SHELF DRILLING, LTD.

Form 10-K Equivalent

December 31, 2020

SHELF DRILLING, LTD.
Form 10-K Equivalent for the Year Ended December 31, 2020

CONTENTS

This Form 10-K equivalent ("Form 10-K Equivalent"), with certain exceptions, is provided pursuant to the Indenture for our 8.25% Senior Unsecured Notes Due 2025 and our $225 million revolving credit facility. This Form 10-K Equivalent should be read in its entirety as it pertains to Shelf Drilling, Ltd. Except where indicated, the Consolidated Financial Statements and the Notes to the Consolidated Financial Statements are combined. References in this Form 10-K Equivalent to "Shelf,", "SDL", the "Company," "Group," "we," "us," "our" and words of similar meaning refer collectively to Shelf Drilling Ltd. and its consolidated subsidiaries.

FORWARD-LOOKING STATEMENTS

Statements contained in this report that are not historical facts are forward-looking statements within the meaning of Section 27A of the Securities Act of 1933, as amended, and Section 21E of the Securities Exchange Act of 1934, as amended. Forward-looking statements include words or phrases such as "anticipate, " "believe, " "estimate, " "expect, " "intend, " "plan, " "project, " "could, " "may, " "might, " "should, " "will" and similar words and specifically include statements regarding expected financial performance; expected utilization, dayrates, revenues, operating expenses, contract terms, contract backlog, capital expenditures and deferred costs, insurance, financing and funding; the timing of availability, delivery, mobilization, contract commencement or relocation or other movement of rigs; current or future rig construction (including construction in progress and completion thereof), enhancement, upgrade, repair or reactivation and timing thereof; the suitability of rigs for future contracts; general market, business and industry conditions, trends and outlook; future operations; the impact of increasing regulatory complexity; expected contributions from our acquired rigs; expense management; and the likely outcome of litigation, legal proceedings, investigations or insurance or other claims and the timing thereof. These forward-looking statements speak only as of the date of this Form 10-K Equivalent and we undertake no obligation to revise or update any forward-looking statement for any reason, except as required by law. Such statements are subject to numerous risks, uncertainties and assumptions that may cause actual results to vary materially from those indicated, including:

- 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;
- 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 United States ("U.S.") U.S. laws and
- the other factors listed in "Item 1A. - Risk Factors" and elsewhere in this Form 10-K Equivalent.

Part I

Item 1. Business

General

Shelf Drilling, Ltd. ("SDL") was incorporated on August 14, 2012 ("inception") as a private corporation in the Cayman Islands. SDL, with its majority owned subsidiaries (together, the "Company", "we", "us" 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, making us one of the world's largest owners and operators of jack-up rigs by number of active shallow water rigs. Since June 25, 2018, SDL shares are listed on the Oslo Stock Exchange ("OSE") under the ticker symbol SHLF. Our website address is www.shelfdrilling.com.

Since our inception, we have applied our "fit-for-purpose" strategy to enhance the performance of our business, people and processes, leveraging our sole focus on the shallow water segment and the decades of experience of our people with our customers, rigs and markets where we operate. The diversified geographical focus of our jack-ups and the allocation of resources to build or upgrade rigs will be determined by the activities and needs of our customers. Currently, our main customers are national oil companies ("NOCs"), international oil companies ("IOCs") and independent oil and gas companies, who contract our rigs for varying durations.

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.

Recent events

In January 2020, the Company completed the acquisition of a premium jack-up rig, which was renamed Shelf Drilling Enterprise, from a subsidiary of Maersk Drilling for a purchase price of $38 million and a total cost of approximately $81 million. The rig completed its preparation and operation readiness project for a contract in the Gulf of Thailand which started in January 2021.

In September 2020, the Company paid $3.9 million to settle and terminate its obligations under the bareboat charter agreements with China Merchants. These agreements would have provided for total lease payments of approximately $32.9 million over the lease term.

