maturity Date; provided that in respect of each of clause (1) and (2), (i) (A) such Indebtedness and related Lien with such priority is also permitted at the time such principal amount of Indebtedness is incurred under each other then existing First Lien Document and Second Lien Document, and (B) such Indebtedness is so designated as Second Lien Indebtedness in an Officer's Certificate delivered to the First Lien Collateral Agent and (ii) the applicable requirements of the Intercreditor Agreement have been satisfied with respect to such Indebtedness. Any such Indebtedness that does not meet the requirements set forth above in this definition shall not constitute Second Lien Indebtedness for purposes of the Intercreditor Agreement or the Indenture.

"*Second Lien Obligations*" means all Obligations in respect of any Second Lien Indebtedness or arising under Second Lien Documents; provided that notwithstanding the foregoing, if the aggregate principal amount of Indebtedness under the Second Lien Documents exceeds the Maximum Second Lien Principal Amount, then all such principal amounts in excess thereof (and any interest on and fees with respect to such excess principal amounts) shall not constitute Second Lien Obligations but shall instead constitute Excess Second Lien Obligations.

"*Second Lien Secured Parties*" means, collectively, the Second Lien Collateral Agent and the Additional Second Lien Secured Parties, if any.

"*Second Lien Security Agreement*" means a Security Agreement entered into after the Issue Date by the Issuer and the Guarantors party thereto in favor of, or with, the Second Lien Collateral Agent, as identified in a Supplement A to the Intercreditor Agreement as the "Second Lien Security Agreement" and as amended, restated, supplemented or otherwise modified from time to time in accordance with the Intercreditor Agreement.

"Secured Indebtedness" means any Indebtedness of the Issuer or any of its Restricted Subsidiaries secured by a Lien.

"Secured Net Leverage Ratio" means as of any date of determination, the ratio of (a) the difference of (i) the aggregate amount of all Secured Indebtedness of the Issuer and its Restricted Subsidiaries, as determined on a consolidated basis, as of such date of determination, after giving effect to the transaction giving rise to the need to calculate the Secured Net Leverage Ratio *minus* (ii) the aggregate amount of cash and Cash Equivalents of the Issuer and its Restricted Subsidiaries that do not appear (or would not be required to appear) as Restricted, as determined on a consolidated basis, as of such date of determination up to a maximum amount under this clause (ii) of $75.0 million, to (b) EBITDA of the Issuer and its Restricted Subsidiaries, as determined on a consolidated basis, for the period of the most recently ended four consecutive full fiscal quarters for which internal financial statements are available prior to the date of such determination; provided that EBITDA will be calculated in the manner contemplated by, and subject to all the adjustments provided in, the definition of "Consolidated Coverage Ratio."

"Securities Act" means the U.S. Securities Act of 1933, as amended.

"Security Agreement" means the Security Agreement, dated as of the Issue Date, by the Issuer and the Guarantors in favor of the First Lien Collateral Agent, as amended, restated, supplemented or otherwise modified from time to time.

"Security Principles" means that the Issuer and the Guarantors shall be required to take all actions necessary or reasonably required by the First Lien Collateral Agent for purposes of creating or perfecting the Liens on the Collateral required by the First Lien Collateral Documents or the Indenture to be created or perfected (as applicable), except that (1) if creating or perfecting such Liens in any Collateral in any jurisdiction (other than a jurisdiction in which the Issuer or any Guarantor is organized as of the Issue Date or in which a Rig is principally flagged as of the Issue Date) requires the consent or approval of a third party, neither the Issuer nor any Guarantor shall be required to create or perfect such Liens so long as it is using commercially reasonable efforts to obtain such consent or approval (it being agreed that the Issuer and the Guarantors shall be deemed to be using such commercially reasonable efforts if they have been advised in writing by their counsel in such jurisdiction that such consent or approval is not reasonably expected to be obtained through the use of commercially reasonable efforts); *provided*, that once all such consents and approvals to create or perfect any such Lien have been obtained, then the Issuer and any applicable Guarantor shall promptly (and, with respect to the creation or perfection of any Lien on a Rig, within 90 days of such obtainment) take all actions necessary or reasonably required by the First Lien Collateral Agent to create or perfect such Lien, and (2) neither the Issuer nor any Guarantor shall be required (A) to pledge Capital Stock under a share pledge or similar First Lien Collateral Document governed by the laws of the United Arab Emirates or the laws of India or to take any other actions under the laws of the United Arab Emirates or India to create or perfect such Liens on such Capital Stock, so long as such actions are prohibited by or impracticable as a result of the laws or rules (including licensing requirements or notarial requirements) of such jurisdiction; *provided* that the Issuer and the applicable Guarantor are using commercially reasonable efforts to obtain any consent or approval that would remove such prohibitions (it being agreed that the Issuer and the applicable Guarantor shall be deemed to be using commercially reasonable efforts for such laws and rules in place in the United Arab Emirates and India in effect on the Issue Date or if they have been advised in writing by their counsel in the United Arab Emirates or India (as applicable) that such consent or approval is not reasonably expected to be obtained through the use of commercially reasonable efforts), or (B) so long as the Labuan Subsidiary would constitute an Immaterial Subsidiary if it were not a Guarantor, to pledge Capital Stock in the Labuan Subsidiary under a share pledge or similar First Lien Collateral Document governed by the laws of Malaysia or to take any other actions under the laws of Malaysia to create or perfect such Liens on such Capital Stock. Notwithstanding the foregoing, (x) the Security Principles shall not permit (a) any Modern Rig to avoid being subject to a Collateral Rig Mortgage or (b) the Capital Stock of any Restricted Subsidiary that owns a Modern Rig to avoid being subject to a pledge pursuant to the First Lien Collateral Documents, (y) the aggregate number of Rigs (which shall not include any Modern Rigs) that, due to the Security Principles, are not subject to a Collateral Rig Mortgage, shall not at any time exceed eight (8), and (z) the aggregate carrying value of Rigs owned by all Restricted Subsidiaries whose Capital Stock that is owned by the Issuer or any Guarantor is not pledged under the First Lien Collateral Documents due to the Security Principles shall not at any time exceed $50 million.

"Senior Indebtedness" means with respect to any Person, Indebtedness of such Person, unless the instrument creating or evidencing such Indebtedness provides that such Indebtedness is subordinate in right of payment to the Notes or a Note Guarantee of such Person, as the case may be.

"Senior Secured Indebtedness" means any Indebtedness of the Issuer or any of its Restricted Subsidiaries secured by a Lien that constitutes a First Lien Claim other than any such Indebtedness consisting of (i) unpaid drawings and unreimbursed payments in respect of letters of credit, letters of guaranty (including bank guarantees), bankers' acceptances and similar credit transactions to the extent that such amounts are cash collateralized and (ii) Hedging Obligations.

"*Senior Unsecured Indebtedness*" means, with respect to any Person, unsecured Senior Indebtedness of such Person.

"Senior Secured Leverage Ratio" means as of any date of determination, the ratio of (a) the aggregate amount of all Senior Secured Indebtedness of the Issuer and its Restricted Subsidiaries, as determined on a consolidated basis, as of such date of determination, after giving effect to the transaction giving rise to the need to calculate the Senior Secured Leverage Ratio to (b) EBITDA of the Issuer and its Restricted Subsidiaries, as determined on a consolidated basis, for the period of the most recently ended Test Period for which internal financial statements are available prior to the date of such determination; provided that EBITDA will be calculated in the manner contemplated by, and subject to all the adjustments provided in, the definition of "Consolidated Coverage Ratio."

"Significant Subsidiary" means any Restricted Subsidiary that would be a "Significant Subsidiary" of the Issuer as defined in Article 1, Rule 1-02(w) of Regulation S-X, promulgated pursuant to the Securities Act, as such regulation is in effect on the Issue Date.

"Specified Equity Sponsor" means CHP V AIV Pool 1, Ltd., CHP V AIV Pool 2, Ltd., CHP V SD Co-Invest, LP, GSFS USA Funding Sub LLC, CHIP CHAMP III Capital LLC, LR-Shelf Drilling International, L.P., Wealthy Marvel Enterprises Limited and Wealthy Marvel International Limited.

"Stated Maturity" means, with respect to any security, the date specified in such security as the fixed date on which the final payment of principal of such security is due and payable, including pursuant to any mandatory redemption provision (but excluding any provision providing for the repurchase of such security at the option of the holder thereof upon the happening of any contingency unless such contingency has occurred).

"Subordinated Obligation" means, with respect to a Person, any Indebtedness of such Person (whether outstanding on the Issue Date or thereafter Incurred) which is subordinate or junior in right of payment to the Notes or a Note Guarantee of such Person, as the case may be, pursuant to a written agreement to that effect.

"Subsidiary" means, with respect to any Person, any corporation, association, partnership or other business entity of which more than 50% of the total voting power of shares of Voting Stock is at the time owned or held, directly or indirectly, by:

(1) such Person;

(2) such Person and one or more Subsidiaries of such Person; or

(3) one or more Subsidiaries of such Person.

"Supplement A to the Intercreditor Agreement" means a supplement to the Intercreditor Agreement, in substantially the form of Annex A thereto, entered into by the Issuer, the Guarantors, the institution or institutions identified therein as the "Lender" or "Lenders," the First Lien Collateral Agent and the Second Lien Collateral Agent (if any) from time to time.

"*Test Period*" means, at any time, the four consecutive fiscal quarters of the Issuer then last ended (in each case taken as one accounting period).

"Total Assets" means, with respect to any Person for any date of determination, the consolidated total assets of such Person and its Restricted Subsidiaries as shown on the consolidated balance sheets of such Person and its Restricted Subsidiaries as of the end of the most recently ended fiscal quarter for which internal consolidated financial statements of such Person are available prior to the date of such determination.

"Trust Indenture Act" means the Trust Indenture Act of 1939 (15 U.S.C. §§ 77aaa-77bbbb) as in effect on the Issue Date.

"Trust Officer" means any officer within the corporate trust department of the Trustee, including any vice president, assistant secretary, senior associate, associate, trust officer or any other officer of the Trustee who customarily performs functions similar to those performed by the Persons who at the time shall be such officers, respectively, or to whom any corporate trust matter is referred because of such person's knowledge of and familiarity with the particular subject and who, in each case, shall have direct responsibility for the administration of the Indenture.

"Trustee" means Wilmington Trust, National Association, until a successor replaces it and, thereafter, means the successor.

"Unrestricted" means, when referring to cash or Cash Equivalents of the Issuer or any Guarantor, that such cash or Cash Equivalents are not Restricted.

"Unrestricted Subsidiary" means:

(1) any Subsidiary of the Issuer that at the time of determination shall be designated an Unrestricted Subsidiary by the Board of Directors or the chief executive officer or chief financial officer of the Issuer in the manner provided below;

(2) any Subsidiary of an Unrestricted Subsidiary; and

(3) as of the Issue Date, Shelf Drilling Asset III Holdings, Ltd., Shelf Drilling (Far East II), Ltd. and Shelf Drilling RigCo III, Ltd.

The Board of Directors, chief executive officer or chief financial officer of the Issuer may designate any Subsidiary of the Issuer (including any newly acquired or newly formed Subsidiary) to be an Unrestricted Subsidiary only to the extent that after giving effect to such designation:

(a) such Subsidiary or any of its Subsidiaries does not own any Capital Stock or Indebtedness of, or hold any Lien on any property of, the Issuer or any other Subsidiary of the Issuer that is not a Subsidiary of the Subsidiary to be so designated;

(b) such Subsidiary has no Indebtedness other than Non-Recourse Debt;

(c) such Subsidiary has not guaranteed or otherwise directly or indirectly provided credit support for any Indebtedness of the Issuer or any of its Restricted Subsidiaries;

(d) the Investment by the Issuer or another Restricted Subsidiary in such Subsidiary is treated as an Investment and such Investment must be permitted under the covenant described in ''Certain Covenants—Restricted Payments'' or be a Permitted Investment at the time such Investment is made; and

(e) each Subsidiary to be so designated and its Subsidiaries, immediately after giving effect to the designation hereunder and any other contemporaneous designation under any other document, is not a ''restricted subsidiary'' under any other First Lien Indebtedness.

If, at any time, any Unrestricted Subsidiary would fail to meet the requirements of this definition of Unrestricted Subsidiary, it will 60 days thereafter (unless it shall meet the requirements of this definition prior to such date) cease to be an Unrestricted Subsidiary and any Indebtedness of such Subsidiary will be deemed to be incurred by a Restricted Subsidiary of the Issuer as of such date and, if such Indebtedness is not permitted to be incurred as of such date under ''—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock'', the Issuer will be in default of such covenant.

The Board of Directors, chief executive officer or chief financial officer of the Issuer may designate any Unrestricted Subsidiary to be a Restricted Subsidiary; *provided, however,* that such designation shall only be permitted if, immediately after giving effect to such designation (A) any Indebtedness of such Subsidiary, after being deemed to be incurred by a Restricted Subsidiary of the Issuer as of such date of designation and, would be permitted to be Incurred as of such date under ''—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock'' and (B) no Default shall have occurred and be continuing. Any such designation of a Subsidiary as an Unrestricted Subsidiary or Restricted Subsidiary by the Board of Directors or pursuant to an Officer's Certificate of the chief executive officer or chief financial officer of the Issuer shall be evidenced to the Trustee by promptly filing with the Trustee a copy of the resolution of the Board of Directors or the Officer's Certificate of the chief executive officer or chief financial officer of the Issuer giving effect to such designation and an Officer's Certificate certifying that such designation complied with the foregoing provisions.

''U.S. Dollar Equivalent'' means with respect to any monetary amount in a currency other than U.S. dollars, at any time for determination thereof, the amount of U.S. dollars obtained by converting such foreign currency involved in such computation into U.S. dollars at the spot rate for the purchase of U.S. dollars with the applicable foreign currency as published in The Wall Street Journal in the ''Exchange Rates'' column under the heading ''Currency Trading'' on the date two Business Days prior to such determination.

Except as described under ''—Certain Covenants—Limitation on Indebtedness and Issuances of Preferred Stock,'' whenever it is necessary to determine whether the Issuer has complied with any covenant in the Indenture or a Default has occurred and an amount is expressed in a currency other than U.S. dollars, such amount will be treated as the U.S. Dollar Equivalent determined as of the date such amount is initially determined in such currency.

''U.S. Government Obligations'' means direct obligations (or certificates representing an ownership interest in such obligations) of the United States of America (including any agency or instrumentality thereof) for the payment of which the full faith and credit of the United States of America is pledged and which are not callable at the issuer's option.

''Voting Stock'' of a Person means all classes of Capital Stock of such Person then outstanding and normally entitled (without regard to the occurrence of any contingency) to vote in the election of directors, managers or trustees thereof.

"Wholly Owned Subsidiary" means a Restricted Subsidiary all the Capital Stock of which (other than directors' qualifying shares and other shares which are required under the laws of its jurisdiction of organization to be held by one or more of the citizens thereof) is owned by the Issuer or one or more other Wholly Owned Subsidiaries.

TRANSFER RESTRICTIONS

Because of the following restrictions, you are advised to consult legal counsel prior to making any offer, resale, pledge or other transfer of the notes offered hereby.

The notes and related guarantees have not been and will not be registered under the Securities Act or the securities laws of any other jurisdiction and, unless so registered, may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons (as defined in Regulation S) except to (a) persons reasonably believed to be ''qualified institutional buyers'' in reliance on the exemption from the registration requirements of the Securities Act provided by Rule 144A and (b) certain non-U.S. persons in offshore transactions (''non-U.S. purchasers,'' which term shall include dealers or other professional fiduciaries in the United States acting on a discretionary basis for non-U.S. beneficial owners (other than an estate or trust)) in reliance on Regulation S.

Each purchaser of notes will be deemed to have represented and agreed as follows (terms used in this section entitled ''Transfer Restrictions'' that are defined in Rule 144A or Regulation S are used herein as defined therein):

(a) The purchaser (A) (i) is a ''qualified institutional buyer,'' (ii) is aware that the sale to it is being made in reliance on Rule 144A and (iii) is acquiring such notes for its own account or for the account of a qualified institutional buyer or (B) is a non-U.S. purchaser and is purchasing such notes in an offshore transaction pursuant to Regulation S, and is not a U.S. person as defined in Regulation S.

(b) The purchaser understands that the notes and the guarantees are being offered in a transaction not involving any public offering in the United States within the meaning of the Securities Act, that such notes have not been and will not be registered under the Securities Act and that (A) if in the future it decides to offer, resell, pledge or otherwise transfer any of the notes, such notes may be offered, resold, pledged or otherwise transferred only (i) in the United States to a person whom the seller reasonably believes is a ''qualified institutional buyer'' in a transaction meeting the requirements of Rule 144A, (ii) outside the United States in a transaction complying with the provisions of Rule 904 under the Securities Act, (iii) pursuant to an exemption from registration under the Securities Act provided by Rule 144 (if available), or (iv) pursuant to an effective registration statement under the Securities Act, in each of cases (i) through (iv) in accordance with any applicable securities laws of any State of the United States, and that (B) the purchaser will, and each subsequent holder is required to, notify any subsequent purchaser of the notes from it of the resale restrictions referred to in (A) above.

(c) The purchaser understands that the notes will, until the expiration of the applicable holding period with respect to the notes set forth in Rule 144(d)(1) of the Securities Act, unless otherwise agreed by the Company and the holder thereof, bear a legend substantially to the following effect (the ''Restricted Notes Legend''):

THIS NOTE WAS ORIGINALLY ISSUED IN A TRANSACTION EXEMPT FROM REGISTRATION UNDER THE UNITED STATES SECURITIES ACT OF 1933 (THE ''SECURITIES ACT''), AND THIS NOTE OR ANY INTEREST OR PARTICIPATION HEREIN MAY NOT BE OFFERED, SOLD OR OTHERWISE TRANSFERRED IN THE ABSENCE OF SUCH REGISTRATION OR AN APPLICABLE EXEMPTION THEREFROM. EACH PURCHASER OF THIS NOTE IS HEREBY NOTIFIED THAT THE SELLER OF THIS NOTE MAY BE RELYING ON THE EXEMPTION FROM THE PROVISIONS OF SECTION 5 OF THE SECURITIES ACT PROVIDED BY RULE 144A THEREUNDER. BY ITS ACQUISITION HEREOF, THE HOLDER OF THIS NOTE REPRESENTS THAT (A) IT IS A ''QUALIFIED INSTITUTIONAL BUYER'' (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) OR (B) IT IS NOT A U.S. PERSON (WITHIN THE MEANING OF REGULATION S UNDER THE SECURITIES ACT) AND IS ACQUIRING THIS SECURITY IN AN OFFSHORE TRANSACTION IN COMPLIANCE WITH REGULATION S UNDER THE SECURITIES ACT.

THE HOLDER OF THIS NOTE AGREES FOR THE BENEFIT OF THE ISSUER THAT (A) THIS NOTE MAY BE OFFERED, RESOLD, PLEDGED OR OTHERWISE TRANSFERRED, ONLY (1) IN THE UNITED STATES TO A PERSON WHOM THE SELLER REASONABLY BELIEVES IS A QUALIFIED INSTITUTIONAL BUYER (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT) IN A TRANSACTION MEETING THE REQUIREMENTS OF RULE 144A, (II) OUTSIDE THE UNITED STATES IN AN OFFSHORE TRANSACTION IN ACCORDANCE WITH RULE 904 UNDER THE SECURITIES ACT, (III) PURSUANT TO AN EXEMPTION FROM REGISTRATION UNDER THE SECURITIES ACT PROVIDED BY RULE 144 THEREUNDER (IF AVAILABLE) OR (IV) PURSUANT

TO AN EFFECTIVE REGISTRATION STATEMENT UNDER THE SECURITIES ACT, IN EACH OF CASES THE (I) THROUGH (IV) IN ACCORDANCE WITH ANY APPLICABLE SECURITIES LAWS OF ANY STATE OF THE UNITED STATES, AND (B) THE HOLDER WILL, AND EACH SUBSEQUENT HOLDER IS REQUIRED TO, NOTIFY ANY PURCHASER OF THIS NOTE FROM IT OF THE RESALE RESTRICTIONS REFERRED TO IN (A) ABOVE.

FURTHER, BY ITS ACQUISITION OF THIS NOTE (INCLUDING ANY INTEREST HEREIN), THE HOLDER THEREOF WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED THAT EITHER (1) NO PORTION OF THE ASSETS USED BY SUCH HOLDER TO ACQUIRE OR HOLD THIS NOTE (OR ANY INTEREST IN THIS NOTE) CONSTITUTES THE ASSETS OF AN EMPLOYEE BENEFIT PLAN THAT IS SUBJECT TO TITLE I OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (''ERISA''), A PLAN, INDIVIDUAL RETIREMENT ACCOUNT OR OTHER ARRANGEMENT THAT IS SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE ''CODE''), OR ANY OTHER FEDERAL, STATE, LOCAL, NON-U.S. OR OTHER LAWS OR REGULATIONS THAT ARE SIMILAR TO SUCH PROVISIONS OF ERISA OR THE CODE (''SIMILAR LAWS''), OR AN ENTITY WHOSE UNDERLYING ASSETS ARE CONSIDERED TO INCLUDE ''PLAN ASSETS'' OF SUCH PLAN, ACCOUNT OR ARRANGEMENT, OR (2) THE ACQUISITION, HOLDING AND SUBSEQUENT DISPOSITION OF THIS NOTE (OR ANY INTEREST IN THIS NOTE) WILL NOT CONSTITUTE A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR A SIMILAR VIOLATION UNDER ANY APPLICABLE SIMILAR LAWS.

Each purchaser of notes offered in reliance on Regulation S will be deemed to have represented and agreed that it is not a U.S. person and is purchasing such notes in an offshore transaction (as such terms are defined in Regulation S) pursuant to Regulation S and understands that such notes will, unless otherwise agreed by the Company and the holder thereof, bear a legend substantially to the following effect (the ''Regulation S Legend''):

THIS NOTE WAS ORIGINALLY ISSUED IN A TRANSACTION ORIGINALLY EXEMPT FROM REGISTRATION UNDER THE US SECURITIES ACT OF 1933 (THE ''SECURITIES ACT''), AND MAY NOT BE TRANSFERRED IN THE UNITED STATES OR TO, OR FOR THE ACCOUNT OR BENEFIT OF, ANY US PERSON EXCEPT PURSUANT TO AN AVAILABLE EXEMPTION FROM THE REGISTRATION REQUIREMENTS OF THE SECURITIES ACT AND ALL APPLICABLE STATE SECURITIES LAWS. TERMS USED ABOVE HAVE THE MEANINGS GIVEN TO THEM IN REGULATION S UNDER THE SECURITIES ACT.