In September 2020, the Company entered into the fifth amendment (the "Amendment") of the Revolving Credit Facility, due April 2023 ("SDHL Revolver"). The Amendment provides 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.

During 2020 and early 2021, the Company received several notifications from various customers regarding the suspension, termination or renegotiation of contracts. In October 2020, the Company received a notification from a customer on suspension of operations for the Main Pass I for a period of up to 12 months, with automatic extension of the contract term equal to the suspension period. In January 2021, the Company received a notification from a customer on early termination of operations for the High Island VII and Compact Driller to August 2021 from February 2023 and June 2022, respectively.

In December 2020, the Company entered into an agreement to sell the Shelf Drilling Journey for total consideration of $77.6 million. The Company received gross cash deposits totaling $15.5 million relating to the sale, which was recorded as restricted cash on the Company's consolidated balance sheet as of December 31, 2020, and the transaction was completed in February 2021.

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 Item 1A "Risk Factors" in this report.

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, the Company has taken a number of actions to protect its employees, ensure continuity of its operations, reduce costs and preserve liquidity. In March 2020, the Company 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 the Company's share repurchase activities, completion of the Amendment to the SDHL Revolver and the implementation in April 2020 of a range of cost cutting and restructuring measures at the Company's headquarters, involving headcount reductions, compensation reductions at the executive and board level 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.

Operations

A significant portion of our revenues are related to the provision of drilling services generated from the operation of the rigs in our fleet through dayrates charged to customers, including NOCs, IOCs and independent oil and gas companies. Additionally, we may earn lump-sum fees relating to mobilization, contract preparation, capital upgrades and demobilization in certain drilling contracts. We also provide catering, accommodation services, additional equipment, consumables and personnel on an as needed basis at the request of the customer and may use third parties for the provision of such goods and services. Revenues may increase or decrease depending on various factors, such as the applicable dayrates, the timing of new contracts, contract extensions or terminations and out of service periods. See also "Customers and Customer Contracts" below for additional discussion on our customers and revenue generating activities.

Our operating expenses consist primarily of operating and maintenance expenses, which can be classified as rig related or shore-based. Our other significant expenses include depreciation, amortization of deferred costs and general and administrative expenses. As we operate in a capital-intensive business, we may also incur significant costs related to impairment of assets. We do not undertake any significant expenditures on research and development. See also "Operating Expenses, Capital Expenditures and Deferred Costs" below for additional discussion of our cost and expenses.

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 and gas industry. In general, seasonal factors do not have a significant effect on our business.

We utilize various operational and financial measures that we believe are useful in assessing our business and performance. Many of these measures are common to our industry and we believe they are useful in measuring our operating performance over time. See also "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations" for further discussion of our operating measures and financial 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.
- *Total recordable incident rate ("TRIR")* is the number of recordable incidents per 200,000 man-hours.
- *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.

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

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
Uptime	99.4%	99.2%	98.7%

Customers and Customer Contracts

Our drilling contracts are typically awarded on an individual basis and vary in terms and rates depending on the operational nature, duration, amount and type of equipment and services, geographic area, market conditions and other variables. 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.

Our current customer base includes Saudi Arabian Oil Company ("Saudi Aramco"), Chevron Corporation, Oil and Natural Gas Corporation Limited, Abu Dhabi National Oil Company ("ADNOC"), Ente Nazionale Idrocarburi S.p.A ("ENI") and TOTAL S.A., who contract our rigs for varying durations.

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 the Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data".

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

Strategy

Our vision is to be the international jack-up contractor of choice with a sole focus on shallow water drilling and a "fit-for-purpose" business strategy. We strive to deliver outstanding performance for our shareholders, customers, and other stakeholders aligned with our three strategic priorities of focus, reliability and relationships through the following:

- 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;
- Apply "fit-for-purpose" strategy to maximize profitability;
- Utilize innovations and unique solutions to customize rig operations to the customer's technical specifications and needs;
- Capitalize on a potential increase in shallow water drilling activity;
- Maintain financial discipline to generate favorable returns on invested capital and
- Selectively pursue acquisitions that suit our operational model.