FURTHER, BY ITS ACQUISITION OF THIS NOTE, THE HOLDER THEREOF WILL BE DEEMED TO HAVE REPRESENTED AND WARRANTED THAT EITHER (1) NO PORTION OF THE ASSETS USED BY SUCH HOLDER TO ACQUIRE OR HOLD THIS NOTE (OR ANY INTEREST IN THIS NOTE) CONSTITUTES THE ASSETS OF AN EMPLOYEE BENEFIT PLAN THAT IS SUBJECT TO TITLE I OF THE U.S. EMPLOYEE RETIREMENT INCOME SECURITY ACT OF 1974, AS AMENDED (''ERISA''), A PLAN, INDIVIDUAL RETIREMENT ACCOUNT OR OTHER ARRANGEMENT THAT IS SUBJECT TO SECTION 4975 OF THE U.S. INTERNAL REVENUE CODE OF 1986, AS AMENDED (THE ''CODE''), OR ANY OTHER FEDERAL, STATE, LOCAL, NON-U.S. OR OTHER LAWS OR REGULATIONS THAT ARE SIMILAR TO SUCH PROVISIONS OF ERISA OR THE CODE (''SIMILAR LAWS''), OR AN ENTITY WHOSE UNDERLYING ASSETS ARE CONSIDERED TO INCLUDE ''PLAN ASSETS'' OF SUCH PLAN, ACCOUNT OR ARRANGEMENT, OR (2) THE ACQUISITION, HOLDING AND SUBSEQUENT DISPOSITION OF THIS NOTE (OR ANY INTEREST IN THIS NOTE) WILL NOT CONSTITUTE A NON-EXEMPT PROHIBITED TRANSACTION UNDER SECTION 406 OF ERISA OR SECTION 4975 OF THE CODE OR A SIMILAR VIOLATION UNDER ANY APPLICABLE SIMILAR LAWS.

Notes may be exchanged for notes not bearing the Restricted Notes Legend but bearing the Regulation S Legend upon certification by the transferor in the form set forth in the indenture governing the notes that the transfer of any such notes has been made in accordance with Rule 904 under the Securities Act. The Company understands that under current market practices settlement of the transfer of any such notes may be effected through the facilities of DTC, but that prior to the 40th day after the latest of the commencement of this offering and the last original issue date of the notes, any such transfer may only occur through the facilities of Euroclear and/or Clearstream, Luxembourg. See ''Book-entry, delivery and form.''

(d) Either: (A) the purchaser is not a Plan (which term includes (i) employee benefit plans that are subject to the Employee Retirement Income Security Act of 1974, as amended (''ERISA''), (ii) plans, individual retirement accounts and other arrangements that are subject to Section 4975 of the Internal Revenue Code of 1986, as amended (the ''Code''), or to provisions under applicable U.S. Federal, state, local, non-U.S. or other laws or regulations that are similar to such provisions of ERISA or the Code (''Similar Laws'') and (iii) entities the underlying assets of which are considered to include ''plan assets'' of such plans, accounts and arrangements) and it is not purchasing the notes on behalf of, or with the ''plan assets'' of, any Plan; or (B) the purchaser's purchase, holding and subsequent disposition of the notes either (i) are not a prohibited transaction under ERISA or the Code and are otherwise permissible under all applicable Similar Laws or (ii) are entitled to exemptive relief from the prohibited transaction provisions of ERISA and the Code in accordance with one or more available statutory, class or individual prohibited transaction exemptions and are otherwise permissible under all applicable Similar Laws.

(e) The purchaser will not transfer the notes to any person or entity, unless such person or entity could itself truthfully make the foregoing representations and covenants. Prior to any proposed transfer of any note in certificated form or of beneficial interests in a note in global form (in each case other than pursuant to an effective registration statement), as applicable, the holder of the notes or the holder of beneficial interests in a note in global form, as the case may be, may be required to provide certifications and other documentation relating to the manner of such transfer and submit such certifications and other documentation as provided in the indenture governing the notes.

(f) The trustee will not be required to accept for registration of transfer any notes acquired by the purchaser, except upon presentation of evidence satisfactory to the Company and the trustee that the restrictions set forth herein have been complied with.

(g) The purchaser acknowledges that the Company, the initial purchasers and others will rely upon the truth and accuracy of the foregoing representations and agreements and agrees that if any of the representations or agreements deemed to have been made by its purchase of the notes is no longer accurate, it shall promptly notify us and the initial purchasers. If it is acquiring the notes as a fiduciary or agent for one or more qualified investor accounts, it represents that it has sole investment discretion with respect to each such account and it has full power to make the foregoing representations and agreements on behalf of each account.

PLAN OF DISTRIBUTION

Under the terms and subject to the conditions contained in a purchase agreement, the Issuer has agreed to sell to the initial purchasers, for which Credit Suisse Securities (USA) LLC is acting as representative, and the initial purchasers have agreed to purchase, the following respective principal amount of the notes.

Initial Purchasers	Principal Amont
Credit Suisse Securities (USA) LLC	$294,500,000
DNB Markets, Inc.	$ 15,500,000
Total	$310,000,000

The purchase agreement provides that the initial purchasers are obligated to purchase all of the notes if any are purchased. The purchase agreement also provides that if an initial purchaser defaults, the purchase commitments of the non-defaulting initial purchaser may be increased or the offering may be terminated. Additionally, pursuant to the purchase agreement, the obligations of the initial purchasers to purchase the notes are subject to approval of legal matters by counsel and to other conditions.

The initial purchasers propose to offer the notes initially at the offering price on the cover page of this offering memorandum and may also offer the notes to selling group members at the offering price less a selling concession. After the initial offering, the offering price may be changed.

The offer and sale of the notes have not been and will not be registered under the Securities Act, and the notes may not be offered or sold within the United States or to, or for the account or benefit of, U.S. persons except to persons reasonably believed to be qualified institutional buyers in reliance on Rule 144A and to persons in offshore transactions in reliance on Regulation S. Each of the initial purchasers has agreed that, except as permitted by the purchase agreement, it will not offer, sell or deliver the notes as part of its distribution at any time within the United States or to, or for the account or benefit of, U.S. persons. Terms used in this paragraph have the meanings given to them by Regulation S. Resales of the notes are restricted as described under ''Transfer Restrictions.''

For a period of 60 days after the date hereof, we will not, without the prior written consent of Credit Suisse Securities (USA) LLC, directly or indirectly, take any of the following actions with respect to any United States dollar-denominated debt securities issued or guaranteed by us and having a maturity of more than one year from the date of issue or any securities convertible into or exchangeable or exercisable for any of the notes (''Lock-Up Securities''): (i) offer, sell, issue, contract to sell, pledge or otherwise dispose of Lock-Up Securities, (ii) offer, sell, issue, contract to sell, contract to purchase or grant any option, right or warrant to purchase Lock-Up Securities, (iii) enter into any swap, hedge or any other agreement that transfers, in whole or in part, the economic consequences of ownership of Lock-Up Securities, (iv) establish or increase a put-equivalent position or liquidate or decrease a call-equivalent position in Lock-Up Securities within the meaning of Section 16 of the Exchange Act or (v) file with the SEC a registration statement under the Securities Act relating to Lock-Up Securities or publicly disclose the intention to take any such action. We will not at any time directly or indirectly, take any action referred to in clauses (i) through (v) above with respect to any securities under circumstances where such offer, sale, pledge, contract or disposition would cause the exemption afforded by Section 4(a)(2) of the Securities Act or the safe harbor of Regulation S or Rule 144A thereunder to cease to be applicable to the offer and sale of the notes.

In addition, until 40 days after the commencement of the offering, an offer or sale of notes within the United States by a broker/dealer (whether or not it is participating in the offering) may violate the registration requirements of the Securities Act if such offer or sale is made otherwise than pursuant to Rule 144A.

We have agreed to indemnify the initial purchasers against liabilities or to contribute to payments which it may be required to make in that respect.

The notes are a new issue of securities for which there currently is no market. The initial purchsers have advised us that they intend to make a market in the notes as permitted by applicable law. They are not obligated, however, to make a market in the notes and any market-making may be discontinued at any time at its sole discretion. Accordingly, no assurance can be given as to the development or liquidity of any market for the notes.

The initial purchasers may engage in over-allotment, stabilizing transactions, covering transactions and penalty bids in accordance with Regulation M under the Exchange Act.

- Over-allotment involves sales in excess of the offering size, which creates a short position for the initial purchasers.
- Stabilizing transactions permit bids to purchase the underlying security so long as the stabilizing bids do not exceed a specified maximum.
- Covering transactions involve purchases of the notes in the open market after the distribution has been completed in order to cover short positions.
- Penalty bids permit the initial purchasers to reclaim a selling concession from a broker/dealer when the notes originally sold by such broker/dealer are purchased in a stabilizing or covering transaction to cover short positions.

These stabilizing transactions, covering transactions and penalty bids may cause the price of the notes to be higher than it would otherwise be in the absence of these transactions. These transactions, if commenced, may be discontinued at any time.

It is expected that the delivery of the notes will be made on or about the closing date specified on the cover page of this offering memorandum, which will be the tenth business day following the date of the pricing of the notes (this settlement cycle being referred to as ''T+10''). Under Rule 15c6-1 under the Exchange Act, trades in the secondary market generally are required to settle in two business days, unless the parties to such trade expressly agree otherwise. Accordingly, purchasers who wish to trade the notes on the date hereof or the next seven succeeding business days will be required, by virtue of the fact that the notes initially will settle in T+10, to specify alternate settlement arrangements at the time of any such trade to prevent a failed settlement and should consult their own advisor.

The initial purchasers and certain of their affiliates are full service financial institutions engaged in various activities, which may include securities trading, commercial and investment banking, financial advisory, investment management, investment research, principal investment, hedging, financing and brokerage activities. The initial purchasers and certain of their affiliates have, from time to time, performed, and may in the future perform, various commercial and investment banking and financial advisory services for us and our affiliates, for which they received or may in the future receive customary fees and expenses. In addition, affiliates of the initial purchasers are lenders under our revolver and, accordingly, will receive a portion of the net proceeds of this offering. The Company may repurchase all of the outstanding 8.75% Senior Secured Notes in privately negotiated transactions effected through one or more of the initial purchasers or their affiliates, as its agent, concurrently with this offering.

The notes are offered for sale in those jurisdictions where it is lawful to make such offers.

Each of the initial purchasers has represented and agreed that it has not offered, sold or delivered and will not offer, sell or deliver any of the notes directly or indirectly, or distribute this offering memorandum or any other offering material relating to the notes, in or from any jurisdiction except under circumstances that will result in compliance with the applicable laws and regulations thereof and that will not impose any obligations on us except as set forth in the purchase agreement.

European Economic Area

The notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the European Economic Area (''EEA''). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client as defined in point (11) of Article 4(1) of Directive 2014/65/EU (as amended, ''MiFID II''); or (ii) a customer within the meaning of Directive (EU) 2016/97 (as amended, the ''Insurance Distribution Directive''), where that customer would not qualify as a professional client as defined in point (10) of Article 4(1) of MiFID II; or (iii) not a qualified investor as defined in Regulation (EU) 2017/1129 (as amended, the ''Prospectus Regulation''). Consequently, no key information document required by Regulation (EU) No 1286/2014 (as amended, the ''PRIIPs Regulation'') for offering or selling the notes or otherwise making them available to retail investors in the EEA has been prepared and therefore offering or selling the notes or otherwise making them available to any retail investor in the EEA may be unlawful under the PRIIPs Regulation. This offering memorandum has been prepared on the basis that any offer of notes in any member state of the EEA will be made pursuant to an exemption under the Prospectus Regulation from the requirement to publish a prospectus for offers of notes. This offering memorandum is not a prospectus for the purposes of the Prospectus Regulation.

Notice to Investors in the United Kingdom

The notes are not intended to be offered, sold or otherwise made available to and should not be offered, sold or otherwise made available to any retail investor in the United Kingdom (''UK''). For these purposes, a retail investor means a person who is one (or more) of: (i) a retail client, as defined in point (8) of Article 2 of Regulation (EU) No 2017/565 as it forms part of domestic law by virtue of the European Union (Withdrawal) Act 2018 (as amended, the ''EUWA''); or (ii) a customer within the meaning of the provisions of the Financial Services and Markets Act 2000 (as amended, the ''FSMA'') and any rules or regulations made under the FSMA to implement the Insurance Distribution Directive, where that customer would not qualify as a professional client, as defined in point (8) of Article 2(1) of Regulation (EU) No 600/2014 as it forms part of domestic law by virtue of the EUWA; or (iii) not a qualified investor as defined in Article 2 of the Prospectus Regulation as it forms part of domestic law by virtue of the EUWA (the ''UK Prospectus Regulation''). Consequently, no key information document required by Regulation (EU) No 1286/2014 as it forms part of domestic law by virtue of the EUWA (the ''UK PRIIPs Regulation'') for offering or selling the notes or otherwise making them available to retail investors in the UK has been prepared and therefore offering or selling the notes or otherwise making them available to any retail investor in the UK may be unlawful under the UK PRIIPs Regulation. This offering memorandum been prepared on the basis that any offer of notes in the United Kingdom will be made pursuant to an exemption under the UK Prospectus Regulation from the requirement to publish a prospectus for offers of Notes. This offering memorandum is not a prospectus for the purposes of the UK Prospectus Regulation or the FSMA.

This document is for distribution only to persons who (i) have professional experience in matters relating to investments and who qualify as investment professionals within the meaning of Article 19(5) of the Financial Services and Markets Act 2000 (Financial Promotion) Order 2005 (as amended, the ''Financial Promotion Order'') or (ii) are persons falling within Article 49(2)(a) to (d) (''high net worth companies, unincorporated associations etc.'') of the Financial Promotion Order (all such persons together being referred to as ''relevant persons''). This document is directed only at relevant persons and must not be acted on or relied on by persons who are not relevant persons. Any investment or investment activity to which this document relates is available only to relevant persons and will be engaged in only with relevant persons.

Notice to Residents of Canada

The notes may be sold only to purchasers purchasing, or deemed to be purchasing, as principal that are accredited investors, as defined in National Instrument 45-106 Prospectus Exemptions or subsection 73.3(1) of the Securities Act (Ontario), and are permitted clients, as defined in National Instrument 31-103 Registration Requirements, Exemptions and Ongoing Registrant Obligations. Any resale of the notes must be made in accordance with an exemption from, or in a transaction not subject to, the prospectus requirements of applicable securities laws.

Securities legislation in certain provinces or territories of Canada may provide a purchaser with remedies for rescission or damages if this offering memorandum (including any amendment thereto) contains a misrepresentation, provided that the remedies for rescission or damages are exercised by the purchaser within the time limit prescribed by the securities legislation of the purchaser's province or territory. The purchaser should refer to any applicable provisions of the securities legislation of the purchaser's province or territory for particulars of these rights or consult with a legal advisor.

Pursuant to section 3A.3 of National Instrument 33-105 Underwriting Conflicts (NI 33-105), the initial purchasers are not required to comply with the disclosure requirements of NI 33-105 regarding underwriter conflicts of interest in connection with this offering.

Hong Kong

The notes may not be offered or sold by means of any document other than (i) in circumstances which do not constitute an offer to the public within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), (ii) to ''professional investors'' within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder, or (iii) in other circumstances which do not result in the document being a ''prospectus'' within the meaning of the Companies Ordinance (Cap.32, Laws of Hong Kong), and no advertisement, invitation or document relating to the Notes may be issued or may be in the possession of any person for the purpose of issue (in each case whether in Hong Kong or elsewhere), which is directed at, or the contents of which are likely to be accessed or read by, the public in Hong Kong (except if permitted to do so under the laws of Hong Kong) other than with respect to notes which are or are intended to be disposed of only to persons outside Hong Kong or only to ''professional investors'' within the meaning of the Securities and Futures Ordinance (Cap.571, Laws of Hong Kong) and any rules made thereunder.

Singapore

Neither this offering memorandum, nor any other materials relating to the Notes, has been or will be lodged or registered as a prospectus with the Monetary Authority of Singapore under the Securities and Futures Act, Chapter 289 of Singapore (the ''SFA''). Accordingly, this offering memorandum and any other document or material issued in connection with the offer or sale, or invitation for subscription or purchase, of the notes may not be issued, circulated or distributed, nor may the notes be offered or sold, or be made the subject of an invitation for subscription or purchase, whether directly or indirectly, to persons in Singapore other than (i) to an institutional investor (as defined in Section 4A of the SFA) pursuant to Section 274 of the SFA, (ii) to an accredited investor as defined in Section 4A of the SFA or to a relevant person (as defined in Section 275(2) of the SFA) pursuant to Section 275(1) of the SFA, or any person pursuant to an offer referred to in Section 275(1A) of the SFA, and in accordance with the applicable conditions specified in Section 275 of the SFA or (iii) otherwise pursuant to, and in accordance with the conditions of, any other applicable provision of the SFA, in each case subject to compliance with the conditions set forth in the SFA.

Where the notes are subscribed or purchased under Section 275 of the SFA by a relevant person which is: (a) a corporation (which is not an accredited investor (as defined in Section 4A of the SFA)) the sole business of which is to hold investments and the entire share capital of which is owned by one or more individuals, each of whom is an accredited investor; or (b) a trust (where the trustee is not an accredited investor) whose sole purpose is to hold investments and each beneficiary of the trust is an accredited investor, the securities or securities-based derivative contracts (each term as defined in Section 2(1) of the SFA) of that corporation or the beneficiaries' rights and interest (however described) in that trust shall not be transferred within six months after that corporation or that trust has subscribed or purchased the notes under an offer made pursuant to Section 275 of the SFA except: (1) to an institutional investor or an accredited investor or to a relevant person, or to any person arising from an offer referred to in Section 275(1A) or Section 276(4)(i)(B) of the SFA; (2) where no consideration is or will be given for the transfer; (3) where the transfer is by operation of law; (4) as specified in Section 276(7) of the SFA; or (5) as specified in Regulation 37A of the Securities and Futures (Offers of Investments) (Securities and Securities-based Derivatives Contracts) Regulations 2018.

Singapore Securities and Futures Act Product Classification—Solely for the purposes of its obligations pursuant to sections 309B(1)(a) and 309B(1)(c) of the SFA, we have determined, and hereby notify all relevant persons (as defined in Section 309A of the SFA) that the Notes are ''prescribed capital markets products'' (as defined in the Securities and Futures (Capital Markets Products) Regulations 2018) and Excluded Investment Products (as defined in MAS Notice SFA 04-N12: Notice on the Sale of Investment Products and MAS Notice FAA-N16: Notice on Recommendations on Investment Products).

Japan

The notes have not been and will not be registered under the Financial Instruments and Exchange Law of Japan (the ''Financial Instruments and Exchange Law''), and each initial purchaser has agreed that it will not offer or sell any notes, directly or indirectly, in Japan or to, or for the benefit of, any resident of Japan (which term as used herein means any person resident in Japan, including any corporation or other entity organized under the laws of Japan), or to others for re-offering or resale, directly or indirectly, in Japan or to a resident of Japan, except pursuant to an exemption from the registration requirements of, and otherwise in compliance with, the Financial Instruments and Exchange Law and any other applicable laws, regulations and ministerial guidelines of Japan.

Notice to Prospective Investors in the Dubai International Financial Centre, or the DIFC

This document relates to an exempt offer in accordance with the Offered Securities Rules of the Dubai Financial Services Authority. This document is intended for distribution only to persons of a type specified in 210 those rules. It must not be delivered to, or relied on by, any other person. The Dubai Financial Services Authority has no responsibility for reviewing or verifying any documents in connection with exempt offers. The Dubai Financial Services Authority has not approved this document nor taken steps to verify the information set out in it, and has no responsibility for it. The notes which are the subject of the offering contemplated by this offering memorandum may be illiquid and/or subject to restrictions on their resale. Prospective purchasers of the notes offered should conduct their own due diligence on the notes. If you do not understand the contents of this document you should consult an authorized financial adviser

Notice to Prospective Investors in the UAE

The notes have not been, and are not being, publicly offered, sold, promoted or advertised in the United Arab Emirates (including the Dubai International Financial Centre or the Abu Dhabi Global Market) other than in compliance with the laws of the United Arab Emirates (and the Dubai International Financial Centre and the Abu Dhabi Global Market) governing the issue, offering and sale of securities. Further, this offering memorandum does not constitute a public offer of securities in the United Arab Emirates (including the Dubai International Financial Centre and the Abu Dhabi Global Market) and is not intended to be a public offer. The offering memorandum has not been approved by or filed with the Central Bank of the United Arab Emirates, the Securities and Commodities Authority, the Dubai Financial Services Authority or the Abu Dhabi Global Market's Financial Services Regulatory Authority (FSRA).

BOOK ENTRY, DELIVERY AND FORM

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

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

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

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

Depository Procedures

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

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

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

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

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

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

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

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

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

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

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

DTC has advised us that its current practice, at the due date of any payment in respect of securities such as the notes (including principal and interest), is to credit the accounts of the relevant Participants with the payment on the payment date unless DTC has reason to believe it will not receive payment on such payment date. Each relevant Participant is credited with an amount proportionate to its beneficial ownership of an interest in the principal amount of the relevant security as shown on the records of DTC. Payments by the Participants and the Indirect Participants to the beneficial owners of notes will be governed by standing instructions and customary practices and will be the responsibility of the Participants or the Indirect Participants and will not be the responsibility of DTC, the Trustee, the Issuer or the Guarantors. None of the Issuer, the Guarantors, the Paying Agent or the Trustee will be liable for any delay by DTC or any of the Participants or the Indirect Participants in identifying the beneficial owners of the Notes, and the Issuer, the Guarantors, the Paying Agent and the Trustee may conclusively rely on and will be protected in relying on instructions from DTC or its nominee for all purposes.

Subject to the transfer restrictions set forth under "Transfer restrictions," transfers between the Participants will be effected in accordance with DTC's procedures, and will be settled in same-day funds and transfers between participants in Euroclear and Clearstream will be effected in accordance with their respective rules and operating procedures.

Subject to compliance with the transfer restrictions applicable to the notes described herein, cross-market transfers between the Participants, on the one hand, and Euroclear or Clearstream participants, on the other hand, will be effected through DTC in accordance with DTC's rules on behalf of Euroclear or Clearstream, as the case may be, by their respective depositaries; however, such cross-market transactions will require delivery of instructions to Euroclear or Clearstream, as the case may be, by the counterparty in such system in accordance with the rules and procedures and within the established deadlines (Brussels time) of such system. Euroclear or Clearstream, as the case may be, will, if the transaction meets its settlement requirements, deliver instructions to its respective depositary to take action to effect final settlement on its behalf by delivering or receiving interests in the relevant Global Note in DTC, and making or receiving payment in accordance with normal procedures for same-day funds settlement applicable to DTC. Euroclear participants and Clearstream participants may not deliver instructions directly to the depositaries for Euroclear or Clearstream.