As a newly formed company in 2012, we are not burdened with legacy systems, structures or management personnel. As a result, we believe that we were able to build very efficient systems and operating procedures from the ground up, with a high degree of centralization and a dedicated focus on shallow water jack-up operations. 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 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 delivered greater returns on invested capital relative to our competitors.

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 International Association of Drilling Contractors ("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 further reduce workplace incidents.

We continue to apply our "fit-for-purpose" strategy to maximize profitability, including strategically deploying rigs well-suited for specific markets. Additionally, we are able 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. We are able to maintain our strong long-term customer relationships through outstanding service and high national content. 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.

In recent years, we have focused on disciplined investments and growth to enhance our active drilling fleet and maximize our profitability, which has included the opportunistic acquisition of premium jack-up rigs complementary to our fleet and available at historically low acquisition prices. From 2016 through 2020 we added nine premium jack-up rigs to our fleet at significantly lower prices than the historic cost of construction for comparable newbuild rigs. Additionally, we have selectively sold rigs to improve the Company's financial flexibility and reduce the cost outlay for certain non-working assets and assets near the end of their useful lives. We believe this selective acquisition and disposal of rigs is allowing us to deploy a competitive fleet that can meet the needs of our customers in the shallow water drilling market.

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 curtail their activities and reduce operating costs. In response to this situation, we have taken actions 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.

Competitive Strengths

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

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

We believe our fleet provides us with a competitive advantage, as it is comprised of well-maintained jack-up rigs with proven technologies and operating capabilities. We have continuously evaluated and enhanced our fleet with "smart upgrades" where appropriate to meet specifications for the markets in which we intend them to operate, in accordance with our "fit-for-purpose" strategy. 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. In addition, 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 short cycle times and will have relatively favorable rig supply and demand fundamentals in the coming years.

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 numerous 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, including across our leadership teams, building local supply chain networks across our geographies, standardizing equipment across our fleet and centralizing management of our supply chain and key maintenance activities, all of which are key drivers of our industry leading low-cost structure.

Our 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, and we believe that our customers prefer to work with drilling contractors who are well-established and have strong safety and operating uptime track records. Since our inception, our track record for safety and uptime has consistently exceeded industry averages with our uptime being at least 98.5% per year and TRIR safety metrics being consistently below IADC averages. 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. We are responsive and flexible in addressing our customers' specific needs and seek collaborative solutions to achieve customer objectives.

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 approximately 120 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.

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 Form 10-K equivalent, 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 "Item 1A. Risk Factors".

Health, Safety and Environment

We place a high priority on managing the risks inherent in the offshore drilling industry and are committed to compliance with the highest national and international health, safety, and environment ("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 "Item 1A. 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 UNFCC 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 legislations 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 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") 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.

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.

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 shallow water 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.

Operating Expenses, Capital Expenditures and Deferred Costs

Our business consists of providing drilling services to our customers, often over multi-year service periods using a variety of specialized and high-value drilling rigs and related equipment. As such, our business is capital intensive, requiring significant expenditures to purchase, operate, upgrade and maintain our fleet. Costs can be expensed, capitalized, or deferred depending on their specific nature.

- *Expensed* – Operating costs as well as mobilization and demobilization costs of relocating drilling units without binding commitments are expensed when incurred. Routine expenditures for minor asset replacements and repairs and maintenance that do not increase the asset life are expensed as incurred.

- *Capitalized* – Capital expenditures include the cost of acquiring or constructing our property and equipment, which primarily consists of drilling rigs and equipment. Expenditures for purchases, additions, improvements and substantial enhancements, including other costs necessary to bring the asset to the condition and location necessary for its intended use, are capitalized. 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. Capital expenditures are included in property and equipment and are depreciated over the estimated useful life of the assets.