DTC has advised the Issuer that it will take any action permitted to be taken by a Holder (as defined in "Description of notes") of notes only at the direction of one or more Participants to whose account DTC has credited the interests in the Global Notes and only in respect of such portion of the aggregate principal amount of the notes as to which such Participant or Participants has or have given such direction. However, if there is an Event of Default (as defined in "Description of notes—Defaults") under the notes, DTC reserves the right to exchange the Global Notes for Certificated Notes, and to distribute such Notes to its Participants.

Although DTC, Euroclear and Clearstream have agreed to the foregoing procedures in order to facilitate transfers of interests in the Global Notes among participants in DTC, Euroclear and Clearstream, they are under no obligation to perform such procedures, and such procedures may be discontinued or changed at any time. None of the Issuer, the Guarantors, the Trustee, the Paying Agent, the First Lien Collateral Agent or any of their respective agents will have any responsibility for the performance by DTC, Euroclear or Clearstream or their respective participants or indirect participants, of their respective obligations under the rules and procedures governing their operations.

Exchange of Global Notes for Certificated Notes

A Global Note is exchangeable for Certificated Notes in minimum denominations of $2,000 and in integral multiples of $1,000 in excess thereof, if:

(1) DTC (a) notifies the Issuer that it is unwilling or unable to continue as depositary for the Global Notes or (b) has ceased to be a clearing agency registered under the Exchange Act and, in either case, a successor depositary is not appointed within 90 days;

(2) the Issuer, at its option, notifies the Trustee in writing that it elects to cause the issuance of the Certificated Notes; provided that in no event shall the Regulation S Temporary Global Note be exchanged for Certificated Notes prior to (a) the expiration of the Restricted Period and (b) the receipt of any certificates required under the provisions of Regulation S; or

(3) there has occurred and is continuing an Event of Default with respect to the notes and DTC has requested such exchange.

In all cases, Certificated Notes delivered in exchange for any Global Note or beneficial interests in Global Notes will be registered in the names, and issued in any approved denominations, requested by or on behalf of the depositary (in accordance with its customary procedures) and will bear the applicable restrictive legend referred to in "Transfer restrictions," unless that legend is not required by applicable law.

Exchange of Certificated Notes for Global Notes

Certificated Notes may not be exchanged for beneficial interests in any Global Note, except in the limited circumstances provided in the Indenture. See "Transfer restrictions."

Exchanges Between Regulation S Notes and Rule 144A Notes

Prior to the expiration of the Restricted Period, beneficial interests in the Regulation S Global Note may be exchanged for beneficial interests in the Rule 144A Global Note only if:

(1) such exchange occurs in connection with a transfer of the notes pursuant to Rule 144A; and

(2) the transferor first delivers to the Trustee a written certificate (in the form provided in the Indenture) to the effect that the notes are being transferred to a person

   (a) who the transferor reasonably believes to be a qualified institutional buyer within the meaning of Rule 144A;

   (b) purchasing for its own account or the account of a qualified institutional buyer in a transaction meeting the requirements of Rule 144A; and

(3) in accordance with all applicable securities laws of the states of the United States and other jurisdictions.

Beneficial interests in a Rule 144A Global Note may be transferred to a Person who takes delivery in the form of an interest in the Regulation S Global Note, whether before or after the expiration of the Restricted Period, only if the transferor first delivers to the Trustee a written certificate (in the form provided in the Indenture) to the effect that such transfer is being made in accordance with Rule 903 or 904 of Regulation S or Rule 144 (if available) and that, if such transfer occurs prior to the expiration of the Restricted Period, the interest transferred will be held immediately thereafter through Euroclear or Clearstream.

Transfers involving exchanges of beneficial interests between the Regulation S Global Notes and the Rule 144A Global Notes will be effected by DTC by means of an instruction approved by the Trustee through the DTC Deposit/Withdraw at Custodian system. Accordingly, in connection with any such transfer, appropriate adjustments will be made to reflect the changes in the principal amount of the Regulation S Global Note and the Rule 144A Global Note, as applicable. Any beneficial interest in one of the Global Notes that is transferred to a Person who takes delivery in the form of an interest in the other Global Note will, upon transfer, cease to be an interest in such Global Note and will become an interest in the other Global Note and, accordingly, will thereafter be subject to all transfer restrictions and other procedures applicable to beneficial interests in such other Global Note for so long as it remains such an interest. The policies and practices of DTC may prohibit transfers of beneficial interests in the Regulation S Global Note prior to the expiration of the Restricted Period.

Certifications by Holders of the Regulation S Temporary Global Notes

A holder of a beneficial interest in the Regulation S Temporary Global Notes must provide Euroclear or Clearstream, as the case may be, with a certificate in the form required by the Indenture certifying that the beneficial owner of the interest in the Regulation S Temporary Global Note is either a non-United States person or a United States person that has purchased such interest in a transaction that is exempt from the registration requirements under the Securities Act, and Euroclear or Clearstream, as the case may be, must provide to the Trustee (or the paying agent if other than the Trustee) a certificate in the form required by the Indenture, prior to any exchange of such beneficial interest for a beneficial interest in the Regulation S Permanent Global Notes.

Same Day Settlement and Payment

The Issuer will make payments in respect of the notes represented by the Global Notes (including principal, interest and premium, if any) by wire transfer of immediately available funds to the accounts specified by the Global Note Holder. The Issuer will make all payments of principal, interest and premium, if any, with respect to Certificated Notes by wire transfer of immediately available funds to the accounts specified by the Holders of the Certificated Notes or, if no such account is specified, by mailing a check to each such Holder's registered address. The notes represented by the Global Notes are expected to be eligible to trade in DTC's Same-Day Funds Settlement System, and any permitted secondary market trading activity in such Notes will, therefore, be required by DTC to be settled in immediately available funds. The Issuer expects that secondary trading in any Certificated Notes will also be settled in immediately available funds.

Because of time zone differences, the securities account of a Euroclear or Clearstream participant purchasing an interest in a Global Note from a Participant will be credited, and any such crediting will be reported to the relevant Euroclear or Clearstream participant, during the securities settlement processing day

(which must be a business day for Euroclear and Clearstream) immediately following the settlement date of DTC. DTC has advised us that cash received in Euroclear or Clearstream as a result of sales of interests in a Global Note by or through a Euroclear or Clearstream participant to a Participant will be received with value on the settlement date of DTC but will be available in the relevant Euroclear or Clearstream cash account only as of the business day for Euroclear or Clearstream following DTC's settlement date.

CERTAIN TAX CONSIDERATIONS

The following is a summary of certain Cayman Islands and U.S. federal income tax consequences of holding and disposing of the notes.

This summary does not address all the tax considerations that may be relevant to a decision to purchase the notes and is not applicable to all categories of investors, some of which may be subject to special rules. It does not specifically address all of the Cayman Islands and U.S. federal income tax consequences applicable to any particular holder (or beneficial owner). It is based upon the tax laws of Cayman Islands and the United States as in effect on the date of this information memorandum, all of which are subject to change, possibly with retroactive effect, and to differing interpretations. You are urged to consult your independent tax advisor about the particular Cayman Islands and U.S. federal income tax consequences to you of the ownership and disposition of the notes.

Cayman Islands Tax Considerations

Under existing Cayman Islands laws:

- The Cayman Islands currently have no income tax or taxation in the nature of a withholding tax, corporation or capital gains tax and no estate duty, inheritance tax or gift tax. Thus, payments of interest and principal on the notes will not be subject to taxation in the Cayman Islands and no withholding will be required on the payment of interest and principal to any holder of the notes, nor will gains derived from the disposal of the notes be subject to Cayman Islands income or corporation tax.
- No stamp duty will be payable in respect of the issue or redemption of the notes provided such notes are not executed in or brought to the Cayman Islands or produced before a court in the Cayman Islands. Therefore, holders whose notes are brought into the Cayman Islands may in certain circumstances be liable to pay stamp duty imposed under the laws of the Cayman Islands in respect of the notes and an instrument transferring title to a security which is in registered form may, if brought into or executed in the Cayman Islands, be subject to Cayman Islands stamp duty. Cayman Islands stamp duty of a nominal amount may also be payable in the event that documentation relating to the guarantee was brought into or executed in the Cayman Islands.

U.S. Federal Income Tax Considerations

General

The following is a summary of U.S. federal income tax considerations related to the ownership and disposition of the notes by a U.S. Holder (as defined below). This summary is based on current U.S. federal income tax law that is subject to change, possibly with retroactive effect. This summary applies only to U.S. Holders that purchase notes in the initial offering at their issue price and hold the notes as capital assets for U.S. federal income tax purposes. This summary does not address all of the tax consequences that may be relevant to a particular U.S. Holder due to its specific circumstances or because it is subject to special treatment under U.S. federal income tax laws, such as a bank or other financial institution; an entity that is treated as a partnership for U.S. federal income tax purposes; a tax-exempt entity; an insurance company; a regulated investment company; a dealer in securities or currencies; persons required to accelerate the recognition of any item of gross income with respect to the notes as a result of such income being recognized on an ''applicable financial statement'' (within the meaning of Section 451 of the Code); or a person that will hold notes as a hedge against currency risk or as part of a straddle, synthetic security, conversion transaction or other integrated investment comprised of notes and one or more other investments.

If a partnership (including any entity treated as a partnership for U.S. federal income tax purposes) holds notes, the tax treatment of a partner in the partnership generally will depend upon the status of the partner and the activities of the partnership. A partnership holding notes and any partner in such partnership should consult its tax advisor regarding the tax consequences of the ownership and disposition of the notes. This summary does not address any other U.S. federal tax consequences (e.g., estate or gift tax) or the effect of any applicable foreign, state or local laws. This summary does not set forth, or provide a complete analysis of, all potential tax considerations.

For purposes of this discussion, the term ''U.S. Holder'' means a beneficial owner of a note that is, for U.S. federal income tax purposes, (i) a citizen or resident of the United States, (ii) a corporation or other entity subject to tax as a corporation for U.S. federal income tax purposes that is formed or organized in or under the laws of the United States or any state or political subdivision thereof or the District of Columbia, (iii) an estate the income of which is subject to U.S. federal income tax regardless of source or (iv) a trust if (A) a court within the United States is able to exercise primary supervision over its administration and one or more U.S. persons have authority to control all of its substantial decisions of such trust or (B) the trust has in effect a valid election under applicable Treasury Regulations to be treated as a U.S. person. This discussion does not address the tax consequences to any person that is not a U.S. Holder, as defined above, or any person that owns, actively or constructively, 10% or more of the equity interests, by vote or value, of the issuer of the notes for U.S. federal income tax purposes.

This discussion is not intended to be tax advice. A holder should consult its tax advisor as to the particular U.S. tax consequences to it of the ownership and disposition of the notes, as well as the effects of other U.S. federal tax laws or state, local and foreign tax laws.

Issuer of the Notes for U.S. Federal Income Tax Purposes

Because we are treated, for U.S. federal income tax purposes, as disregarded as separate from our owner and indirect parent, Shelf Drilling Midco, Ltd., the notes should be treated, for U.S. federal income tax purposes, as issued by Shelf Drilling Midco, Ltd.

Taxation of Stated Interest

Generally, qualified stated interest (as defined below under ‘‘Original Issue Discount’’) on a note will be taxable to a U.S. Holder as ordinary interest income (in accordance with the holder's regular method of accounting for United States federal income tax purposes) at the time such payments are accrued or received. The stated interest payments on the notes are qualified stated interest.

Original Issue Discount

It is possible that the notes will be issued with original issue discount (‘‘OID’’) for United States federal income tax purposes. The amount of OID on a note will generally equal the excess of the ‘‘stated redemption price at maturity’’ of a note over its ‘‘issue price.’’ However, a note will not be treated as issued with OID for United States federal income tax purposes if the stated redemption price at maturity exceeds the issue price by less than .25% of the stated redemption price at maturity multiplied by the number of complete years to maturity. The ‘‘stated redemption price at maturity’’ of a note will equal the sum of its principal amount plus all other payments thereunder, other than payments of ‘‘qualified stated interest,’’ defined generally as stated interest that is unconditionally payable in cash or other property, other than our debt instruments, at least annually at a single fixed rate. The ‘‘issue price’’ of a note will equal the first price at which a substantial amount of notes are sold for money, excluding sales to underwriters, placement agents or wholesalers.

If the notes are issued with OID, a U.S. Holder will be required to include in gross income (as ordinary income) for any particular taxable year the ‘‘daily portion’’ of the OID described in the preceding paragraph that accrues on the note for each day during such taxable year on which such holder holds the note, whether reporting on the cash or accrual basis of accounting for United States federal income tax purposes. Thus, a U.S. Holder will be required to include OID in income in advance of the receipt of the cash to which such OID is attributable. The daily portion is determined by allocating to each day of an ‘‘accrual period’’ (generally, the period between interest payments) a pro rata portion of the OID allocable to such accrual period. The amount of OID that will accrue during an accrual period is the product of the ‘‘adjusted issue price’’ of the note at the beginning of the accrual period multiplied by the yield to maturity of the note less the amount of any qualified stated interest allocable to such accrual period. The yield to maturity of the note is the discount rate that causes the present value of all scheduled payments on the note as of its original issue date to equal the issue price of such note. The ‘‘adjusted issue price’’ of a note at the beginning of an accrual period will equal its issue price, increased by the aggregate amount of OID that has accrued on the note in all prior accrual periods, and decreased by any payments made during all prior accrual periods of amounts included in the stated redemption price at maturity of the note.

Sale, Exchange, Redemption or Other Taxable Disposition

Upon the sale, exchange, redemption or other taxable disposition of a note, a U.S. Holder generally will recognize taxable gain or loss in an amount equal to the difference between (1) the sum of cash and the fair market value of all other property received on such disposition (other than any amount attributable to accrued and unpaid interest, including accrued and unpaid OID, which will be taxable as ordinary income to the extent not previously included in income) and (2) such U.S. Holder's adjusted tax basis in the note. A U.S. Holder's adjusted tax basis in a note generally will equal the issue price of the note, increased by the amount of any OID that such U.S. Holder previously included in income with respect to the notes, and decreased by any payments received on the note other than qualified stated interest. Such gain or loss will generally be treated as U.S. source gain or loss. Any gain or loss recognized on the disposition will be capital gain or loss and will be long-term capital gain or loss if, at the time of the disposition, the U.S. Holder has held the note for more than one year. The deductibility of capital losses is subject to limitations.

Foreign Asset Reporting

Each U.S. Holder that is an individual that holds, or that is a corporation, partnership, or trust formed or availed for the purpose of holding, ''specified foreign financial assets'' with an aggregate value in excess of $50,000 on the last day of the tax year or more than $75,000 at any time during the tax year (or such larger values as specified in the applicable Treasury regulations), generally is required to file an information report with respect to such assets with its tax returns. A U.S. Holder is urged to consult its tax advisors regarding its information reporting obligations, if any, with respect to its ownership and disposition of the notes.

CERTAIN ERISA CONSIDERATIONS

The following is a summary of certain considerations associated with an investment in the notes by (i) employee benefit plans that are subject to Title I of ERISA, (ii) plans, individual retirement accounts and other arrangements that are subject to Section 4975 of the Code or provisions under any other Similar Laws, and (iii) entities which are deemed to hold the assets of any of the foregoing types of plans, accounts or arrangements (each of the foregoing described in clauses (i), (ii), and (iii) being referred to herein as a ''Plan''). This summary is based on the provisions of ERISA and the Code, and the related regulations and administrative and judicial interpretations, as of the date hereof. This summary does not purport to be complete, and no assurance can be given that future legislation, court decisions or administrative regulations, rulings or pronouncements will not significantly modify the requirements summarized herein. Any such changes may be retroactive and thereby apply to transactions entered into before the date of their enactment or release.

General fiduciary matters

ERISA and the Code impose certain duties on persons who are fiduciaries of a Plan subject to Title I of ERISA or Section 4975 of the Code (a ''Covered Plan'') and prohibit certain transactions involving the assets of an Covered Plan and its fiduciaries or other interested parties. Under ERISA and the Code, any person who exercises any discretionary authority or control over the administration of such an Covered Plan or the management or disposition of the assets of such an Covered Plan, or who renders investment advice for a fee or other compensation to such an Covered Plan, is generally considered to be a fiduciary of the Covered Plan.

In considering an investment in the notes of a portion of the assets of any Plan, a fiduciary should determine whether the investment is in accordance with the documents and instruments governing the Plan and the applicable provisions of ERISA, the Code or any Similar Law relating to a fiduciary's duties to the Plan including, without limitation, the prudence, diversification, delegation of control and prohibited transaction provisions of ERISA, the Code and any other applicable Similar Laws.

Each Plan should consider the fact that none of the Company, an initial purchaser or any of their respective affiliates (''Transaction Parties'') will act as a fiduciary to any Plan with respect to its decision to invest in notes and is not undertaking to provide impartial investment advice, or to give advice in a fiduciary capacity, with respect to the Plan's investment.

Prohibited transaction issues

Section 406 of ERISA and Section 4975 of the Code prohibit Covered Plans from engaging in specified transactions involving plan assets with persons or entities who are ''parties in interest,'' within the meaning of ERISA, or ''disqualified persons,'' within the meaning of Section 4975 of the Code, unless an exemption is available. A party in interest or disqualified person who engaged in a non-exempt prohibited transaction may be subject to excise taxes and other penalties and liabilities under ERISA and the Code. In addition, the fiduciary of the Covered Plan that engaged in such a non-exempt prohibited transaction may be subject to penalties and liabilities under ERISA and the Code.

In this regard, the U.S. Department of Labor has issued prohibited transaction class exemptions (each, a ''PTCE'') that may apply to the acquisition and holding of the notes (or interest therein). These class exemptions include, without limitation, PTCE 84-14 respecting transactions determined by independent qualified professional asset managers, PTCE 90-1 respecting insurance company pooled separate accounts, PTCE 91-38 respecting bank collective investment funds, PTCE 95-60 respecting life insurance company general accounts and PTCE 96-23 respecting transactions determined by in-house asset managers. In addition, the statutory exemption under Section 408(b)(17) of ERISA and Section 4975(d)(20) of the Code provides relief from certain prohibited transaction provisions of Section 406 of ERISA and Section 4975 of the Code for certain transactions between an Covered Plan and a person who is a party in interest or disqualified person solely as a result of providing services to such Covered Plan or a relationship to such a service provider, *provided* that neither the person transacting with the Covered Plan nor any of its affiliates has or exercises any discretionary authority or control or renders any investment advice with respect to the assets of the Covered Plan involved in the transaction and *provided, further,* that the Covered Plan pays no more than, and receives no less than, adequate consideration in connection with the transaction. Each of the above-noted exemptions contains conditions and limitations on its application. Fiduciaries of Covered Plans considering acquiring and/or holding the notes (or interest therein) in reliance on these or any other exemption should carefully review the exemption to ensure it is applicable. There can be no assurance that all of the conditions of any of the foregoing exemptions will be satisfied.

Governmental plans, foreign plans and certain church plans, while not subject to the fiduciary responsibility provisions of Title I of ERISA or the prohibited transaction provisions of Section 406 of ERISA or Section 4975 of the Code, may nevertheless be subject to Similar Laws. Fiduciaries of such plans should consult with their counsel before acquiring notes or any interest in a note.

Because of the foregoing, the notes may not be purchased or held by any person investing assets of any Plan, unless such purchase and holding will not constitute or result in a non-exempt prohibited transaction under ERISA or Section 4975 of the Code or a similar violation of any applicable Similar Laws.

Representation

Accordingly, by its acceptance of a note (including any interest in a note), each purchaser and subsequent transferee will be deemed to have represented and warranted that either (i) no portion of the assets used by such purchaser or transferee to acquire or hold the notes (or any interest therein) constitutes assets of any Plan or (ii) the acquisition and holding of the notes (or any interest therein) by such purchaser or transferee will not constitute or result in a non-exempt prohibited transaction under Section 406 of ERISA or Section 4975 of the Code or a similar violation under any applicable Similar Laws and none of the Transaction Parties will act as a fiduciary to any Plan with respect to its decision to invest in notes.

The foregoing discussion is necessarily general in nature and does not address all issues that may arise under ERISA, the Code or other applicable Similar Laws, and should not be construed as legal advice or a legal opinion. Further, no assurance can be given that future legislation, administrative rulings, court decisions or regulatory action will not modify the conclusions set forth in this discussion. Due to the complexity of these rules and the penalties that may be imposed upon persons involved in non-exempt prohibited transactions, it is particularly important that fiduciaries, or other persons considering purchasing the notes on behalf of, or with the assets of, any Plan, consult with their counsel regarding the potential applicability of ERISA, Section 4975 of the Code and any Similar Laws to such investment and whether an exemption or exception would be applicable to the purchase and holding of the notes. Purchasers of notes (including any interest in a note) have the exclusive responsibility for ensuring, to the extent applicable, that their investment complies with the fiduciary responsibility rules of ERISA and does not violate the prohibited transaction rules of ERISA, the Code or any applicable Similar Laws.

LEGAL MATTERS

Certain legal matters with regard to the notes will be passed upon for us by Skadden, Arps, Slate, Meagher & Flom LLP, New York, New York. The validity of the notes offered hereby will be passed upon for the initial purchasers by Baker Botts L.L.P., Houston, Texas.

INDEPENDENT ACCOUNTANTS

The consolidated financial statements of Shelf Drilling, Ltd. as of December 31, 2020 and December 31, 2019 and for each of the three years in the period ended December 31, 2020, included in this offering memorandum have been audited by PricewaterhouseCoopers (Dubai branch), independent accountants, as stated in their report appearing herein. The address of PricewaterhouseCoopers (Dubai branch) is Emaar Square, Building 5, P O Box 11987, Dubai, United Arab Emirates.

ENFORCEABILITY OF CIVIL LIABILITIES

SDHL and SDL are exempted companies incorporated with limited liability under the laws of the Cayman Islands. SDHL was incorporated in the Cayman Islands in order to run the business and enjoy certain benefits, such as political and economic stability, an effective judicial system, a favorable tax system, the absence of exchange control or currency restrictions, and the availability of professional and support services. However, certain disadvantages accompany incorporation in the Cayman Islands. These disadvantages include a less developed body of Cayman Islands securities laws that provide significantly less protection to investors as compared to the laws of other jurisdictions, such as the United States or any state, and the potential lack of standing by Cayman Islands companies to sue before the federal courts of the United States.