- *Deferred* – Deferred costs comprise certain expenditures associated with contract preparation, mobilization, regulatory inspections and major equipment overhauls. Deferred costs are included in other current assets and other long-term assets on the consolidated balance sheets and are amortized on a straight-line basis over either the firm contract term or the period until the next planned similar expenditure is made or for a period of five years for major equipment overhauls, as appropriate.

See "Note 2 – Significant Accounting Policies" to the Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data" for further discussion of our operating expenses, deferred costs and property and equipment, net.

In conducting our business, we incur operating costs and expenses, which consist primarily of operating and maintenance expenses. Our operating and maintenance expenses can be classified as rig related or shore-based.

Rig-related expenses are directly related to the operation of our rigs and include:

- *Rig personnel expenses* – which consist of compensation, transportation, training, as well as catering costs while the crews are on the rig. Such expenses vary from country to country reflecting the combination of expatriates and nationals, local market rates, unionized trade arrangements, and local law requirements regarding social security, payroll charges and end of service benefit payments.

- *Rig maintenance expenses* – which consist of expenses related to maintaining our rigs in operation, including the associated freight and customs duties, which are expensed as incurred.

- *Other rig-related expenses* – which include all remaining operating expenses such as insurance, professional services, short-term equipment rentals, mobilization and demobilization costs and other miscellaneous costs.

Shore-based expenses include costs incurred by local shore-based offices in direct support of our rigs and operations in each associated jurisdiction and include the costs of shore-based personnel and facilities.

Our general and administrative expenses primarily include expenses related to our corporate headquarters in Dubai and the centralized projects teams and administrative personnel costs including compensation, benefits and share-based compensation. Centralized projects teams include HSE, marine operations, engineering, electrical, maintenance, supply chain, and other technical and functional process experts. Administrative personnel include executive management, legal, finance and accounting, human resources, information technology, and other support departments. Expenses also include directors' fees, provision for doubtful accounts, and other general and administrative costs. We do not undertake any significant expenditures on research and development.

Item 1A. Risk Factors

Summary of Principal Risk Factors

Users of this Form 10-K Equivalent should carefully consider the following risk factors in addition to the other information included in this document. Each of these risk factors could affect one or more of the following: our business, financial condition, results of operations and cash flows, and could also affect an investment in our Company. Our principal risk factors include risks related to our business and industry and risks related to our structure, which may differ from risks affecting other companies, as well as general risk factors that affect most businesses. The following is a summary of our principal risk factors.

Risks Related to our Business and Industry

- 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.
- 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 industry has been historically competitive, cyclical and subject to price competition. If we are unable to compete successfully with our competitors, our profitability may be reduced.
- Changes to the supply of oil may change the demand for shallow water drilling services and impact our profitability.
- 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 future contracted revenue, or backlog, for the fleet of drilling rigs may not be ultimately realized.
- We may enter into short-term (one year or less) drilling contracts, which may reduce our profitability.
- Our long-term (greater than one year) contracts are subject to the risk of cost increases and termination, which could adversely impact our profitability.
- We rely on a relatively small number of customers for a substantial portion of our future contracted revenue.
- 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.
- 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.
- 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.
- 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.
- Our leasing of newbuild or existing jack-up rigs carry associated risks.
- Our purchase of existing jack-up rigs carries risks associated with the condition and quality of those rigs.
- 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 may be unable to successfully obtain and integrate additional rigs on economically acceptable terms, or at all, which may adversely affect the Company and our future growth.
- 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.
- 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.
- 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 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.
- There may be asset impairments as a result of future declines in dayrates and utilization for shallow water drilling rigs.
- 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 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.
- 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.
- Compared to companies with greater resources, we may be at a competitive disadvantage.
- Our international operations in the shallow water drilling sector involve additional risks, which could adversely affect our business.
- 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.
- 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.
- 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.

- 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.
- 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.
- 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.
- 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.
- We are dependent upon cash flows from our operating subsidiaries to meet our obligations, including repayment of our debt. Our corporate structure and operations in multiple jurisdictions may impose limitations on the transfer of funds. If we become unable to pay our debts as they become due or to obtain further credit, we may become subject to insolvency proceedings.
- 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.
- Our SDHL Revolver requires us to comply with restrictive covenants, including total net leverage ratios, and may restrict our ability to draw down on the line of credit. Our ability to comply with these ratios may be affected by events beyond our control.
- We are exposed to market risks, which could create the inability to secure financing on terms which are acceptable to management.
- 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.
- To service and refinance our indebtedness, fund our capital and liquidity needs or pay any dividends, we may not generate sufficient cash or have access to sufficient funding.
- 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 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 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.
- Technology disputes could negatively impact our operations or increase our costs.
- Fluctuations in exchange rates and non-convertibility of currencies could result in losses to us.
- 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.

Risks Related to our Structure and Ownership of our Common Stock

- We are exposed to regulatory and enforcement risks regarding taxes. U.S. tax authorities may treat us as a passive foreign investment company, causing potential adverse U.S. federal tax consequences to our U.S. shareholders.
- Subsequent to our initial public offering in 2018, we are subject to both Cayman Islands regulatory requirements and the requirements applicable for Companies listed on the Oslo Stock Exchange, and any subsequent changes to these requirements, and, as such, we may be subject to review by the relevant authorities.
- Shareholder rights and responsibilities will be governed by Cayman Islands law and will differ in some respects from the rights and responsibilities of shareholders under other jurisdictions, including Norway and the U.S., and our shareholder rights under Cayman Islands law may not be as clearly established as shareholder rights under the laws of other jurisdictions.
- The Sponsors and China Merchants own a significant proportion of our common shares, and their interests may conflict with those of ours or other shareholders.
- In the recent past, we have not paid any dividends on our common shares, our ability to pay dividends is subject to certain restrictions and the availability and timing of future dividends, if any, is uncertain.
- Our dividend yield compared to the market yields of other financial instruments could influence the price of our common shares.
- Future issuances of our common shares or other securities could dilute the holdings of holders of our common shares and could materially affect the price of our common shares, and preemptive rights are not available to holders of our common shares.
- Future sales, or the possibility of future sales, including by the Sponsors or China Merchants, of a substantial number of our common shares could affect the market price of our common shares.
- Exchange rate fluctuations could adversely affect the value of our common shares and any dividends paid on the common shares for an investor whose principal currency is not U.S. dollars.
- The transfer of our common shares and their underlying assets is subject to restrictions under the securities laws of the U.S. and other jurisdictions.
- Investors could be unable to recover losses in civil proceedings in jurisdictions other than the Cayman Islands and Norway.
- Investors may face additional risks related to our common shares due to the VPS Registrar and the Registrar Agreement.

General Risk Factors

- We are exposed to the credit risks of our key customers and certain other third parties.
- 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.
- We are dependent on the availability and retention of skilled personnel, which may be adversely affected by increases in labor costs.
- We may be subject to litigations and disputes that could have a material adverse effect on our business, financial condition, prospects, results of operations and cash flows.
- 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.
- We are subject to laws and regulations in several jurisdictions, and failure to properly comply with such laws and regulations may adversely affect our operations.
- The price of our common shares could fluctuate significantly.

Please see below for a more detailed description of the risks affecting our Company.

Risks Related to our Business and Industry

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 the novel coronavirus (“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 borrowing capacity and we are continuously managing our actual cash flows and cash forecasts to maintain our liquidity. In addition to our cash reserves, we also have amounts available under the SDHL Revolver. 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 the termination of the Amendment on September 29, 2021 or upon the Company’s voluntary election to early terminate in accordance with the Amendment. 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. We may seek additional covenant relief, 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 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.