A substantial portion of our assets, as well as our management and directors, are located outside the United States. As a result, it may be difficult for investors to effect service of process in United States proceedings upon us, recognize or enforce judgments of United States courts outside the United States, including judgments predicated upon the civil liability provisions of the federal securities laws of the United States or any state of the United States. We have appointed Corporation Service Company, 19 West 44th Street, Suite 200, New York, NY 10036, USA as our agent upon whom process may be served in any action brought against us under the laws of the United States.

We have been advised by our Cayman Islands legal counsel that the courts of the Cayman Islands are unlikely (i) to recognize or enforce against us judgments of courts of the United States predicated upon the civil liability provisions of the federal securities laws of the United States or any state; and (ii) in original actions brought in the Cayman Islands, to impose liabilities against us predicated upon the civil liability provisions of the federal securities laws of the United States or any state, so far as the liabilities imposed by those provisions are penal in nature. In those circumstances, although there is no statutory enforcement in the Cayman Islands of judgments obtained in the United States, the courts of the Cayman Islands will recognize and enforce a foreign money judgment of a foreign court of competent jurisdiction without retrial on the merits based on the principle that a judgment of a competent foreign court imposes upon the judgment debtor an obligation to pay the sum for which judgment has been given provided certain conditions are met. For a foreign judgment to be enforced in the Cayman Islands, such judgment must be final and conclusive and for a liquidated sum, and must not be in respect of taxes or a fine or penalty, inconsistent with a Cayman Islands judgment in respect of the same matter, impeachable on the grounds of fraud or obtained in a manner, or be of a kind the enforcement of which is, contrary to natural justice or the public policy of the Cayman Islands (awards of punitive or multiple damages may well be held to be contrary to public policy). A Cayman Islands court may stay enforcement proceedings if concurrent proceedings are being brought elsewhere.

WHERE YOU CAN FIND MORE INFORMATION

We are not currently subject to the information requirements of Section 13(g) or 15(d) of the Exchange Act, and will not be subject to these requirements as a result of this offering. We have agreed, so long as we are not subject to these information requirements, to make available to holders and beneficial owners the information required to be delivered pursuant to the indenture governing the notes offered hereby and Rule 144A(d)(4) under the Securities Act in order to permit compliance with Rule 144A in connection with resales of such notes. Our primary website is located at *www.shelfdrilling.com* which contains such information and reports. Our website and the information contained on our website are not part of this offering memorandum.

This offering memorandum contains summaries of certain agreements that we and/or the Issuer have entered into or expect to enter into in connection with this offering such as the indenture and other agreements described in this offering memorandum. The descriptions contained in this offering memorandum of these agreements are not purported to be complete and are subject to, or qualified in their entirety by reference to, the definitive agreements. Copies of such documents are available at your request, without charge, from Shelf Drilling, Ltd. at One JLT, Floor 12, Jumeirah Lakes Towers, P.O. Box 212201, Dubai, United Arab Emirates. Our telephone number at that address is +971 4 567 3400.

SHELF DRILLING, LTD.
CONSOLIDATED FINANCIAL STATEMENTS
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INDEX TO THE CONSOLIDATED FINANCIAL STATEMENTS

Independent Auditor's Report

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

We have audited the accompanying consolidated financial statements of Shelf Drilling, Ltd. and its subsidiaries, which comprise the consolidated balance sheets as of December 31, 2020 and December 31, 2019, and the related consolidated statements of operations, comprehensive income, equity and cash flows for each of the three years in the period ended December 31, 2020.

Management's Responsibility for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the consolidated financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, we consider internal control relevant to the Company's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the financial position of Shelf Drilling, Ltd. and its subsidiaries as of December 31, 2020 and December 31, 2019, and the results of their operations and their cash flows for each of the three years in the period ended December 31, 2020 in accordance with accounting principles generally accepted in the United States of America.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers
Dubai, United Arab Emirates
March 4, 2021

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

	Years ended December 31,		
	2020	2019	2018
Revenues			
Operating revenues	$ 570,343	$ 561,295	$ 599,043
Other revenues	14,833	14,858	14,276
	585,176	576,153	613,319
Operating costs and expenses			
Operating and maintenance	341,426	366,715	358,030
Depreciation	69,895	82,503	86,796
Amortization of deferred costs	47,148	75,305	82,953
General and administrative	45,849	50,773	61,030
Loss on impairment of assets	249,156	57,986	40,071
(Gain) / loss on disposal of assets	(3,601)	(905)	1,682
	749,873	632,377	630,562
Operating loss	(164,697)	(56,224)	(17,243)
Other (expense) / income, net			
Interest income	175	1,138	1,454
Interest expense and financing charges	(89,703)	(80,708)	(106,772)
Other, net	(939)	(763)	354
	(90,467)	(80,333)	(104,964)
Loss before income taxes	(255,164)	(136,557)	(122,207)
Income tax expense	19,695	12,979	14,036
Net loss	$(274,859)	$(149,536)	$(136,243)
Less: Preferred shares dividend	—	—	9,550
Net loss attributable to common shares	$(274,859)	$(149,536)	$(145,793)
Loss per share:			
Basic and Diluted - Common shares	$ (2.02)	$ (1.16)	$ (1.50)
Weighted average shares outstanding:			
Basic and Diluted - Common shares	136,157	128,389	97,084

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

	Years ended December 31,		
	2020	2019	2018
Net loss	$(274,859)	$(149,536)	$(136,243)
Other comprehensive income / (loss), net of tax			
Change in unrealized gains / (losses) on derivative financial instruments			
Changes in unrealized (losses) / gains	(574)	281	(786)
Reclassification of net losses / (gains) from other comprehensive income to net income	334	(284)	1,029
	$ (240)	$ (3)	$ 243
Total comprehensive loss	$(275,099)	$(149,539)	$(136,000)

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

	December 31, 2020	December 31, 2019
Assets		
Cash and cash equivalents	$ 73,408	$ 26,055
Accounts and other receivables, net	129,009	154,834
Assets held for sale	77,075	1,583
Other current assets	56,654	68,787
Total current assets	336,146	251,259
Property and equipment	1,575,114	1,775,678
Less: accumulated depreciation	508,794	478,694
Property and equipment, net	1,066,320	1,296,984
Deferred tax assets	1,958	2,732
Other long-term assets	111,929	149,070
Total assets	$1,516,353	$1,700,045
Liabilities and equity		
Accounts payable	$ 66,632	$ 79,236
Interest payable	29,333	28,245
Accrued income taxes	4,680	5,029
Other current liabilities	46,682	41,455
Total current liabilities	147,327	153,965
Long-term debt	1,023,963	924,540
Deferred tax liabilities	5,591	5,183
Other long-term liabilities	50,509	54,907
Total long-term liabilities	1,080,063	984,630
Commitments and contingencies (Note 13)		
Common shares of $0.01 par value; 184,063 and 144,063 shares authorized at December 31, 2020 and 2019, respectively; 136,223 and 136,643 issued and outstanding at December 31, 2020 and, 2019, respectively	1,362	1,366
Additional paid-in capital	1,002,914	1,000,298
Accumulated other comprehensive income	—	240
Accumulated losses	(715,313)	(440,454)
Total equity	288,963	561,450
Total liabilities and equity	$1,516,353	$1,700,045

SHELF DRILLING, LTD.
CONSOLIDATED STATEMENTS OF EQUITY
(In thousands)

	Common		Additional paid-in capital	Accumulated other comprehensive income	Accumulated losses	Total equity
	Shares	Par value				
Balance at December 31, 2017	**83,125**	**$ 831**	**$ 663,090**	**$ —**	**$(154,675)**	**$ 509,246**
Net loss	—	—	—	—	(136,243)	(136,243)
Net unrealized gain on derivative financial instruments	—	—	—	243	—	243
Preferred shares dividend	—	—	(9,550)	—	—	(9,550)
Issuance of common shares	28,145	281	215,946	—	—	216,227
Repurchase and retirement of shares	(30)	—	—	—	—	—
Share-based compensation expense, net of forfeitures	—	—	11,334	—	—	11,334
Balance at December 31, 2018	**111,240**	**$1,112**	**$ 880,820**	**$ 243**	**$(290,918)**	**$ 591,257**
Net loss	—	—	—	—	(149,536)	(149,536)
Net unrealized loss on derivative financial instruments	—	—	—	(3)	—	(3)
Issuance of common shares	26,784	268	120,876	—	—	121,144
Repurchase of common shares	(1,381)	(14)	(2,934)	—	—	(2,948)
Share-based compensation expense, net of forfeitures	—	—	1,536	—	—	1,536
Balance at December 31, 2019	**136,643**	**$1,366**	**$1,000,298**	**$ 240**	**$(440,454)**	**$ 561,450**
Net loss	—	—	—	—	(274,859)	(274,859)
Net unrealized loss on derivative financial instruments	—	—	—	(240)	—	(240)
Issuance of common shares	301	3	(3)	—	—	—
Repurchase of common shares	(721)	(7)	(1,550)	—	—	(1,557)
Share-based compensation expense, net of forfeitures	—	—	4,169	—	—	4,169
Balance at December 31, 2020	**136,223**	**$1,362**	**$1,002,914**	**$ —**	**$(715,313)**	**$ 288,963**

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

	Years ended December 31, 2020	2019	2018
Cash flows from operating activities			
Net loss	$(274,859)	$(149,536)	$(136,243)
Adjustments to reconcile net loss to net cash provided by / (used in) operating activities			
Depreciation	69,895	82,503	86,796
Loss on impairment of assets	249,156	57,986	40,071
Provision for / (reversal of) doubtful accounts, net	2,634	(232)	19
Amortization of deferred revenue	(12,417)	(6,284)	(12,660)
Loss / (gain) on derivative financial instruments, net	334	(284)	1,029
Share-based compensation expense, net of forfeitures	4,169	1,536	11,334
Non-cash portion of loss on debt extinguishment	—	—	7,368
Debt extinguishment and retirement costs	—	—	18,783
Amortization of debt issue costs and premium and discounts	3,335	2,700	2,941
(Gain) / loss on disposal of assets	(3,601)	(905)	1,682
Deferred tax expense / (benefit), net	1,182	1,038	(1,673)
(Payments for) / proceeds from settlement of derivative financial instruments, net	(334)	284	(1,349)
Changes in deferred costs, net*	5,327	(4,940)	10,511
Changes in operating assets and liabilities	9,397	3,266	9,096
Net cash provided by / (used in) operating activities	54,218	(12,868)	37,705
Cash flows from investing activities			
Additions to property and equipment*	(111,817)	(91,391)	(98,969)
Deposits related to rig sales, net	15,948	—	—
Proceeds from disposal of assets	7,194	8,359	3,206
Net cash used in investing activities	(88,675)	(83,032)	(95,763)
Cash flows from financing activities			
Proceeds from issuance of debt	80,000	—	928,000
Payments to retire long-term debt	—	—	(558,250)
Payments of debt extinguishment and retirement costs	—	—	(18,783)
Payments of debt financing costs	(3,240)	(147)	(19,581)
Proceeds from revolving credit facility	75,000	35,000	—
Repayments of revolving credit facility	(55,000)	—	—
Payments for redemptions of preferred shares	—	—	(166,667)
Payments for obligations under sale and leaseback	—	—	(313,930)
Preferred shares dividend paid	—	—	(16,268)
Proceeds from issuance of common shares	—	—	226,908
Purchase of common shares	(1,639)	(2,866)	—
Payments for common shares issuance costs	—	(623)	(10,681)
Proceeds from termination of interest rate swaps	—	—	320
Net cash provided by financing activities	95,121	31,364	51,068
Net increase / (decrease) in cash, cash equivalents and restricted cash	60,664	(64,536)	(6,990)
Cash, cash equivalents and restricted cash at beginning of year*	28,299	92,835	99,825
Cash, cash equivalents and restricted cash at end of year*	$ 88,963	$ 28,299	$ 92,835

* See Note 21 – Supplemental Cash Flow Information for a reconciliation of cash payment for additions to property and equipment and changes in deferred costs, net to total capital expenditures and deferred costs, a breakout of the changes in operating assets and liabilities and a reconciliation of cash, cash equivalents and restricted cash balances.

SHELF DRILLING, LTD.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 — Nature of Business

Business

Shelf Drilling, Ltd. (''SDL'') was incorporated on August 14, 2012 (''inception'') as a private corporation in the Cayman Islands. SDL with its majority owned subsidiaries (together, the ''Company'', ''we'' or ''our'') is a leading international shallow water offshore drilling contractor providing equipment and services for the drilling, completion, maintenance and decommissioning of oil and natural gas wells. We are solely focused on shallow water operations in depths of up to 375 feet and our drilling fleet consists of 31 independent-leg cantilever (''ILC'') jack-up rigs as of December 31, 2020, excluding stacked and/or held for sale rigs. Since June 25, 2018, SDL shares are listed on the Oslo Stock Exchange (''OSE'') under the ticker symbol SHLF.

SDL is a holding company with no significant operations or assets other than interests in its direct and indirect subsidiaries. All operations are conducted through Shelf Drilling Holdings, Ltd. (''SDHL'') an indirect wholly owned subsidiary of SDL. Our corporate offices are in Dubai, United Arab Emirates (''UAE''), geographically close to our operations in the Middle East, North Africa and the Mediterranean (together, ''MENAM''), South East Asia, India and West Africa. Our largest shareholders are affiliates of Castle Harlan, Inc., Lime Rock Partners and China Merchants & Great Wall Ocean Strategy & Technology Fund (''China Merchants''). Additionally, other shareholders may have large holdings as reported in public filings in accordance with the rules of the OSE.

Note 2 — Significant Accounting Policies

Basis of Presentation

The Company has prepared its consolidated financial statements in accordance with generally accepted accounting principles in the United States (''GAAP''). The amounts are presented in United States (''U.S.'') dollars (''$'') rounded to the nearest thousand, unless otherwise stated.

Principles of Consolidation

The consolidated financial statements include the accounts of the Company, its wholly-owned subsidiaries and those entities that meet the criteria for variable interest entities (''VIEs'') for which the Company is deemed to be the primary beneficiary. Intercompany balances and transactions are eliminated in consolidation.

As of December 31, 2020, the Company's consolidated financial statements include four joint ventures that meet the definition of VIEs. See Note 5 – Variable Interest Entities. As of December 31, 2020, the Company does not have investments which meet the criteria to be reported under the equity method of accounting.

Use of Estimates

The preparation of consolidated financial statements in accordance with GAAP requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates are used for, but are not limited to, the following: collectability of receivables, depreciable or amortizable lives of assets, term of lease obligations, impairment of assets, provision for income taxes, valuation of share-based compensation, postemployment benefits and contingencies. Actual results could differ from those estimates.

Fair Value Measurements

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The three-level hierarchy of fair value measurement, which reflects the degree to which objective prices in external active markets are available to measure fair value, is as follows:

Level 1 — Quoted prices in active markets that are accessible at the measurement date for identical assets and liabilities.

Level 2 — Observable prices that are based on inputs not quoted on active markets but corroborated by market data.

Level 3 — Unobservable inputs are used when little or no market data is available.

Financial assets and financial liabilities are classified based on the lowest level of input that is significant to the relevant fair value measurement. The Company's assessment of the significance of a particular input to the fair value measurement requires judgment and may affect the valuation of the assets and liabilities being measured and their placement within the fair value hierarchy.

Revenue Recognition

The Company recognizes revenues when control of a good or service promised in a contract is transferred to a customer. Control is obtained when a customer has the ability to direct the use of and obtain substantially all of the remaining benefits from that good or service. The timing of revenue recognition may differ from the timing of invoicing to customers and these timing differences result in receivables, contract assets, or contract liabilities, as appropriate on the Company's consolidated balance sheets.

The Company's drilling services provided under each drilling rig contract is a single performance obligation satisfied over time and is comprised of a series of distinct time increments or service periods in which we provide drilling services. Variable consideration is only recognized as revenues to the extent that it is probable that a significant reversal will not occur during the contract term. When determining if variable consideration should be recognized, management considers whether there are factors outside of the Company's control that could result in a significant reversal of revenues as well as the likelihood and magnitude of a potential reversal of revenue. A description of our principal revenue generating activities are as follows:

Operating Revenues

A significant portion of the Company's revenues is generated from rigs operated by the Company through dayrates charged to its customers for the provision of 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 dayrate invoices billed to the customer are typically determined based on the varying rates applicable to the specific activities performed on an hourly basis.

The Company may earn lump-sum fees relating to mobilization, contract preparation, capital upgrades and demobilization in certain drilling contracts. The contract preparation and capital upgrade fees are typically received at the commencement of the contract. Mobilization fees are generally billable to the customer in the initial phase of a contract and generate contract liabilities (deferred revenue) until they are recognized as revenue. These activities are not considered to be distinct within the context of the contract, therefore, the associated revenues are recorded as a contract liability and amortized on a straight-line basis over the firm contract term.

In addition, fees received for demobilization of the rig are accrued as operating revenues over the contract duration if they are unconditional and if there is no significant risk of potential material cumulative revenue reversal in the future. In most contracts, there is uncertainty as to the amount of expected demobilization revenues due to contractual provisions that stipulate certain conditions must be present at contract completion for such revenues to be received. Therefore, the demobilization fees are recorded when it becomes probable that there will not be a material cumulative revenue reversal. 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 Accounting Standards Codification (''ASC'') 606-10-50-14(b) and have not disclosed variable consideration related to remaining unsatisfied performance obligations.

Many drilling contracts have termination and/or extension options which can be exercised at the option of the customer. In many cases, if the contract is terminated by the customer, the Company can charge an early termination fee to the customer. Termination revenues are typically billed after a termination notice is received from a customer or activity related to a contract ceases. Termination revenues are typically recognized as revenues when billed and it is probable that revenues will not be reversed. In such cases, any remaining deferred revenues and costs are recorded in the consolidated statements of operations upon such termination, when it becomes probable that there will not be a material cumulative revenue reversal. The extension option revenues are at agreed prices and terms and are typically accounted for as contract modifications as if it were a separate contract.

Other Revenues

Other revenues consist of revenues from lease rentals and amounts billed for goods and services such as personnel, catering, additional equipment, consumables or accommodations which are generally invoiced to customers at a margin. The Company may use third parties for the provision of such goods and services. The Company generally acts as a principal in the provision of catering, 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 obtained by a customer. Certain judgements are involved in identifying the performance obligations in customer contracts and determining whether the Company is a principal or an agent in the provision of certain equipment and consumables to the customers.

Operating Expenses and Deferred Costs

Operating costs are recognized when incurred. Certain expenditures associated with contract preparation, mobilization, regulatory inspections and major equipment overhauls are recorded as deferred costs, according to the deferral period as other current assets or other long-term assets on the consolidated balance sheets.

Costs incurred for certain contract preparation expenditures and upfront mobilizations incurred for a rig entering a binding commitment for a drilling services contract are attributable to the Company's future performance obligation under the related drilling contract. Such contract costs are deferred and amortized on a straight-line basis over the firm contract term. See Note 4 – Revenues, Contract Liabilities and Deferred Contract Costs and Allowance for Credit Losses. Demobilization costs and the cost of mobilization of rigs without contracts are expensed as incurred.

Regulatory inspections are incurred in connection with obtaining regulatory certifications to operate the rigs, including Special Periodic Surveys (''SPS'') and Underwater Inspections in Lieu of Dry-docking (''UWILDs''), and are deferred and amortized over the time period until the next survey or inspection – generally for periods between 30 to 60 months. Periodic major overhauls of equipment are deferred and amortized on a straight-line basis over a period of five years.

Cash, Cash Equivalents and Restricted Cash

Cash and cash equivalents are comprised of cash on hand, cash in banks and highly liquid funds with an original maturity of three months or less. Other bank deposits, if any, with maturity of less than a year are classified as short-term bank deposits within other current assets in the consolidated balance sheets. Bank overdrafts, if any, are classified as current liabilities in the consolidated balance sheets.

Restricted cash consists of cash deposits held related to bank guarantees. Restricted cash balances are recorded, according to the maturity date as either other current assets or other long-term assets in the consolidated balance sheets.

Accounts and Other Receivables, Net

The Company's accounts and other receivables consist primarily of trade accounts receivable from the provision of drilling services, with original credit terms of less than one year. Accounts and other receivables are recorded in the consolidated balance sheets at their nominal amounts, net of allowance for credit losses, or the estimated net realizable value, which approximate fair value.

Allowance for Credit Losses

The Company applies the current expected credit losses (''CECL'') model to financial assets measured on an amortized cost basis, primarily its trade accounts receivable, and off balance sheet exposures to credit losses. The Company determines its expected credit losses for its pools of assets with similar risk characteristics based on historical loss information, as adjusted for future expectations.

The Company pools its receivable assets using its internal determination of collection risk, which is based on several factors, including the size and type of customer, the Company's prior collections experience with the customer, and the country or region in which the customer operates. Adjustments to the Company's historic loss rates were made with consideration of the increasing risk of default related to the COVID-19 pandemic and any relevant customer and oil industry specific factors, as needed. Management reviews its assumptions each reporting period and makes adjustments as needed to reflect changes in historical loss rates and expectations, which management believes provides a reasonable estimation of future losses. The pooling of assets and the adjustment of historical loss rates include a high degree of judgement and actual results can differ materially from these expectations.

For other financial instruments measured on an amortized cost basis and off balance sheet credit exposures, the Company considers quantitative and qualitative information, including historical experience and future expectations, which management believes provide a reasonable basis for the estimation of future losses.

The Company records a provision for doubtful accounts in its general and administrative expenses in the consolidated statements of operations to reflect the net change in the allowance for credit losses during the period. Amounts determined to be uncollectible are written-off against the allowance for credit losses.

Property and Equipment, Net

Property and equipment is initially stated at cost. Expenditures for additions, including other costs necessary to bring the asset to the condition and location necessary for its intended use, improvements and substantial enhancements are capitalized. Routine expenditures for minor replacements and repairs and maintenance that do not increase the asset life are expensed as incurred. Construction in progress includes interest capitalized during the period of asset construction for qualified assets if the construction is expected to take one year or longer and the amount of interest is material. When the asset is placed into service, it is transferred from construction in progress to the appropriate category under property and equipment.

Property and equipment is subject to periodic impairment testing as discussed in "Impairment of Long-Lived Assets" below.

Depreciation commences when an asset is placed into service or is substantially complete and ready for its intended use. Depreciation is computed using the straight-line method, after allowing for salvage value where applicable, over the estimated useful lives of the assets. Land is not depreciated. Leasehold improvements are recorded as component of property and equipment and are depreciated over the shorter of the remaining expected lease term or the estimated useful lives of the improvements. If an impairment loss is recognized, the adjusted carrying amount shall be depreciated over the remaining useful life of that asset.