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 associated 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.

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

- worldwide production and demand for oil and natural gas, which are impacted, amongst other factors, by changes in the rate of economic growth in the global economy;
- 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 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. Price competition is frequently a major factor in determining a contract award. Customers may also consider unit availability and location, operational and safety performance records and 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.

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.

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

Our ability to win tenders for new contracts, as well as contract renewals where we are the incumbent rig provider, is affected by a number of factors beyond our control, such as market conditions, rig specifications, safety record requirements, competition and governmental approvals required by customers. Further, any increased customer interest and inquiries may not continue in future periods and may not result in an increase in drilling activity, the same level of prospect capture by us or drilling contracts for our rigs. If we are not selected or if the contracts we enter into are delayed, work flow may be interrupted and our business, financial condition or results of operations may be materially adversely affected. If an existing customer decides not to renew its contract, we must then secure a new contract for that rig. Based on 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.

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.

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.

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.

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.

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. The drilling industry is subject to the usual 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 their contractual commitments to us or suspend or withdraw their 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.

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.

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 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.

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);
- 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 the customer's specifications;
- failure or delay in obtaining acceptance of the rig by our customer;
- financial or other difficulties at shipyards;
- adverse weather conditions or any other force majeure events;
- inability or delay in obtaining flag-state, classification society, 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 the planned arrangements to commence operations on schedule. Further, significant delays could have a negative impact on our reputation and customer relationships. We also could be exposed to contractual penalties for failure to complete the project and commence operations in a timely manner. 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.

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.

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.

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 in the past, and may in the future, choose 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.

We may be unable to successfully obtain and integrate additional rigs on economically acceptable terms, or at all, which may adversely affect the Company 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;
- failing 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.

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.

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.

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.

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.

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 the Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data".

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 resulting in uncompensated downtime, reduced dayrates or the cancellation or termination of contracts.

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 changes 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.

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 usual 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, 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.

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.

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.

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.

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, MARPOL, CLC, 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, 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.

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.

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.

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.

Any of the factors discussed above could materially adversely affect our business, reputation, financial condition, results of operations and cash flows.

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.

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.

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.

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.

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 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 and cash flows could be materially adversely affected.

We are dependent upon cash flows from our operating subsidiaries to meet our obligations, including repayment of our debt. Our corporate structure and operations in multiple jurisdictions may impose limitations on the transfer of funds. If we become unable to pay our debts as they become due or to obtain further credit, we may become subject to insolvency proceedings.

We conduct operations through, and most of our assets are owned by, our operating subsidiaries. Our operating income and cash flows are generated by these subsidiaries, and as a result, the cash generated from our subsidiaries is the principal source of funds necessary to meet our obligations, including our debt obligations. Contract provisions or laws, as well as our subsidiaries' financial condition, operating requirements and debt requirements may limit our ability to access cash from subsidiaries needed to pay expenses or to meet our current or future debt service obligations. Applicable tax laws may also subject such payments by subsidiaries to further taxation.

The inability to transfer cash from our subsidiaries may mean that, even though we may have sufficient resources on a consolidated basis to meet our obligations, we may not be permitted to make the necessary transfers from certain legal entities and jurisdictions to meet our debt and other obligations. The terms of certain of the agreements governing our existing indebtedness also place restrictions on our cash balances and require us to maintain reserves of cash which could inhibit our ability to meet our obligations.

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

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 a total principal amount of indebtedness of $900.0 million of 8.25% Senior Unsecured Notes due February 15, 2025 (“8.25% Senior Unsecured Notes”), $80.0 million of 8.75% Senior Secured Notes, due November 15, 2024 (“8.75% Senior Secured Notes”), $55.0 million of outstanding borrowings under our February 24, 2014, SDHL revolving credit facility, as subsequently amended (“SDHL Revolver”) and $23.6 million of surety bonds and guarantees issued, resulting in availability of $146.4 million. 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, our common shares;
- 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.