The estimated useful lives of property and equipment are as follows:

	Years
Drilling rigs	30
Drilling equipment and spares	9 - 13
Building	30
Other	3 - 5

The Company periodically reviews and adjusts, as appropriate, the remaining useful lives and salvage values of rigs when certain events occur that directly impact such estimates. This includes changes in operating condition, functional capability and market and economic factors. The remaining estimated average useful life of existing drilling rigs in the Company's fleet, excluding stacked and/or held for sale rigs, as of December 31, 2020 is 11 years.

When assets are sold, retired or otherwise disposed of, the cost and related accumulated depreciation are written off, net of any proceeds received, and any gain or loss is reflected in the consolidated statements of operations.

Assets Held for Sale

Property and equipment is reclassified as asset held for sale when (a) there is a committed plan to sell the asset that is unlikely to be subject to significant changes or termination, (b) the asset is available for immediate sale, (c) actions are initiated to complete the sale, including an active program to locate a buyer, (d) the sale is expected to be completed within one year and (e) the asset is being actively marketed at a price that is reasonable relative to its fair value. Assets held for sale are subject to periodic impairment testing as discussed in ''Impairment of Long-Lived Assets'' below.

Leases

A lease contract is a contract that conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Lease classification as short-term lease, operating lease or finance lease is made at the lease inception.

Short-Term Leases

The Company made an accounting policy election not to recognize a right-of-use asset and lease liability for short-term leases with an initial term of 12 months or less, therefore these leases are not recorded on the consolidated balance sheets. Lease expense for short-term leases are recognized on a straight-line basis over the lease term.

The Company as a Lessee

The Company recognizes lease liabilities and right-of-use assets for all operating and finance leases at the lease commencement date. For a contract that contains an operating lease component and non-lease component, the lease is accounted for as one single lease component based on the predominant component in accordance with the Company's policy. Therefore, all non-lease components in the lease contracts are included in the measurement of the operating lease liability and right-of-use asset. See also Note 8 – Leases.

Lease liabilities are initially recognized at the present value of the future lease payments during the expected lease term using the interest rate implicit in the lease, if that rate can be determined, or the Company's incremental borrowing rate. Lease liabilities are recorded, according to the payment dates as other current liabilities and other long-term liabilities in the consolidated balance sheets. Finance lease and operating lease liabilities are recorded separately.

The Company determines the lease term as the non-cancellable period of a lease, including renewal or termination options that the Company is reasonably certain to exercise. The Company considers all relevant facts and circumstances that create an economic incentive to exercise the option.

Subsequent to initial recognition, the operating lease liability is increased for the interest component of the lease liability and reduced by the lease payments made.

The right-of-use asset is initially recognized at the amount of the initial measurement of the lease liability, plus any lease payments made at or before the commencement date, less any lease incentives received and any initial direct costs incurred by the Company. Right-of-use assets are recorded as other long-term assets in the consolidated balance sheets, and finance lease and operating lease right-of-use assets are recorded separately. Costs to get a leased asset to the condition and location necessary for its intended use are capitalized as leasehold improvements.

Subsequent to initial recognition, the right-of-use asset is reflected net of amortization. Right-of-use assets are subject to periodic impairment testing as discussed in ''Impairment of Long-Lived Assets'' below.

The Company remeasures its lease liabilities with a corresponding adjustment to the right-of-use asset due to an applicable change in lease payments such as those due to a lease modification not accounted for as a separate contract, certain changes in the expected term of the lease, and certain changes in assessments and contingencies. The Company has made an accounting policy election to account for lease concessions related to the effects of the COVID-19 pandemic, as though enforceable rights and obligations for those concessions existed in the original lease contract and, therefore, the Company will not account for these concessions as lease modifications. The Company is instead accounting for rent reductions as a negative variable lease payment in the period in which that payment would have become due and is accounting for temporary rent deferrals as a short-term lease payable until the amount becomes due and payable.

Operating lease expenses are recognized as a single lease cost on a straight-line basis over the lease term, which includes the interest component of the measurement of the lease liability and amortization of the right-of-use asset.

Operating lease expenses are recognized based on the type of leased asset under either operating and maintenance expenses or general and administrative expenses in the consolidated statements of operations. Finance lease expenses are recognized separately in the consolidated statements of operations, with the interest expense on the lease liability recorded under interest expense and the amortization of the right-of-use asset recorded as based on the type of leased asset under either operating and maintenance expenses or general and administrative expenses.

The Company as a Lessor

The Company's drilling contracts contain lease components related to the underlying drilling rigs, in addition to service components of labor and expertise to operate such drilling equipment. The Company has made an accounting policy election to present the lease and associated non-lease operations as a single component based upon the predominant component. The service component of operating a drilling rig is predominant in the Company's drilling contracts. Therefore, the Company is accounting for drilling rig revenues as a single performance obligation as service revenues.

Impairment of Long-Lived Assets

The Company evaluates property and equipment, right-of-use assets and other long-lived assets whenever events or changes in circumstances indicate the carrying amount of an asset may not be recoverable. An impairment loss on an asset should be recorded when the estimated undiscounted future cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. Any actual impairment loss recognized represents the excess of the asset's carrying value over the estimated fair value.

The Company estimates the fair values of property and equipment, right-of-use assets and other long-lived assets to be held and used by applying a combination of income and market approaches, using projected cash flows and estimates of the exchange price that would be received for the assets in the principal or most advantageous market for the assets in an orderly transaction between market participants as of the measurement date. The fair value of the Company's asset groups using the income approach is based on estimated cash flows expected to be realized from the use of the assets. Asset impairment evaluations are, by nature, highly subjective. The critical estimates are significant unobservable inputs, which are based on numerous estimates and assumptions about future operations and market conditions including but not limited to those such as projected rig utilization, dayrates, operating, overhead and major project costs, remaining useful life, salvage value and discount rate as well as cost inflation assumptions. The Company estimated the fair values of assets held for sale based on the expected sale price less estimated costs to sell, which can include significant unobservable inputs. These assumptions are considered non-recurring level 3 fair value measurements.

Income Taxes

Income taxes are provided for based on relevant tax laws and rates in effect in the countries in which the Company operates and earns income or in which the Company is considered resident for income tax purposes. Current income tax expense reflects an estimate of the Company's income tax liability for the current year, including changes in prior year tax estimates as returns are filed, and any tax audit adjustments.

Deferred income taxes reflect the ''temporary differences'' between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes, tax effected by applying the relevant tax rate, based on enacted tax laws and rates applicable to the periods in which the reversal of such differences is expected to affect taxable income. The Company will record net deferred tax assets to the extent the assets will more likely than not be realized. In making such determination, all available positive and negative evidence is considered, including scheduled reversals of deferred tax liabilities, projected future taxable income, tax planning strategies and recent financial performance. When necessary, valuation allowances are established to reduce deferred income tax assets to the amount expected to be realized. Liabilities for uncertain tax positions are recorded as long-term liabilities for tax positions that have been taken that are more likely than not to ultimately be denied upon examination or audit by tax authorities. Any interest and penalties related to uncertain tax positions are included as a component of income tax expense.

The Company is subject to the tax laws, including relevant regulations, treaties, and court rulings, of the countries and jurisdictions in which it operates. The provision for income taxes is based upon interpretation of the relevant tax laws in effect at the time the expense was incurred. If the relevant taxing authorities do not agree with the Company's interpretation and application of such laws, or if any such laws are changed retroactively, additional tax may be imposed which could significantly increase the Company's effective tax rate related to its worldwide earnings.

Share-Based Compensation

Share-based compensation is recognized in the consolidated statements of operations based on the grant date fair value and the estimated number of shares or restricted stock units that are ultimately expected to vest. For awards which vest based on service or performance and/or market conditions, the value of the portion of the award that is ultimately expected to vest is recognized as an expense over the applicable vesting period. The Company has made an accounting policy election to recognize the expense for awards with a service condition on a straight-line vesting method over the applicable vesting period. Any subsequent changes in the estimate of the number of shares or units expected to vest will be recorded as cumulative catch-up adjustment to compensation cost in the period in which the change in estimate occurs. For awards with a market condition, compensation cost is recognized over the service period regardless of whether the market conditions are ultimately achieved. For awards which vest only after an exit event or Initial Public Offering (''IPO''), compensation expense is recognized upon the occurrence of the event. Any forfeitures are accounted for in compensation expense as they occur.

Employee Benefit Plans

The Company sponsors various employee benefit programs, including defined contribution plans, retention programs, employee end of service plans, and a defined benefit plan. See also Note 12 – Employee Benefit Plans.

Defined Contribution Plans

The Company sponsors several defined contribution plans for certain employees in various jurisdictions. These plans are governed by statutory laws, union agreements and/or Company policy, as appropriate. These plans include various plans under international jurisdictions. These plans include Company matching amounts, based on jurisdiction, and other Company payments, which may be based on job category or years of service. The Company's contributions are expensed as incurred and the Company has no further obligations for these plans.

Retention Programs

The Company sponsors cash incentive retention programs for certain employees. The plans generally vest over a period ranging from one to two years, and associated payouts are made upon vesting, provided the participant is still employed by the Company. The Company recognizes period costs associated with these benefits over the vesting period and accrues a liability for their ultimate payment. Expenses are reversed if employee terminations result in the forfeiture of accrued retention payments prior to vesting.

Employee 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 Company policies. The Company makes cash payments whenever the departure of an employee triggers the requirement to pay benefits. In certain countries for which management estimates that end of service liabilities are significant, the Company obtains a third-party valuation to estimate the end of service benefit liability based on actuarial assumptions that include an employee census and historical data.

Defined Benefit Plan

Certain employees are eligible for defined benefits under a Company plan and these benefits are fully vested. The employee's benefit amount is calculated based on the employee's base salary and various other factors, as outlined in the plan. The Company immediately recognizes any gains and losses from this plan and accrues a liability for the ultimate payments. Benefits are paid in a single lump sum cash payment when a participant is no longer employed by the Company.

The plan does not have any assets, nor does the Company intend to fund the plan. Amounts expected to be paid under the defined benefit plan are determined based on actuarial assumptions.

Debt

Premiums, discounts and debt issuance costs related to the issuance of term debt are deferred and recorded as an adjustment to the associated debt balance on the consolidated balance sheets. These amounts are amortized to interest expense using the effective interest method through the maturity of the related debt.

Debt issuance costs related to line-of-credit arrangements, regardless of whether there is any outstanding balance, are recorded under other long-term assets on the consolidated balance sheets and amortized to interest expense on a straight-line basis over the term of the line-of-credit arrangement.

In the event of early retirement of debt, any unamortized premiums, discounts and debt issuance costs associated with the retired debt are expensed as interest expense and financing charges in the consolidated statements of operations.

Earnings / (Loss) Per Share

Basic earnings / (loss) per share (''EPS'') is calculated by dividing the net income or loss attributable to common shares by the weighted average number of common shares outstanding during the period, excluding contingently forfeitable unvested share-based compensation. The two-class method is used for participating securities, as applicable. Preferred stock dividends, whether declared or accumulated, are deducted from net income (or added to net loss) attributable to common shareholders in computing basic EPS.

Diluted EPS adjusts the weighted average number of common shares outstanding in the basic EPS calculation for the effect of potential future issuances of common stock relating primarily to share-based compensation awards and other potentially dilutive instruments using the treasury stock method.

The dilutive effect of share-based awards using the treasury stock method consists of the total awards to be issued in a future period less an ''assumed'' buy back of shares. The ''assumed'' buy back of shares is computed using the average market price of common stock for the relevant period as the price per share and ''assumed'' proceeds which includes the award's exercise price, if any, and the average unrecognized compensation expense of the award during the period. This calculation can result in a significantly lower dilutive effect than the stock-based awards currently outstanding and / or in certain awards being anti-dilutive. Anti-dilutive awards can become dilutive in future periods based on changes in the average market price of common stock and decreases in the unrecognized compensation costs.

In periods of net losses attributable to common shareholders, all potentially dilutive securities will be anti-dilutive, and therefore basic and diluted EPS will be the same.

Foreign Currency

The Company's functional currency is the U.S. dollar. As is customary in the oil and gas industry, the majority of the Company's revenues are denominated in U.S. dollars.

A significant amount of the Company's expenditures including interest expense and corporate expenses are denominated in U.S. dollars or are effectively denominated in U.S. dollars, as the payment currency is fixed to the U.S. dollar. However, certain subsidiaries have a significant amount of their operating expenses payable in local currencies. To limit the potential risk of currency fluctuations, when management believes that market conditions are favorable the Company may choose to enter into a series of monthly foreign currency forward contracts as discussed in ''Derivative Financial Instruments'' below. As such, the Company's exposure to non-U.S. dollar denominated currency exchange rate fluctuations may be limited by such derivatives.

All transactions denominated in non-U.S. dollar currencies are recorded in U.S. dollars at the prevailing exchange rate. Realized transaction gains or losses and gains and losses from the remeasurement of assets and liabilities denominated in non-U.S. dollar currencies are reported as other, net in the consolidated statements of operations.

Derivative Financial Instruments

The Company's derivative financial instruments consist of foreign currency forward exchange contracts (''forex contracts'') and interest rate swaps which the Company may designate as cash flow hedges. Each derivative contract is stated in the consolidated balance sheets at fair value. Derivatives with asset fair values are reported in other current assets or other long-term assets and derivatives with liability fair values are reported in other current liabilities or other long-term liabilities on the consolidated 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.

Derivative gains and losses are 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. These changes in fair value for each designated hedge included in the assessment of hedge effectiveness 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 forecast hedged transaction will not occur.

Foreign Currency Forward Exchange Contracts

The Company may enter into forex contracts when management believes that market conditions are favorable to purchase such contracts with the expectation that the contracts, when settled, will reduce the exposure to foreign currency gains and losses on future foreign currency expenditures. The amount and duration of these 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 included in the assessment of hedge effectiveness is recognized in AOCIL.

The net gains / (losses) on forex contracts reclassified from AOCIL are recorded as operating and maintenance expense.

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 may use interest rate swaps as part of its interest rate risk management strategy to effectively convert all or a portion of its variable-rate debt to a fixed-rate of interest. Interest rate swaps designated as cash flow hedges of variable-rate debt involve the receipt of variable-rate amounts from a counterparty in exchange for the Company making fixed-rate payments over the life of the agreements without exchange of the underlying notional amount.

The gains / (losses) on interest rate swaps reclassified from AOCIL are recorded as interest expense and financing charges.

Note 3 — Recently Issued and Adopted Accounting Pronouncements

Recently adopted accounting standards

In August 2018, the Financial Accounting Standards Board (''FASB'') issued Accounting Standards Update (''ASU'') No. 2018-13 – Fair Value Measurement (Topic 820) and related clarifying guidance: Disclosure Framework – Changes to the Disclosure Requirements for Fair Value Measurement. This ASU modifies the disclosure requirements in Topic 820 by identifying a narrower set of required disclosures based, in part, on an evaluation of whether the expected benefits of such disclosures justify the expected costs. The amendments are effective for all entities for fiscal years, and interim periods within those fiscal years, beginning after December 15, 2019, with early adoption permitted. The Company has adopted this standard as of January 1, 2020. See Note 9 – Loss on Impairment of Assets for additional disclosures related to the adoption of this standard.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments – Credit Losses (Topic 326) and related clarifying guidance: 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 financial instruments and to provide financial statement users with more information about the expected credit losses on financial instruments and other commitments with enhanced disclosures at each reporting date. In May 2019, the FASB issued ASU No. 2019-05, Financial Instruments – Credit Losses (Topic 326): Targeted Transition Relief, which eases the transition of this standard by providing the option to measure certain types of assets at fair value. These standards are effective for U.S. Securities and Exchange Commission registered filers annual reporting periods beginning after December 15, 2019 and for other public companies for annual reporting periods beginning after December 15, 2022, with early adoption permitted. The Company has early adopted this standard effective January 1, 2020 using the modified retrospective approach. The adoption of this standard did not have a material effect on the consolidated financial statements as the Company's allowance for credit losses did not change materially from its previously estimated allowance. See Note 4 – Revenues, Contract Liabilities and Deferred Contract Costs and Allowance for Credit Losses for additional disclosures related to the adoption of this standard.

In April 2020, the FASB issued a Staff Q&A Topic 842 and Topic 840: Accounting for Lease Concessions Related to the Effects of the COVID-19 Pandemic (''Lease Q&A''). The Lease Q&A provides specific guidance on how to address rent concessions on leases due to the COVID-19 pandemic. During the year ended December 31, 2020, the Company has received rent concessions for various operating leases that do not result in a substantial increase in the rights of the lessor or the Company's obligations. In accordance with the Lease Q&A, the Company has made an accounting policy election to account for rent reductions as a negative variable lease payment in the period in which that payment would have come due and will account for temporary rent deferrals as a short-term lease payable until the amount becomes due and payable. As a result of this election, the Company recorded $0.1 million in rent reductions during the year ended December 31, 2020.

In August 2018, the FASB issued ASU No. 2018-14—Compensation – Retirement Benefits – Defined Benefit Plans – General (Subtopic 715-20): Disclosure Framework—Changes to the Disclosure Requirements for Defined Benefit Plans. This amendment modifies disclosure requirements for employers that sponsor defined benefit pension or other postretirement plans. The main objective of this ASU is to remove disclosures that are no longer considered cost beneficial, clarify specific requirements of disclosures and to add disclosure requirements that are identified as relevant. The amendments are effective for public business entities for fiscal years ending after December 15, 2020, with early adoption permitted. The Company has adopted this standard as of December 31, 2020. The adoption of this standard did not have a material effect on the consolidated financial statements.

Recently issued accounting standards

In March 2020, the FASB issued ASU No. 2020-04—Reference Rate Reform (Topic 848)— Facilitation of the Effects of Reference Rate Reform on Financial Reporting, which provides relief for companies preparing for discontinuation of interest rates such as the London Interbank Offered Rate (''LIBOR'') in 2021. The ASU provides companies with optional expedients mainly relating to eligible contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The key optional expedients generally allow a Company (1) to account for and present contract modifications as an event that does not require contract remeasurement or reassessment of a previous accounting determination at the modification date, (2) to continue hedge accounting when certain critical terms of a hedging relationship change, and (3) to make a one-time election to sell and/or reclassify certain held-to-maturity debt securities. This ASU is effective for all entities as of March 12, 2020 and can be applied prospectively as of the beginning of the interim period that includes March 12, 2020 through December 31, 2022. As this ASU has an open effective date until December 31, 2022, the Company will continue to evaluate the impact of this standard on our consolidated financial statements and will adopt this standard accordingly.

Note 4 — Revenues, Contract Liabilities and Deferred Contract Costs and Allowance for Credit Losses

Revenues

At December 31, 2020, the drilling contract with the longest expected remaining duration, excluding unexercised options, extends through February 2031. Refer to ''Revenue Recognition'' and ''Operating Expenses and Deferred Costs'' in Note 2 – Significant Accounting Policies for information on our accounting policies for revenue recognition and certain operating costs that are deferred and amortized over future periods. See Note 23 – Segment and Related Information for disclosure of total revenues by country based on the location of the service provided.

Contract liabilities and deferred contract costs

Contract liabilities

The Company recognizes a contract liability when we transfer goods or services to a customer and invoice an amount which differs from the revenues allocated to the related performance obligations. Contract liabilities include fees for mobilization or capital upgrades and advance payments from customers for future services and are recorded as other current liabilities and other long-term liabilities, as appropriate, in the consolidated balance sheets.

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

	December 31,	
	2020	2019
Current contract liabilities	$ 9,546	$11,188
Non-current contract liabilities	5,419	14,233
	$14,965	$25,421

Significant changes in contract liabilities were as follows (in thousands):

	Years ended December 31,	
	2020	2019
Balance, beginning of year	$ 25,421	$ 6,557
Increase due to contractual additions	2,786	28,570
Decrease due to amortization of deferred revenue	(12,417)	(6,284)
Decrease due to application of customer deposits and other	(825)	(3,422)
Balance, end of year	$ 14,965	$25,421

Approximately $11.7 million and $3.0 million of revenues recognized during the years ended December 31, 2020 and 2019, respectively, were included in the beginning contract liabilities balance.

Expected future amortization of contract liabilities, net recorded as of December 31, 2020 is as follows (in thousands):

For the periods ending December 31,	
2021	$ 9,546
2022	5,379
2023	40
	$14,965

Deferred contract costs

The Company's deferred contract costs are mainly related to contract preparation and mobilization costs. Certain non-contractual costs such as regulatory inspections, major equipment overhauls (including rig upgrades), and stacked rig activations are expensed, deferred or capitalized into property and equipment as appropriate and are not included in deferred contract costs.

Following are the details of the deferred contract costs (in thousands):

	December 31,	
	2020	2019
Current deferred contract costs	$12,114	$20,364
Non-current deferred contract costs	13,762	18,686
	$25,876	$39,050

Significant changes in deferred contract costs were as follows (in thousands):

	Years ended December 31,	
	2020	2019
Balance, beginning of year	$ 39,050	$ 34,939
Increase due to contractual additions	14,834	39,963
Decrease due to amortization of deferred contract costs	(18,811)	(35,852)
Decrease due to impairment of deferred contract costs	(9,197)	—
Balance, end of year	$ 25,876	$ 39,050

Allowance for credit losses

Allowance for credit losses was $2.6 million and $1.8 million as of December 31, 2020 and 2019, respectively. Movements in allowance for credit losses were as follows (in thousands):

	Years ended December 31,	
	2020	2019
Balance, beginning of year	$ 1,849	$2,652
Provision for / (reversal of) doubtful accounts	2,634	(232)
Write-off of uncollectible amounts	(1,521)	(571)
Foreign exchange and other	(323)	—
Balance, end of year	$ 2,639	$1,849

Note 5 — Variable Interest Entities

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

Following is the information about the third-party interests in the VIE as of both December 31, 2020 and 2019:

	Third party country of incorporation	Third party ownership percentage
SDVM	Malaysia	60%
PT Hitek	Indonesia	20%
SDNL	Nigeria	51%
SDOSL	Nigeria	20%

Each of the third parties listed above are not in a position to provide additional financing to their respective VIEs and do not participate in any gains or losses. Additionally, 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 the Company is the primary beneficiary as it has the obligation to absorb losses and the right to receive a majority of the benefits of the VIEs. Therefore, the Company has determined that the VIEs meet the criteria to be presented as consolidated entities in the Company's consolidated financial statements.

Following are revenues and operating costs and expenses of the VIEs, after eliminating the effect of intercompany transactions, for the years ended December 31, 2020, 2019 and 2018 (in thousands):

	SDVM	PT Hitek	SDNL	SDOSL	Total
December 31, 2020:					
Revenues	$ —	$ —	$43,583	$ —	$43,583
Operating costs and expenses	265	576	39,428	6,756	47,025
December 31, 2019:					
Revenues	$ —	$ —	$61,344	$ —	$61,344
Operating costs and expenses…	(14)	2,563	55,035	9,107	66,691
December 31, 2018:					
Revenues	$ —	$ —	$50,255	$ —	$50,255
Operating costs and expenses	451	2,964	57,495	5,151	66,061

There are no material differences between the results of operations and cash flows of the consolidated Company, inclusive of the VIEs listed above, then there would have been if the VIE operations were run out of a wholly owned subsidiary of the Company.

Following are the assets and liabilities of the VIEs, after eliminating the effect of intercompany transactions, as of December 31, 2020 (in thousands):

	SDVM	PT Hitek	SDNL	SDOSL	Total
Assets					
Cash and cash equivalents	$26	$ 521	$ 2,818	$ 91	$ 3,456
Accounts and other receivables, net	—	965	5,906	—	6,871
Other current assets	—	—	668	1,134	1,802
Total current assets	26	1,486	9,392	1,225	12,129
Property and equipment, net	—	—	2,165	—	2,165
Other long-term assets	8	64	3,912	581	4,565
Total non-current assets	8	64	6,077	581	6,730
Total assets	$34	$1,550	$15,469	$1,806	$18,859

	SDVM	PT Hitek	SDNL	SDOSL	Total
Liabilities					
Accounts payable	$ 66	$ 246	$ 3,129	$ 40	$ 3,481
Other current liabilities	17	43	4,030	391	4,481
Total current liabilities	83	289	7,159	431	7,962
Other long-term liabilities	231	202	4,273	604	5,310
Total long-term liabilities	231	202	4,273	604	5,310
Total liabilities	314	491	11,432	1,035	13,272
Carrying amount, net	$(280)	$1,059	$ 4,037	$ 771	$ 5,587

Following are the assets and liabilities of the VIEs, after eliminating the effect of intercompany transactions, as of December 31, 2019 (in thousands):

	SDVM	PT Hitek	SDNL	SDOSL	Total
Assets					
Cash and cash equivalents	$ 12	$ 107	$ 542	$ 29	$ 690
Accounts and other receivables, net	—	1,019	16,389	—	17,408
Other current assets	—	1	125	761	887
Total current assets	12	1,127	17,056	790	18,985
Property and equipment, net	—	—	2,215	—	2,215
Other long-term assets	15	91	8,397	592	9,095
Total non-current assets	15	91	10,612	592	11,310
Total assets	$ 27	$1,218	$27,668	$1,382	$30,295
Liabilities					
Accounts payable	$ —	$ 85	$ 5,960	$ 178	$ 6,223
Other current liabilities	101	109	4,028	794	5,032
Total current liabilities	101	194	9,988	972	11,255
Other long-term liabilities	206	169	6,082	568	7,025
Total long-term liabilities	206	169	6,082	568	7,025
Total liabilities	307	363	16,070	1,540	18,280
Carrying amount, net	$(280)	$ 855	$11,598	$ (158)	$12,015

There are no material restrictions on distributions of the assets disclosed above, except for certain property and equipment which is pledged as collateral as discussed in Note 11 – Debt. Liability holders typically have recourse to the general credit of the Company when seeking to enforce settlement of liabilities. See Note 24 – Related Parties for additional discussion on the Company's transactions with its VIEs.

Note 6 — Property and Equipment

Property and equipment consisted of the following (in thousands):

	December 31,	
	2020	2019
Drilling rigs and equipment	$1,412,428	$1,616,625
Construction in progress	97,689	89,965
Spares	45,603	50,145
Land and building	2,197	2,178
Other	17,197	16,765
Total property and equipment	$1,575,114	$1,775,678
Less: Accumulated depreciation	(508,794)	(478,694)
Total property and equipment, net	$1,066,320	$1,296,984

See also Note 9 – Loss on Impairment of Assets.

Capital Expenditures

Total capital expenditures for the years ended December 31, 2020, 2019 and 2018 were $112.6 million, $219.9 million and $95.8 million, respectively. During the year ended December 31, 2020, capital expenditures included $80.5 million related to the acquisition, reactivation and upgrade costs of the Shelf Drilling Enterprise.

During the year ended December 31, 2019, capital expenditures included $176.0 million related to the two premium newbuild CJ46 jack-up rigs delivered in May 2019 ($121.8 million of which was financed by the issuance of common shares. See also Note 17 – Shareholders' Equity and Note 21 – Supplemental Cash Flow Information). During the year ended December 31, 2018, capital expenditures included $75.9 million related to one premium jack-up rig acquired in July 2018.

As of December 31, 2020 and 2019, construction in progress included $81.2 million related to the Shelf Drilling Enterprise and $78.8 million related to one premium newbuild CJ46 jack-up rig acquired during 2019, respectively.

Sales and Disposals

See Note 7 – Assets Held for Sale for information on the sale of rigs recorded as assets held for sale.

Sales and disposals of other property and equipment with a net carrying value of $3.5 million, $3.1 million and $3.1 million during the years ended December 31, 2020, 2019 and 2018, respectively, were concluded for proceeds of $1.3 million, $0.8 million and $1.2 million, respectively, which resulted in a loss of disposal of assets of $2.2 million, $2.3 million and $1.9 million, respectively.

Note 7 — Assets Held for Sale

As of December 31, 2020, the Randolph Yost, Trident 15, Key Hawaii, Galveston Key and Shelf Drilling Journey were recorded as assets held for sale. As of December 31, 2019, the Hibiscus, Randolph Yost and Trident 15 were recorded as assets held for sale. See also Note 9 – Loss on Impairment of Assets.

During the year ended December 31, 2020, the Company sold two rigs, the Trident XIV and Hibiscus with a combined carrying value of $0.2 million, for total net proceeds of $6.0 million which resulted in a gain of $5.8 million. During the year ended December 31, 2019, the Company sold the Key Gibraltar, Adriatic X, Rig 124 and Comet with a combined carrying value of $5.0 million for total net proceeds of $8.2 million and recognized a gain of $3.2 million. During the year ended December 31, 2018, the Company sold the Trident IX with a carrying value of $1.7 million for net proceeds of $1.9 million and recognized a gain of $0.2 million.

In the fourth quarter of 2020, the Company executed agreements to sell the five rigs recorded as assets held for sale for total proceeds of $80.9 million. The Company recorded an impairment on these rigs of $11.2 million during the year ended December 31, 2020 based on the sale proceeds less estimated costs to sell the rigs. The Company could record additional impairment in future periods, if the estimated costs to sell the rigs exceed the initial estimates. The Company received gross cash deposits totaling $16.5 million related to these sales in 2020, of which $15.5 million relating to the sale of the Shelf Drilling Journey was recorded as restricted cash on the Company's consolidated balance sheet as of December 31, 2020. The Company sold the Shelf Drilling Journey in February 2021 and expects the rig sales for the other four rigs to close during 2021 and does not expect to record material gains or losses related to these sales during 2021. See also Note 9 – Loss on Impairment of Assets.

Note 8 — Leases

The Company has operating lease agreements principally for office and yard space, expatriate employee accommodations, vehicles and rig and office equipment with either cancellable or non-cancellable lease terms. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. The leases typically are for periods ranging from one to six years and are spread across multiple geographical locations where the Company operates. Most leases include extension and/or termination options, where the exercise of the lease renewal options is at the Company's discretion. Certain lease agreements include payments that are adjusted periodically for inflation. The Company's lease agreements do not contain any material residual value guarantees or material restrictive covenants. See also Note 9 – Loss on Impairment of Assets.

As of December 31, 2020 and 2019, the Company did not have any finance leases.

Operating right-of-use assets and operating lease liabilities

Following are the details of the right-of-use assets and lease liabilities (in thousands):

	December 31,	
	2020	2019
Right-of-use assets:		
Other long-term assets	$14,591	$25,696
Lease liabilities:		
Other current liabilities	$ 8,563	$ 9,141
Other long-term liabilities	13,730	17,449
	$22,293	$26,590

China Merchants bareboat charter leases

In 2019, the Company signed agreements with China Merchants to bareboat charter two premium newbuild jack-up rigs, each with an initial contract term of three years and options to extend the lease term or to buy the rig, as part of the Transaction (as defined in Note 17 – Shareholders' Equity). These operating leases provided for total lease payments of approximately $16.4 million each to be paid over the respective lease term. In the third quarter of 2020, the Company paid $3.9 million to settle and terminate its obligations under the bareboat charter agreements with China Merchants. The Company did not take possession of the leased rigs prior to the terminations. The Company recorded $3.6 million in operating and maintenance expenses in the consolidated statements of operations during the year ended December 31, 2020 related to the lease terminations. The Company had zero and $1.2 million of accrued liabilities recorded in its consolidated balance sheets as of December 31, 2020 and 2019, respectively, for contractual but unpaid lease payments related to these agreements.

Lease expense

During the years ended December 31, 2020 and 2019, total lease expense was $12.1 million and $13.9 million, respectively, of which $8.1 million and $7.6 million, respectively, related to the operating lease right-of-use assets and $4.0 million and $6.3 million were for short-term leases, respectively. Lease expense for the year ended December 31, 2018 was $18.8 million.

As of December 31, 2020, following is the summary of the maturity of lease liabilities (in thousands):

Years ending December 31,	
2021	$ 9,102
2022	6,878
2023	4,726
2024	3,185
2025	355
Thereafter	—
Total lease payments	$24,246
Less: Interest	1,953
Present value of lease liabilities	$22,293

As of December 31, 2020 and 2019, the weighted-average remaining lease term and weighted average discount rate for operating lease right-of-use assets are as follows:

	December 31,	
	2020	2019
Weighted-average remaining lease term (years)	3.22	3.71
Weighted-average discount rate	5.82%	7.04%

During the years ended December 31, 2020 and 2019, the Company paid $9.4 million and $7.0 million, respectively for amounts that have been included in the measurement of operating lease liabilities.

Sale and Leaseback

On October 10, 2015, two wholly owned subsidiaries of SDL (collectively, the ''Lessee''), whose assets consisted solely of the two new build jack-up rigs under construction, entered into sale and leaseback financing transactions for a combined purchase price of $296.2 million minimum and $330.0 million maximum with Hai Jiao 1502 Limited and Hai Jiao 1503 Limited (collectively, the ''Lessor''). In connection with these transactions, the Lessee executed bareboat charter agreements with the Lessor to operate the two rigs and to execute two drilling service contracts with Chevron for a period of five years.

On June 8, 2018, the Company issued a termination notice for the obligations under the agreements and, upon completion of the agreed 30 day notice period, the $293.5 million outstanding principal balance was paid in full. The Company recorded $6.0 million debt extinguishment costs in interest expense and financing charges in the consolidated statements of operations for the year ended December 31, 2018, primarily related to the $5.9 million call premium. Additionally, the related requirement for a fully funded debt reserve account was released upon the termination of the agreements. The associated interest rate swap was terminated on June 21, 2018. See Note 19 – Derivative Financial Instruments.

The Company made rental payments related to the Sale and Leaseback Transactions of $30.0 million including interest of $9.6 million during the year ended December 31, 2018. There were no sale and leaseback transactions during the years ended December 31, 2020 and 2019.

Note 9 — Loss on Impairment of Assets

The Company assesses the recoverability of its long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. The Company's determination of the fair value of its asset groups represents a non-recurring Level 3 fair value measurement.

During the first quarter of 2020, the Company identified several indicators of impairment, including an unprecedented decrease in global oil and gas demand and an increase in economic instability resulting from the COVID-19 pandemic, as well as the sharp decline in Brent crude oil prices. Further, as the number of global cases of COVID-19 increased, many governments implemented lock downs and travel restriction measures. The resulting reduction in oil consumption and price created significant downward pressure on rig demand and dayrates. During the fourth quarter of 2020, as a result of the continuing downward pressure on revenues due to customer contract terminations, suspensions and renegotiation of prices generated from the impact of the pandemic on global demand for oil, the Company concluded that a triggering event had occurred and performed an asset impairment analysis for its long-lived assets.

These impairment calculations use significant unobservable inputs, which are based on numerous estimates and assumptions about future operations and market conditions and are considered non-recurring level 3 fair value measurements. The assumptions can vary from year-to-year until the rigs reach the end of their estimated useful lives. The assumptions used in the 2020 impairment calculations included in the first few years an average marketed utilization above 80% and a modest average dayrate increase over 2020. The discount rates used in 2020 were within the range of 14% to 16%, which represents an increase from prior years, primarily due to the negative impacts of COVID-19.

During the year ended December 31, 2020, the Company recorded a loss on impairment of assets of $249.2 million in the consolidated statements of operations. Impairment losses during the year ended December 31, 2020 were recognized on 19 rigs and other long-lived assets and five rigs classified as assets held for sale. These impairment losses primarily related to the Company's property and equipment of $183.1 million and also included the impairment of assets held for sale of $11.2 million, current deferred costs of $19.4 million, non-current deferred costs of $26.8 million and right-of-use assets of $8.7 million.

During the years ended December 31, 2019 and 2018, the Company identified indicators of impairment which prompted the Company to assess its long-lived assets for impairment. During the year ended December 31, 2019, the

Company recorded a $58.0 million impairment loss on eight rigs and other long-lived assets, including three rigs classified as assets held for sale. This impairment loss related to the impairment of the Company's property and equipment of $39.8 million, assets held for sale of $10.9 million, current deferred costs of $2.4 million, non-current deferred costs of $3.8 million and right-of-use assets of $1.1 million. During the year ended December 31, 2018, the Company recorded an impairment loss of $40.1 million on six of the Company's rigs, including four rigs classified as assets held for sale. This impairment loss related to the impairment of the Company's property and equipment of $16.7 million, assets held for sale of $18.0 million, current deferred costs of $2.7 million and non-current deferred costs of $2.7 million. There was no impairment loss recorded on right-of-use assets during the year ended December 31, 2018.

The continuing impact of the COVID-19 pandemic on the global economy, including but not limited to further reductions in oil and gas prices, on the number of new contract opportunities, dayrates, or utilization rates could require the Company to recognize additional impairment losses in future periods.

Note 10 — Income Taxes

Tax Rate

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. Tax rates can vary significantly between jurisdictions. SDL is exempt from all income taxation in the Cayman Islands, its country of incorporation. 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:

- the overall level of income before income taxes;
- changes in the blend of income that is taxed based on gross revenues rather than income before taxes;
- rig movements between taxing jurisdictions;
- changes in rig operating structures which may alter the basis on which the Company is taxed in a particular jurisdiction and
- fluctuations in foreign currency rates against the U.S. Dollar which are used to measure tax receivables in various jurisdictions.

The annual effective tax rate for the Company's continuing operations was (7.7)%, (9.5)% and (11.5)% for the years ended December 31, 2020, 2019 and 2018, respectively.

Income Tax Expense

Income tax expense was $19.7 million, $13.0 million and $14.0 million for the years ended December 31, 2020, 2019 and 2018, respectively. The components of the provisions for income taxes were as follows (in thousands):

	Years ended December 31,		
	2020	2019	2018
Current tax expense	$18,513	$11,941	$15,709
Deferred tax expense / (benefit)	1,182	1,038	(1,673)
Income tax expense	$19,695	$12,979	$14,036

The following is a reconciliation of the differences between the income tax expense for the Company's operations computed at the Cayman statutory rate of zero percent and the Company's reported provision for income taxes (in thousands):

	Years ended December 31,		
	2020	2019	2018
Income tax expense at the Cayman statutory rate	$ —	$ —	$ —
Taxes on earnings subject to rates different than Cayman statutory rate	15,479	15,839	13,143
Change in reserve for uncertain tax positions	3,219	(1,499)	7,753
Adjustments to prior year tax liabilities or receivables	(527)	(1,199)	(7,882)
Interest and penalties on uncertain tax positions	1,524	(162)	1,022
Income tax expense	$19,695	$12,979	$14,036

Income tax expense in 2020 was higher than for the same period in 2019 primarily due to new tax exposures related to uncertain tax positions recorded in 2020 and a tax benefit related to an uncertain tax position realized in 2019.

Deferred Taxes

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 2028.

The Company's deferred tax liabilities as of December 31, 2020 and 2019 include liabilities related to differences in the carrying value of certain assets for financial reporting purposes versus the basis of such assets for income tax reporting purposes and liabilities related to the future income tax cost of repatriating the unremitted earnings of certain subsidiaries, none of which are considered permanently reinvested. If unforeseen law changes or other facts and circumstances cause a change in expectations regarding the future tax cost of repatriating these earnings, the resulting adjustments to the deferred tax balances could have a material effect on the Company's consolidated financial statements.

The significant components of the Company's deferred tax assets and liabilities are as follows (in thousands):

	December 31,	
	2020	2019
Deferred tax assets		
Net operating loss carry-forwards of subsidiaries	$ 6,582	$ 5,640
Valuation allowance	(4,624)	(2,908)
	$ 1,958	$ 2,732
Deferred tax liabilities		
Depreciation	$ 3,656	2,931
Unremitted earnings	1,935	2,252
	$ 5,591	$ 5,183

Deferred tax assets are recorded net of any valuation allowances. Changes in the Company's estimates and assumptions used to determine the valuation allowance, including any changes in applicable tax laws or tax rates, may impact the Company's ability to recognize the underlying deferred tax assets and could require future adjustments to the valuation allowances.

The $1.7 million increase in the valuation allowance was primarily the result of 2020 net operating losses that can be carried forward but are not likely to be utilized in the future due to insufficient estimated future taxable income at relevant subsidiaries.

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.

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

	Years ended December 31,		
	2020	2019	2018
Balance, beginning of year	$ 8,502	$10,001	$ 2,248
Additions for prior period tax positions	3	—	—
Reductions for prior period tax positions	—	(2,153)	—
Reductions related to statute of limitation expirations	—	—	(400)
Additions for current period tax positions	3,216	654	8,153
Balance, end of year	$11,721	$ 8,502	$10,001

The liabilities for uncertain tax positions per the table above, if recognized, would impact the Company's effective tax rate.

The Company recognizes any interest and penalties related to uncertain tax positions as a component of income tax expense. Interest and penalties related to uncertain tax positions were an expense of $(1.5) million, benefit of $0.2 million and an expense of $(1.0) million for the years ended December 31, 2020, 2019 and 2018, respectively. As of December 31, 2020 and 2019, the Company had $2.4 million and $0.9 million of accrued interest and penalties related to uncertain tax positions recorded as other long-term liabilities.

Liabilities for uncertain tax positions may change from year-to-year 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 the ultimate tax liabilities related to such tax positions could substantially exceed recorded liabilities related to such tax positions, resulting in a material adverse effect on the Company's earnings and cash flows from operations.

Tax Returns and Examinations

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, tax positions related to the tax consequences of various intercompany transactions, the taxable presence of the Company's subsidiaries in a given jurisdiction, the basis of taxation in a given jurisdiction (such as deemed profits versus actual profits), or the applicability of relevant double tax treaty benefits to certain transactions; or should the Company otherwise lose a material tax dispute in any jurisdiction, the Company's income tax liability could increase substantially and the Company's earnings and cash flows from operations could be materially adversely affected. As of December 31, 2020, income tax periods from 2015 through 2020 remain open for examination in many of the Company's jurisdictions.

Note 11 — Debt

The following table provides details of the principal amounts and carrying values of debt (in thousands):

	December 31, 2020	December 31, 2019
Revolving Credit Facility, due April 2023		
Principal amount, carrying value	$ 55,000	$ 35,000
8.75% Senior Secured Notes, due November 2024		
Principal amount	$ 80,000	$ —
Unamortized debt issuance costs	(2,284)	—
Carrying value	$ 77,716	$ —
8.25% Senior Unsecured Notes, due February 2025		
Principal amount	$ 900,000	$900,000
Unamortized debt issuance costs	(10,801)	(12,907)
Unamortized premium	2,048	2,447
Carrying value	$ 891,247	$889,540
Total	$1,023,963	$924,540

The total unamortized debt issuance costs for the Revolving Credit Facility, due April 2023 were $3.4 million and $3.7 million, as of December 31, 2020 and 2019, respectively, recorded under other long-term assets on the consolidated balance sheets.

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

Years ending December 31,	
2021	$ —
2022	—
2023	55,000
2024	80,000
2025	900,000
Total	$1,035,000

Revolving Credit Facility, due April 2023

On February 24, 2014, SDHL entered into a revolving credit facility, which was subsequently amended four times, including on January 9, 2017 and June 4, 2018 and modified in related waivers and side letters (“SDHL Revolver”). The SDHL Revolver has a facility of $225 million, which can be drawn as, or as a mixture of, cash, letters of credit or bank guarantees, subject to the satisfaction of contractual conditions set forth in the underlying credit agreement. 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 facility is cancellable by SDHL at any time with no penalty or premium.

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 certain rigs and other assets owned by the Guarantors.

The SDHL Revolver also contains various customary restrictive covenants, including limitations on the Company’s leverage ratio, subject to certain specific add-backs and adjustments as outlined in the SDHL Revolver (“Total Net Leverage Ratio”). The covenants include a maximum Total Net Leverage Ratio of not greater than 5.0:1.0 for any test period ending on or prior to December 31, 2019 and 2020, and 4.0:1.0 for any test period thereafter. The SDHL Revolver also provides restrictions on dividend payments through April 30, 2023 if the Total Net Leverage Ratio exceeds 4.5:1.0. See also the relief from the Total Net Leverage Ratio financial covenant discussed below.

There are certain contractual limitations which restrict the Company's ability to draw down the available balance of the SDHL Revolver, including but not limited to prohibiting draw down while an event of default or material adverse event is ongoing and requiring that the Company be in compliance with its financial covenant obligations both before and after the draw down.

Interest for the SDHL Revolver is based on the London inter-bank offered rate (''LIBOR''), subject to certain adjustments (''Adjusted LIBOR'') plus a specified margin (''Adjusted LIBOR Rate''), and/or the highest of the prime rate, the federal funds rate plus 0.5% per year, or the one-month Adjusted LIBOR rate plus a specified margin (''Alternative Base Rate''). The specified margin is a range from a minimum of 3.0% per year to a maximum of 5.0% per year for borrowings at the Adjusted LIBOR Rate and from a minimum of 2.0% per year to a maximum of 4.0% per year for borrowings at the Alternative Base Rate based on the higher of SDL's or SDHL's Total Net Leverage Ratio, the (''Applicable Margin''). The Applicable Margin range was adjusted in September 2020 as discussed below. As of December 31, 2020, the Applicable Margin was 5.5% per year for borrowings at the Adjusted LIBOR Rate.

The LIBOR rate is expected to be phased out after 2021, and a substitute benchmark rate, such as the Secured Overnight Financing Rate (''SOFR'') or another benchmark rate, will be selected by our lenders in consultation with the Company. This substitute rate could vary from LIBOR and could exhibit increased volatility.