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.

Our SDHL Revolver requires us to comply with restrictive covenants, including total net leverage ratios, and may restrict our ability to draw down on the line of credit. Our ability to comply with these ratios may be affected by events beyond our control.

Our SDHL Revolver requires us to comply with various customary restricted covenants, including limitations on the Company’s leverage ratio. 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 leverage ratio financial covenant from January 1, 2021 until the termination of the Amendment on September 29, 2021 or upon the Company’s voluntary election to early terminate in accordance with the Amendment. Our ability to comply with these financial ratios, including the leverage ratio after the termination of the Amendment, may be affected by events beyond our control. These restrictions could limit our ability to plan for or react to market or economic conditions or meet capital needs or otherwise restrict our activities or business plans and adversely affect our ability to finance our operations, acquisitions, investments or strategic alliances or other capital needs or to engage in other business activities that would be in our interest. A breach of any of these covenants or our inability to comply with the required financial ratios could result in a default under all or certain of our debt instruments. If a default occurs, the applicable creditors of our secured debt could proceed against the collateral granted to them to secure such indebtedness which constitute substantially all of our worldwide operations.

The SDHL Revolver also contains certain customary limitations which may restrict our ability to draw down the available balance of the line of credit, including but not limited to prohibiting draw down while an event of default or material adverse event is ongoing and requiring us to be in compliance with financial covenant obligations both before and after the draw down.

Our failure to comply with the obligations under the SDHL Revolver could result in an event of default, which could result in the acceleration of our indebtedness, in whole or in part and trigger cross-default provisions of our other existing debt or financing agreements. Default under our debt agreement or inability to access our line of credit to fund operations, would have a material adverse effect on our financial condition, results of operations and cash flows and could have a significant negative impact on the market prices of our shares.

We are exposed to market risks, which could create the inability to secure financing on terms which are acceptable to management.

We are exposed to market risks from changes in interest rates under our obligations under the SDHL Revolver. Interest rates under this financing arrangement are determined with reference to certain published interest rates including the London inter-bank offered rate ("LIBOR"), the prime rate or the federal funds rate, subject to certain margins and adjustments. In addition, 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. If market interest rates increase, this could have an adverse impact on our results of operations and cashflows. We have not entered into any hedging arrangements with respect to our interest rate exposure.

Our overall debt level and/or market conditions and also our failure to make payments of interest on our outstanding indebtedness on a timely basis, would likely result in a reduction of long-term corporate credit ratings. These downgrades in our corporate credit ratings could raise the cost of issuing new debt. As a consequence, we may not be able to issue additional debt in reasonable amounts and terms. This could potentially limit our ability to pursue business opportunities.

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. Although our current indebtedness limits 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. As of December 31, 2020, we had availability of $146.4 million under the SDHL Revolver.

To service and refinance our indebtedness, fund our capital and liquidity needs or pay any dividends, we may not generate sufficient cash or have access to sufficient funding.

To service and refinance our indebtedness, fund our capital and liquidity needs or pay dividends (if any), we will require a significant amount of cash. Our ability to raise capital is, to a certain extent, subject to economic, financial, competitive, legislative, regulatory and other factors, such as the COVID-19 pandemic, that are beyond our control. In addition, our business may not generate sufficient cash flows from operations, and future borrowings or alternative financing may not be available to us on favorable terms, or at all, in an amount sufficient to enable us to service and refinance, at or before maturity, our indebtedness, fund our capital and liquidity needs or pay dividends (if any), which would have a material adverse effect on us. As of December 31, 2020, our cash and cash equivalents were $73.4 million, we had $55.0 million of outstanding borrowings under our SDHL Revolver and $23.6 million of surety bonds and guarantees issued.

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 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 prove 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.

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.

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.

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.