On September 21, 2020, the Company entered into the fifth amendment of the SDHL Revolver (the ''Amendment''). The Amendment provides changes to the SDHL Revolver, including providing relief from the Total Net Leverage Ratio financial covenant from January 1, 2021 until September 29, 2021 or upon the Company's voluntary election to early terminate in accordance with the Amendment. Other changes include, for the term of the Amendment: increase of the applicable margin by 100 basis points, new financial covenants requiring a minimum 1.5:1.0 consolidated coverage ratio and a maximum 1.5:1.0 senior secured leverage ratio (defined in the Amendment to exclude liens junior to those securing the SDHL Revolver); and a prohibition of cash dividends by SDHL until the end of such covenant relief, which effectively limits cash dividends from the Company to its shareholders. The Company is currently projecting to be in compliance with the SDHL Revolver covenants through the expiration of the Amendment on September 29, 2021. The Company will initiate further discussions with its lenders for additional covenant relief beyond this date. The Company may choose to repay the outstanding amount due under the SDHL Revolver, given its ability to do so, and explore alternative financing sources to further support its mid to long term liquidity needs. We believe that any of these options will allow us to have adequate liquidity to fund our operations for at least the next twelve months, and, therefore, our financial statements have been prepared under the going concern assumption.

The Company owed $55.0 million and $35.0 million as of December 31, 2020 and 2019, respectively, under the SDHL Revolver. The Company issued bank guarantees and performance bonds totaling $23.6 million and $9.9 million as of December 31, 2020 and 2019, respectively, against the SDHL Revolver.

The weighted average interest rate on the outstanding borrowings of the SDHL Revolver was approximately 5.8% per year as of December 31, 2020 and is payable quarterly. These borrowings are currently classified as a long-term liability on the Company's consolidated balance sheets. 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. SDHL is liable to pay a commitment fee on the daily unused amount of the SDHL Revolver at 35% of the Applicable Margin for borrowings at the Adjusted LIBOR Rate.

8.75% Senior Secured Notes, due November 2024

On February 20, 2020, SDHL completed the issuance through a private offering of $80.0 million aggregate principal amount of new 8.75% Senior Secured Notes, due November 15, 2024 (the ''8.75% Senior Secured Notes'') issued at par. SDHL received proceeds of $80.0 million, less $2.7 million of fees and expenses, which were recorded as debt issuance costs and are being amortized over the life of the debt. The Company used the proceeds to replenish its liquidity following the acquisition of the Shelf Drilling Enterprise in January 2020 and to finance the reactivation and upgrade costs associated with the deployment of the rig in advance of its contract commencement in early 2021 in the Gulf of Thailand.

SDHL's obligations under the 8.75% Senior Secured Notes are guaranteed by the majority of SDHL's subsidiaries (collectively, the ''SSN Guarantors''), subject to certain exceptions. The obligations of SDHL and the SSN Guarantors are secured by second lien security interest on certain rigs and other assets owned by the SSN Guarantors.

Interest on the 8.75% Senior Secured Notes accrues from February 20, 2020 at a rate of 8.75% and is payable semiannually in arrears on May 15 and November 15 of each year. The effective interest rate on the 8.75% Senior Secured Notes is 9.65%.

At any time prior to August 20, 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 a premium of at least 1%, to be calculated based on the present value of the debt. On or after August 20, 2021, SDHL may redeem the 8.75% 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
Between August 20, 2021 and August 19, 2022	102%
Between August 20, 2022 and August 19, 2023	101%
On or after August 20, 2023	100%

If SDHL experiences a change of control, as defined in the indenture governing the 8.75% Senior Secured Notes, it must offer to repurchase the 8.75% Senior Secured Notes at an offer price in cash equal to 101% of their principal amount, plus accrued and unpaid interest.

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 February 15, 2025 (the ''8.25% Senior Unsecured Notes'') issued at par. SDHL received net proceeds of $589.3 million, after deduction of $10.7 million of fees and expenses which were recorded as debt issuance costs and are being 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, due November 1, 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 a $3.0 million premium. SDHL received net proceeds of $297.2 million, after the deduction of $5.8 million of fees and expenses which were recorded as debt issuance costs and are being 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. These funds, along with cash on hand, were used for the full repayment of the obligations under sale and leaseback on July 9, 2018. See Note 8 – Leases.

Interest on the 8.25% Senior Unsecured Notes accrues at a rate of 8.25% per year and is payable semi-annually in arrears on February 15 and August 15 of each year. The effective interest rate on the 8.25% Senior Unsecured Notes is 8.54%.

SDHL's obligations under the 8.25% Senior Unsecured Notes are guaranteed by the majority of SDHL's subsidiaries (collectively, the ''Note Guarantors''), subject to certain exceptions. The 8.25% Senior Unsecured Notes, and the related guarantee of payment by SDHL and the Note Guarantors:

- 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;
- are 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
- are structurally subordinated to all existing and future indebtedness, 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 a premium of at least 1%, to be calculated based on the present value of the debt. 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 (''Moody's'') and Standard & Poor's Financial Services LLC (''S&P's'') 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.

Unsecured overdraft facility

On April 26, 2017, Shelf Drilling (Egypt) Limited, a wholly owned subsidiary of the Company, entered into a $5.0 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. An additional stamp duty of 0.2% per annum is to be paid quarterly on actual utilization. This facility was withdrawn in the fourth quarter of 2020. As of both December 31, 2020 and 2019, the Company had no outstanding borrowings under the unsecured overdraft facility.

9.5% Senior Secured Notes, due November 2020

On January 12, 2017, SDHL completed the issuance and sale of $502.8 million aggregate principal amount of 9.5% Senior Secured Notes, due November 2, 2020 (the ''9.5% Senior Secured Notes''). As a result of this transaction, SDHL incurred $8.1 million of debt issuance cost, recorded as a reduction to the carrying value of the debt, and which was 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. 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 in interest expense and financing charges during the year ended December 31, 2018. The total amortization of debt issue costs during the year ended December 31, 2018 was $0.2 million.

8.625% Senior Secured Notes, due November 2018

On January 12, 2017, the Company cancelled $444.6 million aggregate principal amount of its $475.0 million 8.625% Senior Secured Notes due November 1, 2018 (the ''8.625% Senior Secured Notes'') in exchange for $416.1 million aggregate principal amount of 9.5% Senior Secured Notes and a principal payment of $28.5 million in cash. 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 under interest expense and financing charges during the year ended December 31, 2018.

Senior Secured Credit Facility, due March 2020

On December 21, 2017, Shelf Drilling Asset III, Ltd (''SDAIII''), a wholly owned subsidiary of the Company, entered into a $75.0 million senior secured credit facility due March 31, 2020 (the ''SDA Facility''). The SDA Facility included a $50.0 million guarantee facility, which could be used for issuing bank guarantees, and a $25.0 million term loan facility, which could be used to fund the upgrade and capital expenditures for two of the premium jack-up drilling rigs acquired in 2017. The Company incurred total debt issuance costs of $1.3 million for the term loan facility and guarantee facility. On March 27, 2018, the Company drew $25.0 million under the SDA Facility. On June 19, 2018, the Company fully settled the outstanding $25.0 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 during the year ended December 31, 2018, primarily related to the write-off of the unamortized debt issuance costs.

Terms Common to All Indebtedness

The SDHL Revolver, 8.75% Senior Secured Notes and 8.25% Senior Unsecured Notes 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 $25.0 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 SDHL Revolver, 8.75% Senior Secured Notes and 8.25% Senior Unsecured Notes 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 SDHL Revolver, 8.75% Senior Secured Notes and 8.25% Senior Unsecured Notes also contain standard events of default. The Company was in compliance with all covenants of its debt agreements as of December 31, 2020 and 2019.

Interest Expense

Interest expense, including the amortization of debt issuance costs, amortization of discount and premium and interest on sale and leaseback, was $87.0 million, $77.5 million and $77.2 million for the years ended December 31, 2020, 2019 and 2018, respectively.

Note 12 — Employee Benefit Plans

Overview

The Company sponsors various employee benefit programs, including cash incentive retention programs, defined contribution plans, end of service plans and defined benefit plans. These plans are governed by statutory laws, union agreements and/or Company policy, as appropriate. Eligibility under these plans may vary based on jurisdiction, years of service or other factors, as outlined in the respective plans or Company policies. Cash payments are made by the Company immediately for certain matching contribution programs, or when a triggering event occurs, such as meeting of the vesting period for a retention plan, or the departure of an employee for certain postemployment benefit programs.

Retention Plans

The Company recorded $3.7 million, $2.7 million and $2.3 million expense for retention plans for the years ended December 31, 2020, 2019 and 2018, respectively. The Company recorded obligations for these plans of $1.6 million and $0.9 million in other current liabilities and other long-term liabilities, respectively, on the consolidated balance sheets as of December 31, 2020. The Company recorded obligations for these plans of $2.3 million in other current liabilities on the consolidated balance sheets as of December 31, 2019. The total cash payments under the retention plans in 2021 are estimated to be $3.6 million. One of the Company's retention plans consists of cash awards granted in November 2020 with payments in 2021 and 2022, which are calculated based on the fair value of the Company's common stock over a defined time period and linked to certain share-based compensation awards discussed in Note 18 – Share-based Compensation. These awards have maximum cash payouts of $4.5 million, of which $0.4 million was accrued as of December 31, 2020.

Defined Contribution Plans

The Company recorded $7.5 million, $8.6 million and $7.7 million expense under the defined contribution plans for the years ended December 31, 2020, 2019 and 2018, respectively.

Employee End of Service Benefit Plans

The Company recorded $3.8 million, $4.5 million and $2.9 million in expense related to employee end of service plans for the years ended December 31, 2020, 2019 and 2018, respectively. The Company recorded obligations for these plans of $1.7 million and $1.4 million in other current liabilities, and $13.1 million and $11.4 million in other long-term liabilities on the consolidated balance sheets as of December 31, 2020 and 2019, respectively. The discount rate used in the analyses ranged from 2.2% to 14.5% for the year ended December 31, 2020. The discount rate used in the analyses ranged from 3.0% to 14.5%, for the year ended December 31, 2019 and from 4.4% to 19.0% for the year ended December 31, 2018. The assumed average annual rate of compensation increase ranged from zero to 3% for the year ended December 31, 2020 and from 2.0% to 5.0% for each of the years ended December 31, 2019 and 2018.

Defined Benefit Plans

The Company recorded $0.1 million, $0.3 million and $0.1 million expense in other, net in the consolidated statements of operations related to its defined benefit plan for the years ended December 31, 2020, 2019 and 2018, respectively. The Company recorded obligations for this plan of $0.1 million and $0.5 million in other current liabilities, and $1.9 million and $2.3 million in other long-term liabilities on the consolidated balance sheets as of December 31, 2020 and 2019, respectively. The discount rates used in the analyses were 1.75%, 2.62% and 4.08% for the years ended December 31, 2020, 2019 and 2018, respectively.

Note 13 — Commitments and Contingencies

Legal Proceedings

The Company is involved in various claims and lawsuits in the normal course of business. The Company does not believe that the resolution of these legal proceedings will have a material adverse impact on its financial condition, results of operations, or cash flows.

Insurance

The Company's hull and machinery, property, cargo and equipment and excess liability insurance consists of commercial market policies that the Company renewed on November 30, 2020 for one year. The Company periodically evaluates its risks, insurance limits and self-insured retentions. As of December 31, 2020, the insured value of the Company's drilling rig fleet, including assets held for sale, was $1.4 billion.

Hull and Machinery Coverage

As of December 31, 2020, under the Company's hull and machinery insurance policies, the Company maintained a $5.0 million deductible per occurrence, with no deductible in the event of loss greater than 75% of the insured value of the rig. The Company also has insurance coverage for costs incurred for wreck removal for the greater of 25% of the rig's insured value or $20.0 million. The hull and machinery policy also covers war risk, which is cancellable either immediately or with 7 days' notice by the underwriters in certain circumstances. To protect against this cancellation risk, the Company also insures, through commercial market policies, a Political Risks Policy covering acts of war and terrorism with a $250,000 deductible per occurrence (an additional $2.75 million in certain countries) and a limit of $300.0 million (including $125.0 million limit applicable to only certain countries).

As of December 31, 2020, the Company also carried $100.0 million of additional insurance per occurrence that generally covered expenses that would otherwise be assumed by the well owner, such as costs to control the well, re-drill expenses and pollution from the well. This additional insurance provides coverage for such expenses in circumstances in which the Company has a legal or contractual liability arising from gross negligence or willful misconduct. The policy deductible is $1.0 million per occurrence.

Excess Liability Coverage

As of December 31, 2020, the Company carried $400.0 million of commercial market excess liability coverage, exclusive of the deductibles, which generally covered onshore and offshore risks such as personal injury, third-party property claims and third-party non-crew claims, including pollution from the rig and non-owner aviation liability. The Company's excess liability coverage generally has a $1.0 million deductible per occurrence.

Self-Insured Medical Plan

The Company provides self-insured medical plans to certain employees in certain jurisdictions, subject to exclusions and limitations.

The Company offers a self-insured medical plan for certain U.S. resident rig-based expatriate employees and their eligible dependents to provide medical, vision and dental coverage within the U.S. The maximum potential liability as of December 31, 2020 related to the plan is $2.8 million, as the Company is reinsured for the claims in excess of that amount by a third-party insurance provider.

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

Directors' and officers' liability insurance

As of December 31, 2020, the Company carried a $25.0 million directors' and officers' liability policy for the benefit of any director or officer in respect of any loss or liability attached to him or her in respect of negligence, default, breach of duty or breach of trust. The deductible under this policy varies based on the type of claim, but can be as high as $5.0 million per occurrence.

Surety Bonds and Other Bank Guarantees

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 maintains surety bond facilities in either U.S. dollars or local currencies of approximately $62.0 million provided by several banks in the United Kingdom, Egypt, UAE and Nigeria, and which may be secured by restricted cash balances, to guarantee various contractual, performance and customs obligations. In addition, the Company had outstanding bank guarantees, which will expire over the next three years, drawn against the SDHL Revolver.

The total outstanding bank guarantees and surety bonds issued by the Company were $63.0 million and $69.3 million as of December 31, 2020 and 2019, respectively, which consisted of bank guarantees and performance bonds issued against surety bond facilities of $39.4 million and $59.4 million, respectively, and bank guarantees and performance bonds drawn against the SDHL Revolver of $23.6 million and $9.9 million, respectively.

Note 14 — Fair Value of Financial Instruments

The carrying amounts of the Company's financial instruments, which include cash and cash equivalents, accounts receivable, restricted cash, accounts payable, accrued liabilities and operating lease liabilities, approximate their fair market values due to the short-term nature of the instruments.

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

	December 31, 2020		December 31, 2019	
	Carrying value	Estimated fair value	Carrying value	Estimated fair value
Revolving Credit Facility, due April 2023	$ 55,000	$ 55,000	$ 35,000	$ 35,000
8.75% Senior Secured Notes, due November 2024	77,716	68,000	—	—
8.25% Senior Unsecured Notes, due February 2025	891,247	415,638	889,540	859,536
	$1,023,963	$538,638	$924,540	$894,536

The Company believes the carrying values of the borrowings under the SDHL Revolver approximate their fair value due to the terms of the SDHL Revolver, including its variable interest rate. The estimated fair value of the 8.25% Senior Unsecured Notes was determined using quoted market prices or Level 1 inputs and the estimated fair value of the 8.75% Senior Secured Notes was determined using Level 2 inputs. The estimated fair values of the 8.75% Senior Secured Notes and the 8.25% Senior Unsecured Notes exclude unamortized debt issuance costs and premiums, as applicable. See also Note 11 – Debt.

Derivative financial instruments are measured at fair value on a recurring basis using Level 2 inputs. See Note 19 – Derivative Financial Instruments.

Note 15 — Interest Rate, Foreign Currency and Credit Risk

Interest Rate Risk

Financial instruments that potentially subject the Company to concentrations of interest rate risk include cash and cash equivalents and debt. Exposure to interest rate risk may occur in relation to cash and cash equivalents, as the interest income earned on these balances changes with market interest rates. Floating rate debt, where the interest rate may be adjusted semi-annually or more frequently over the life of the instrument, exposes the Company to short-term changes in market interest rates. In addition, the expected phase out of the LIBOR rate after 2021 exposes the Company to uncertainty as to the benchmark rate to be used in the future. Fixed rate debt, where the interest rate is fixed over the life of the instrument and the instrument's maturity is greater than one year, exposes the Company to changes in market interest rates if and when voluntary refinancing or refinancing of maturing debt with new debt occurs. The Company has in the past and may in the future utilize interest rate swaps or other derivative instruments to manage interest rate risk. See Note 19 – Derivative Financial Instruments for further discussion of the Company's interest rate swaps.

Foreign Currency Risk

The Company's functional currency is the U.S. dollar and its international operations expose it to currency exchange rate risk. This risk is primarily associated with the compensation costs of the Company's employees and purchasing costs from non-U.S. suppliers, which are generally denominated in currencies other than the U.S. dollar.

The Company's primary currency exchange rate risk management strategy involves customer contracts that provide for partial payment in U.S. dollars and partial payment in local currency. The payment portion denominated in local currency is based on anticipated local currency requirements over the contract term and local statutory requirements. 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. In addition, the Company can utilize forex contracts to manage foreign exchange risk related to certain currencies. See Note 19 – Derivative Financial Instruments for further discussion of the Company's forex contracts. The currency exchange effect resulting from the Company's international operations generally has not had a material impact on its operating results. The Company recognized a (loss) / gain of $(1.2) million, $(0.8) million and $0.2 million related to net foreign currency exchange during the years ended December 31, 2020, 2019 and 2018, respectively.

Credit Risk

Financial instruments that potentially subject the Company to concentrations of credit risk are cash and cash equivalents, which are generally maintained at commercial banks with acceptable credit ratings, and accounts and other receivables which primarily consist of trade receivables.

The market for the Company's services is the offshore oil and natural gas industry. The Company's customers primarily consist of government owned or controlled energy companies, publicly listed global integrated oil companies or independent exploration and production companies. Periodic credit evaluations of the Company's customers are performed and the Company generally does not require material collateral from its customers. However, the Company may from time-to-time require its customers to make advance payment or issue a bank guarantee/letter of credit in its favor to mitigate the risk of non-payment under drilling contracts. The Company determines its expected credit losses for its pools of assets with similar risk characteristics based on historical loss information as adjusted for future expectations.

Consolidated revenues by top customer for each of the years ended December 31, 2020, 2019 and 2018 were as follows:

	Years ended December 31,		
	2020	2019	2018
Largest customer	26%	29%	27%
Second largest customer	26%	25%	23%
Third largest customer	14%	8%	16%
Others	34%	38%	34%
	100%	100%	100%

Note 16 — Mezzanine Equity

On January 12, 2017, SDL issued 1.0 million preferred shares at $166.67 per share for a value of $166.7 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. On June 25, 2018, the Company paid $174.0 million to redeem all outstanding preferred shares, including accrued but unpaid dividends of $7.4 million, with the proceeds from the Offering as defined in Note 17 – Shareholders' Equity. In the event of the occurrence of any liquidation, dissolution or winding up of the Company, preferred shareholders would have had the first right over the assets available for distribution amongst SDL shareholders up to the total of the preferred shares purchase price plus dividend paid in kind and, without duplication, accrued but unpaid dividends (the "Liquidation Preference"). After issuance and before redemption, the preferred shares were redeemable at the option of the Company at the Liquidation Preference paid in cash out of the legally available funds at any time with 30 days prior notice.

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

The preferred shares were 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 was not paid in cash on each due date, the dividend amount would be added to the Liquidation Preference of the preferred shares at a rate of LIBOR plus 9.75% per annum. The total dividends recognized for the year ended December 31, 2018 were $9.6 million ($8.9 million of dividends and $0.7 million of direct costs to issue the preferred shares). There were no such transactions during the years ended December 31, 2020 and 2019.

Note 17 — Shareholders' Equity

Authorized share capital and issued and outstanding shares

As of January 1, 2018, the Company was authorized to issue up to 200,000,000 common shares with a par value of $0.01 per share and 83,125,000 common shares were outstanding.

On June 25, 2018, the Company successfully completed an initial public offering of 28,125,000 new common shares at approximately $8.00 per share on the OSE for total gross proceeds of $226.9 million (the "Offering" or "IPO"). 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 was 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 common shares with a par value of $0.01 per share.

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''.

On February 21, 2019, the Company entered into agreements with affiliates of China Merchants, to acquire two premium newbuild CJ46 jack-up rigs payable through the issuance of new common shares and to bareboat charter two additional premium newbuild CJ46 jack-up rigs, including an option to buy either or both of the rigs during the initial term (the ''Transaction''). See also Note 6 – Property and Equipment and Note 8 – Leases. The Transaction closed on May 9, 2019 through the issuance of 26,769,230 new common shares for a value of $121.8 million, representing 19.4% of the then total outstanding common shares of the Company, making China Merchants the largest shareholder. The Company incurred $0.6 million of incremental direct costs to issue the common shares.

On August 31, 2020, the Company's shareholders approved a resolution to increase the Company's authorized shares to 184,063,473 common shares with a par value of $0.01 per share. As of December 31, 2020, 136,223,040 of the Company's authorized common shares were outstanding and 9,827,441 shares were reserved by the Company's Board of Directors for issuance pursuant to the 2017 Long-Term Incentive Plan (the ''2017 LTIP''). See Note 18 – Share-based Compensation. However, the Board of Directors may amend or alter the number of shares reserved for such purposes in future periods.

As of December 31, 2020, 103,102,064 shares were listed on the OSE, net of shares canceled by default if applicable, as discussed further below. The remaining shares represent shares held by Castle Harlan, Inc. and Lime Rock Partners (together, the ''Sponsors''), or certain other shareholders, which have not been listed and are not currently required to be listed on the OSE.

Shares issued to trust for share-based compensation

Prior to the IPO, the shares issued to certain members of the Company's management were issued to a Voting Trust, managed under the voting trust agreement by one of the Sponsors, for further issuance to the employees upon fulfilling the vesting conditions. See Note 18 – Share-based Compensation.

Share repurchase program

On September 1, 2019, the Board of Directors approved a share repurchase program under which the Company may repurchase shares of the Company's common stock for an aggregate of $25.0 million over a period of two years from the date of approval (the ''2019 Repurchase Program''). Any repurchased shares are canceled and resume the status of authorized and unissued shares upon the repurchase date, as the repurchased shares are considered constructively retired on the repurchase date. These unissued shares are made available for issuance in the future. Shares can be repurchased in the open market on the OSE. The Company has made an accounting policy election to allocate the purchase price of repurchased shares between additional paid-in-capital and retained earnings. In March 2020, the Company suspended its repurchase activities under the 2019 Repurchase Program. Repurchases may continue in future periods at the discretion of the Company's management and Board of Directors, subject to certain limitations under the Company's financing agreements.

The Company repurchased approximately 721,000 shares of common stock at an average price of $2.16 (19.50 NOK) per share during the year ended December 31, 2020 and 1.4 million shares of common stock at an average price of $2.13 (19.33 NOK) per share during the year ended December 31, 2019 under the 2019 Repurchase Program. No amounts were repurchased during 2018. As of December 31, 2020, $20.5 million remains available for repurchase under the 2019 Repurchase Program.

In accordance with Cayman Islands law, the repurchased shares are canceled by default immediately after repurchase. The SDHL Revolver limits the amount the Company can spend on common stock repurchases, including requiring the Company to maintain certain liquidity and consolidated coverage ratio targets. See Note 11 – Debt. As of December 31, 2020 and 2019, the Company was in compliance with the requirements of the SDHL Revolver, the 8.25% Senior Unsecured Notes, the 8.75% Senior Secured Notes and the regulatory requirements for the Cayman Islands and the OSE related to its stock repurchases. The amount approved under the 2019 Repurchase Program was within the limitation on spending for stock repurchases in the SDHL Revolver.

Dividend distributions

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 common share dividends during the years ended December 31, 2020, 2019 and 2018. Certain of the Company's debt agreements contain covenants that limit the payment of dividends. See Note 11 – Debt. The Company was restricted in declaring and paying dividends to its new common shareholders until the preferred shares were fully redeemed. See Note 16 – Mezzanine Equity.

In April 2017, the Sponsors, CPE Capital (who was a Sponsor through the first quarter of 2020) and the Company amended and restated a sponsor shareholders agreement, which provided certain preferential governance rights to Sponsors who maintained a minimum level of ownership of 7% in the Company. The sponsor shareholders agreement and the preferential governance rights provided therein terminated in June 2018 upon the completion of the IPO. However, the right of the Sponsors to appoint and remove directors, subject to certain ownership thresholds being met, remains pursuant to the Articles which were adopted upon consummation of the Offering.

Note 18 — Share-based Compensation

Restricted shares

Prior to the Offering in June 2018, the Company had a share-based compensation plan under which it had issued time-based and performance-based restricted shares. These 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 shares would typically vest and be recorded as compensation expense in equal proportion over a five-year required service period from the date of grant or upon an IPO or other exit event. Compensation expense related to the grant date fair value of the performance-based shares would be recognized upon vesting or upon IPO. As a result of the Offering, all shares under the share-based compensation plan were vested. Upon vesting the shares were non-transferable and such transfer restrictions lapse ratably over three years, at one-year intervals beginning twelve months after the IPO.

During the year ended December 31, 2018, there was no issuance of restricted common shares and 9,606 contingently forfeitable restricted common shares (4,428 time-based restricted shares and 5,178 performance-based restricted shares) issued under share-based compensation plans were forfeited for no consideration. The aggregate grant date fair value of restricted common shares vested was $11.4 million during the year ended December 31, 2018. There were no issuances, forfeitures or vesting of restricted common shares during the years ended December 31, 2020 and 2019. There were no outstanding, unvested restricted shares as of December 31, 2020 and 2019.

2017 Long-Term Incentive Plan

The Company adopted the 2017 LTIP effective June 25, 2018, to provide for the issuance of share options, restricted shares, deferred shares, share units, unrestricted shares and cash-based awards (the "awards"). Under the 2017 LTIP, 14.4 million shares may be issued as awards to certain officers, non-employee directors and key employees who are in a position to contribute significantly to the Company's long-term performance and growth. As of December 31, 2020 and 2019, there were 9.8 million shares and 12.8 million shares, respectively, remaining under the 2017 LTIP. However, grants of any additional awards will be limited to the Company's authorized but unissued shares at the time of the respective award dates. Awards may be satisfied by newly issued shares, including shares held by a subsidiary or by delivery of shares held in an affiliated employee benefit trust at the Company's discretion.

Restricted Share Units ("RSU")

RSUs are contractual rights to receive shares in the future provided the specific vesting condition is met. All awards are accounted for as equity awards. The RSUs granted to employees may be settled in cash in lieu of shares at the Company's sole discretion. During the requisite service period, the RSUs may not be sold or transferred and are subject to forfeiture. The RSU holder has the right to receive dividend equivalent but does not have the rights of a shareholder until the shares are issued. The dividend equivalent will be forfeited if the RSUs are forfeited before vesting.

Time-based restricted share units ("TBRSUs")

The TBRSUs granted to key employees typically vest in one-third increments over a three-year period and to a non-employee director typically vest at the end of one year from the grant date, subject to acceleration following a change in control where the underlying award is not assumed, substituted or otherwise converted into an equivalent award. The fair value of TBRSUs is based on the market price of the shares on the date of grant. Compensation expense is recognized on a straight-line basis over the requisite service period.

TBRSUs for non-employee director

During the years ended December 31, 2020, 2019 and 2018, the Company granted 179,727 TBRSUs with a grant date fair value of $0.26 per share, 40,863 TBRSUs with a grant date fair value of $2.00 per share and 14,611 TBRSUs with a grant date fair value of $5.93 per share, respectively, to the chairman of the Board of Directors. On November 14, 2020 and 2019, 40,863 and 14,611 common shares, respectively, were issued related to an equal number of vested RSUs. No TBRSUs for non-employee directors vested during the year ended December 31, 2018.

TBRSUs for key employees

During the year ended December 31, 2020, the Company granted 1.4 million TBRSUs to key employees with a grant date fair value of $2.05 per share and during the year ended December 31, 2019, the Company granted 0.8 million TBRSUs to key employees with a grant date fair value of $4.29 per share. On May 15, 2020, 259,924 common shares were issued related to an equal number of vested RSUs. During the year ended December 31, 2020, 14,528 TBRSUs were forfeited. No TBRSUs for key employees were vested or forfeited during the year ended December 31, 2019. No TBRSUs for key employees were granted, vested or forfeited during the year ended December 31, 2018.

The following table summarizes the TBRSUs granted as of December 31, 2020 and changes during the year:

	Time based restricted share units	Weighted average grant date fair value per share
Non-vested shares at January 1, 2020	820,631	$4.17
Granted	1,582,616	1.85
Vested	(300,787)	3.98
Forfeited	(14,528)	4.29
Non-vested shares at December 31, 2020	2,087,932	2.44

The aggregate grant date fair value of the TBRSUs vested was $1.2 million, $0.1 million and zero during the years ended December 31, 2020, 2019 and 2018, respectively. As of December 31, 2020, the total unrecognized compensation cost related to non-vested TBRSUs was $3.6 million which is expected to be recognized over a weighted average period of approximately 1.7 years.

Performance-based restricted share units ("PBRSUs")

During the years ended December 31, 2020 and 2019, the Company awarded 1.4 million and 0.8 million PBRSUs, respectively, to key employees. The PBRSUs awarded are subject to the achievement of specified performance goals, of which 75% of the awards are based on the market condition of total shareholder return against a predetermined peer group ("TSR share units"), and 25% of the awards are based on the performance condition of return on capital employed ("ROCE share units"). The total PBRSUs that may be earned could range from 0% to 200% of the granted units depending on performance. During the year ended December 31, 2020, 10,071 TSR share units and 3,357 ROCE share units were forfeited. No PBRSUs were forfeited during the year ended December 31, 2019. No PBRSUs were granted or forfeited during the year ended December 31, 2018.

The TSR share units granted in 2020 and 2019 were measured on the grant date using the Monte-Carlo option pricing model, which was prepared by an independent third party. Management reviewed the assumptions and methodologies used by the third-party experts to ensure they appear reasonable and consistent with the objective of determining fair value. The total potential compensation cost for TSR share units is recognized over the service period regardless of whether the market conditions are ultimately achieved.

The estimated fair value of the TSR share units granted in 2020 and 2019 of $3.15 per share and $5.60 per share, respectively, were determined based on several inputs and assumptions, including the market price of the shares on the date of grant of $2.05 and $4.29, respectively, and the risk-free interest rate, expected volatility and expected dividend yield over a period commensurate with the remaining term prior to vesting, as follows:

	Years ended December 31,	
	2020	2019
Valuation assumptions:		
Expected term	3.00 years	2.76 years
Risk free interest rate	1.30%	1.32%
Expected volatility	56.77%	49.11%
Expected dividend yield	0%	0%

For each period, the expected term represented the period from the grant date to the expected date of vesting, the risk-free interest rate was based on the rate of government securities with similar terms and the expected volatility was based on implied volatility from publicly traded peer group, historical volatility of the Company's share price and other factors.

The final number of ROCE share units vested from the PBRSUs awarded in 2020 will be determined based on the average achievement of the performance goals for each of the calendar years 2020, 2021 and 2022. The final number of ROCE share units vested from the PBRSUs awarded in 2019 will be determined based on the average achievement of the performance goals for each of the calendar years 2019, 2020 and 2021. For the ROCE share units awarded in 2020 and 2019, the grant date will be established once all three years of the performance goals are determined. Compensation cost is recognized for the number of ROCE awards expected to vest based on the anticipated achievement of the performance goals. Any subsequent changes in the estimate for the number of ROCE share units expected to vest will be recorded as cumulative catch-up adjustment to compensation cost in the period in which the change in estimate occurs.

The following table summarizes the PBRSUs granted as of December 31, 2020 and changes during the year:

	TSR share units	
	Performance-based restricted share units	Weighted average grant date fair value per share
Non-vested shares at January 1, 2020	584,826	$ 5.60
Granted	1,052,170	3.15
Vested	—	—
Forfeited	(10,071)	5.60
Non-vested shares at December 31, 2020	1,626,925	$ 4.02

As of December 31, 2020, the total unrecognized compensation cost related to non-vested PBRSUs, excluding the ROCE share units, was $3.6 million and is expected to be recognized over a weighted average period of approximately 1.8 years.

Share-Based Compensation Expense

Restricted shares

The Company recorded share-based compensation expense related to restricted shares of $11.3 million during the year ended December 31, 2018. As a result of the consummation of the Offering, the remaining unamortized share-based compensation of $10.9 million was recognized in June 2018. No income tax benefit was recognized for these plans. There was no share-based compensation expense related to restricted shares recorded during the years ended December 31, 2020 and 2019.

Restricted Share Units ("RSU")

The Company recorded total share-based compensation expense for all RSU awards in general and administrative expenses of $4.2 million, $1.5 million and $0.1 million during the years ended December 31, 2020, 2019 and 2018, respectively. No income tax benefit was recognized for these awards.

Note 19 — Derivative Financial Instruments

Foreign Currency Forward Exchange Contracts

During the years ended December 31, 2020, 2019 and 2018, the Company settled forex contracts with aggregate notional values of approximately $29.4 million, $13.9 million and $22.7 million, respectively, of which the aggregate amounts were designated as an accounting hedge.

As of December 31, 2020, the Company had no outstanding forex contracts. As of December 31, 2019, the Company had outstanding forex contracts with aggregate notional values of approximately $18.5 million, which were designated as an accounting hedge and settled monthly in the 12 months beginning January 2020.

Interest Rate Swaps

During the three months ended March 31, 2018, the Company entered into 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 full 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 in the consolidated statements of operation during the year ended December 31, 2018. There were no interest rate swap transactions during the years ended December 31, 2020 and 2019.

Gain / (loss) on Derivative Financial Instruments

The following table presents the impact of gains and losses related to the Company's derivative financial instruments designated as cash flow hedges on accumulated other comprehensive income / (loss) ("AOCIL") in the Company's consolidated statements of operations (in thousands). Included are gains and losses recognized though AOCIL, less gains and losses reclassified from AOCIL and recorded under operating and maintenance expense in the consolidated statements of operations for forex contracts and under interest expense and financing charges for interest rate swaps.

	Cash Flow Hedges		
	Years ended December 31,		
	2020	2019	2018
Foreign current forward contracts			
Unrealized (loss) / gain recognized through AOCIL	$(574)	$281	$ (999)
Less realized (loss) / gain reclassified from AOCIL and recognized through "Operating and maintenance"	(334)	284	(1,242)
	$(240)	$ (3)	$ 243
Interest rate swaps			
Unrealized gain / (loss) recognized through AOCIL	$ —	$ —	$ 213
Less realized (loss) / gain reclassified from AOCIL and recognized through "Operating and maintenance"	—	—	(107)
Less realized (loss) / gain reclassified from AOCIL and recognized through "Other, net"	—	—	320
	$ —	$ —	$ —

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

	December 31,	
	2020	2019
Asset derivatives		
Short-term foreign currency forward contracts	$—	$240

Note 20 — Supplemental Balance Sheet Information

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

	December 31,	
	2020	2019
Accounts receivables	$122,197	$147,606
Other	9,451	9,077
Allowance for credit losses	(2,639)	(1,849)
	$129,009	$154,834

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

	December 31,	
	2020	2019
Deferred costs	$31,370	$53,650
Restricted cash	15,520	2,200
Prepayments	4,708	3,994
Income tax receivable	1,707	5,081
Other	3,349	3,862
	$56,654	$68,787

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

	December 31,	
	2020	2019
Deferred costs	$ 55,770	$ 85,015
Income tax receivable	32,538	27,451
Operating right-of-use assets	14,591	25,696
Restricted cash	35	44
Other	8,995	10,864
	$111,929	$149,070

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

	December 31,	
	2020	2019
Deposits related to rig sales, net	$15,948	$ —
Accrued compensation and benefits	10,886	18,804
Deferred revenue	9,546	11,188
Operating lease liabilities	8,563	9,141
Other	1,739	2,322
	$46,682	$41,455

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

	December 31,	
	2020	2019
Income taxes	$14,103	$ 9,360
Operating lease liabilities	13,730	17,449
Deferred revenue	5,419	14,233
Other	17,257	13,865
	$50,509	$54,907

Note 21 — Supplemental Cash Flow Information

Operating Cash Flows

The net effect of changes in operating assets and liabilities on cash flows from operating activities was as follows (in thousands):

	Years ended December 31,		
	2020	2019	2018
Decrease / (increase) in operating assets			
Accounts and other receivables, net	$ 23,623	$(11,149)	$ (5,803)
Other current assets	5,262	1,733	5,691
Other long-term assets	(3,502)	(33,081)	(16,795)
(Decrease) / increase in operating liabilities			
Accounts payable and other current liabilities	(20,959)	13,597	(4,371)
Accrued interest	1,088	195	19,651
Accrued income taxes	(349)	258	(51)
Other long-term liabilities	4,234	31,713	10,774
	$ 9,397	$ 3,266	$ 9,096

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

	Years ended December 31,		
	2020	2019	2018
Cash payments for			
Interest and other financing charges, net of amounts capitalized	$85,191	$78,811	$57,089
Income taxes	15,831	19,243	20,191

Capital expenditures and deferred costs

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

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

	Years ended December 31,		
	2020	2019	2018
Regulatory and capital maintenance	$ 44,837	$ 56,139	$ 44,619
Contract preparation	14,783	30,161	23,980
Fleet spares and other	6,431	10,591	11,998
	$ 66,051	$ 96,891	$ 80,597
Rig acquisitions	88,331	203,257	87,672
Total capital expenditures and deferred costs	$154,382	$300,148	$168,269

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

	Years ended December 31,		
	2020	2019	2018
Cash payments for additions to property and equipment	$111,817	$ 91,391	$ 98,969
Net change in accrued but unpaid additions to property and equipment	744	6,740	(3,142)
	$112,561	$ 98,131	$ 95,827
Add: Asset addition related to share issuance	—	121,772	—
Total capital expenditures	$112,561	$219,903	$ 95,827
Changes in deferred costs, net	$ (5,327)	$ 4,940	$ (10,511)
Add: Amortization of deferred costs	47,148	75,305	82,953
Total deferred costs	$ 41,821	$ 80,245	$ 72,442
Total capital expenditures and deferred costs	$154,382	$300,148	$168,269

In relation to the agreements entered into with China Merchants, the Company issued 26,769,230 new common shares in exchange for the two premium newbuild CJ46 jack-up rigs at an acquisition value of $121.8 million. This non-cash transaction is not reflected on the consolidated statement of cash flows for the year ended December 31, 2019.

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

	December 31,	
	2020	2019
Cash and cash equivalents	$73,408	$26,055
Restricted cash included in other current assets	15,520	2,200
Restricted cash included in other long-term assets	35	44
Total cash, cash equivalents and restricted cash	$88,963	$28,299

Note 22 — Earnings / (Loss) Per Share

The following tables set forth the computation of basic and diluted net earnings / (loss) per share (in thousands, except per share data):

	Years ended December 31,		
	2020	2019	2018
Numerator for loss per share			
Net loss	$(274,859)	$(149,536)	$(136,243)
Less: Preferred share dividend	—	—	9,550
Net loss attributable to common shares	$(274,859)	$(149,536)	$(145,793)
Denominator for loss per share			
Weighted average common shares:			
Basic outstanding common shares	136,157	128,389	97,084
Diluted common shares	136,157	128,389	97,084
Basic and diluted loss per common share	$ (2.02)	$ (1.16)	$ (1.50)

The restricted share units awarded in 2020, 2019 and 2018 contain forfeitable rights to dividends, and therefore would not be considered participating securities for purposes of computing earnings / (loss) per share. The restricted share units do not represent common shares outstanding until they are vested and converted into common shares. See Note 18 – Share-based Compensation.

For the years ended December 31, 2020, 2019 and 2018, there were zero, 2,372 and 36,074 dilutive common shares, respectively, which were not included in the computation of diluted loss per share as the effect of including these shares in the calculation would have been anti-dilutive.

Note 23 — Segment and Related Information

Operating segments are defined as components of an entity for which separate financial statements are available and are regularly evaluated by the chief operating decision maker in deciding how to allocate resources and assess performance. The Company has one reportable segment, contract drilling services, which reflects how the Company manages its business, and the fact that the drilling fleet is dependent upon the worldwide oil industry.

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

	Years ended December 31,		
	2020	2019	2018
Saudi Arabia	$152,568	$165,110	$167,343
Thailand	142,250	117,590	117,476
India	87,166	48,418	100,194
Nigeria	78,132	107,630	90,097
United Arab Emirates	62,055	73,194	84,971
Others	63,005	64,211	53,238
Total revenue	$585,176	$576,153	$613,319

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

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

	December 31,	
	2020	2019
Thailand	$ 575,181	$ 516,980
Saudi Arabia	188,747	265,757
United Arab Emirates	146,146	210,317
Nigeria	104,347	164,478
India	35,483	69,658
Bahrain	15,083	80,978
Others	103,064	153,177
	$1,168,051	$1,461,345

The total long-lived assets are comprised of property and equipment, right-of-use assets and short-term and long-term deferred costs. A substantial portion of the Company's assets are mobile, and as such, asset locations at the end of the period are not necessarily indicative of the geographic distribution of the revenues generated by such assets during the period. As of December 31, 2020, the long-lived assets in Bahrain included $15.0 million relating to a rig in shipyard. As of December 31, 2019, the long-lived assets in Bahrain included $78.8 million relating an acquired premium jack-up rig undergoing operations readiness. See also Note 6 – Property and Equipment.

Note 24 — Related Parties

The Company's related parties include the VIEs, the Sponsors and China Merchants. Following the completion of the Transaction in May 2019, China Merchants became the largest shareholder of the Company and is a related party to the Company.

A related party provided rig related services to one of the Company's foreign subsidiaries. These services totaled $1.3 million and $0.8 million, during the years ended December 31, 2020 and 2019, respectively. The total liability recorded under accounts payable was $0.3 million and $0.3 million as of December 31, 2020 and 2019, respectively. There were no similar transactions during the year ended December 31, 2018.

The Company recorded $0.8 million, $1.8 million and $3.7 million during the years ended December 31, 2020, 2019 and 2018, respectively, of Sponsors' costs. Sponsors' costs include directors' fees and reimbursement of costs incurred by Sponsors, by a former sponsor through the first quarter of 2020 and directors for attendance at meetings relating to the management and governance of the Company and costs related to the $0.4 million monthly fee which was discontinued upon the consummation of the Offering. The total liability recorded under accounts payable for such transactions was $0.1 million and $0.2 million as of December 31, 2020 and 2019, respectively.

A VIE related party provided goods and services to drilling rigs owned by one of the Company's foreign subsidiaries. These goods and services totaled $2.2 million, $2.5 million and $2.5 million during the years ended December 31, 2020, 2019 and 2018, respectively. The total liability recorded under accounts payable for such transactions was $0.3 million and $0.7 million as of December 31, 2020 and 2019, respectively.

Lease with a related party

The Company entered into lease agreements for the lease of two bareboat charter rigs with a related party. These agreements were terminated prior to their commencement in September 2020. See Note 8 – Leases.

The Company entered into an operating lease agreement for yard space with a VIE related party with cancellable terms. The duration of this lease is five years. The lease does not include an extension or renewal option, but a termination option is available to either party. The lease payments are fixed for the duration of the lease. This lease agreement does not contain any material residual value guarantees or material restrictive covenants. The right-of-use asset was $2.8 million and $5.1 million as of December 31, 2020 and 2019, respectively. The corresponding operating lease liability was $5.0 million (current: $1.6 million; long-term: $3.4 million) as of December 31, 2020 and $5.7 million (current: $1.5 million; long-term: $4.2 million) as of December 31, 2019. The Company has recorded total lease expense of $1.3 million, $1.6 million and $1.6 million for the years ended December 31, 2020, 2019 and 2018, respectively. See also Note 9 – Loss on Impairment of Assets.

As of December 31, 2020, following is the summary of the maturity of lease liability (in thousands) for the lease with the related party:

Years ending December 31,	
2021	$1,676
2022	1,676
2023	1,676
2024	419
2025	—
Thereafter	—
Total lease payments	$5,447
Less: Interest	442
Present value of lease liabilities	$5,005

As of December 31, 2020 and 2019, the weighted-average remaining lease term was 3.1 years and 4.1 years, respectively, and weighted average discount rate for operating lease right-of-use asset pertaining to the lease with a related party was 7.5% and 7.5% respectively. During the years ended December 31, 2020 and 2019, the Company paid $1.7 million and $1.6 million, respectively, for amounts that have been included in the measurement of operating lease liabilities.

Note 25 — Subsequent Events

The Company has evaluated subsequent events through March 4, 2021, the date of issuance of the consolidated financial statements.

$310,000,000

Shelf Drilling Holdings, Ltd.

8.875% Senior Secured First Lien Notes due 2024

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DRILLING

OFFERING MEMORANDUM

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March 12, 2021