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 judgements. If a relevant tax authority disputes our assumptions, judgements 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.

Risks Related to our Structure and Ownership of our Common Stock

We are exposed to regulatory and enforcement risks regarding taxes. U.S. tax authorities may treat us as a passive foreign investment company, causing potential adverse U.S. federal tax consequences to our U.S. shareholders.

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

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

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

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

Subsequent to our initial public offering in 2018, we are subject to both Cayman Islands regulatory requirements and the requirements applicable for Companies listed on the Oslo Stock Exchange, and any subsequent changes to these requirements, and, as such, we may be subject to review by the relevant authorities.

From the time of our June 25, 2018 initial public offering, we are subject to both the Cayman Islands regulatory requirements and the requirements applicable for companies listed on the Oslo Stock Exchange. These requirements affect our financial statements, corporate governance, communications with shareholders, transactions involving our common stock, such as dividends and stock repurchases, and other items as per the relevant laws and regulations. Any of these documents or actions may be subject to review by the relevant authorities. Compliance with these requirements and any subsequent changes in the requirements or the interpretation of requirements by relevant authorities could have a material adverse impact on our business, financial condition, results of operations and cash flows.

Shareholder rights and responsibilities will be governed by Cayman Islands law and will differ in some respects from the rights and responsibilities of shareholders under other jurisdictions, including Norway and the U.S., and our shareholder rights under Cayman Islands law may not be as clearly established as shareholder rights under the laws of other jurisdictions.

Our corporate affairs are governed by our Articles of Association ("Articles") and by the laws governing companies incorporated in the Cayman Islands. The rights of our shareholders and the responsibilities of members of the Board of Directors under Cayman Islands law may not be as clearly established as under the laws of other jurisdictions. In addition, the rights of shareholders as they relate to, for example, the exercise of shareholder rights, are governed by Cayman Islands law and our Articles and differ from the rights of shareholders under other jurisdictions, including Norway and the U.S. The holders of our common shares may have more difficulty in protecting their interests in the face of actions by the Board of Directors than if it were incorporated in the U.S. or Norway. Additionally, it could be difficult to for a common shareholder to prevail in a claim against us under, or to enforce liabilities predicated upon, securities laws in jurisdictions other than the Cayman Islands.

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

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 Articles. 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.

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

In the recent past, we have not paid any dividends on our common shares, our ability to pay dividends is subject to certain restrictions and the availability and timing of future dividends, if any, is uncertain.

In recent years, we have not issued dividends to our common shareholders, and we did not distribute any dividends for the financial year ended December 31, 2020. Agreements governing our existing indebtedness place certain restrictions on our ability and the ability of our restricted subsidiaries to pay dividends. Consequently, the only opportunity for an investor in our common stock to achieve a return on their investment may be to sell the common shares at a price greater than the price paid. In addition, we may amend the agreements governing our existing indebtedness or enter into new debt arrangements that also prohibit or restrict our ability to pay dividends on our common shares or even further restrict our ability to pay dividends.

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

Our dividend yield compared to the market yields of other financial instruments could influence the price of our common shares.

The market price of our common shares could be influence by the annual dividend yield of our common stock as compared to yields on other financial instruments, which may fluctuate with market interest rates. As such, an increase in market interest rates will result in higher yields on other financial instruments, which could adversely affect the price of our common shares.

Future issuances of our common shares or other securities could dilute the holdings of holders of our common shares and could materially affect the price of our common shares, and preemptive rights are not available to holders of our common shares.

We may in the future decide to offer additional common shares or other securities in order to finance, among other needs, new capital-intensive projects, in connection with unanticipated liabilities, as currency in merger and acquisition transactions, for employee share-based awards, for regulatory requirements, to fund our expenses or for any other corporate purposes.

There can be no assurance that we will not decide to conduct further offerings of securities in the future. Under Cayman Islands law and our Articles, holders of our common shares do not have preemptive rights that maintain their relative ownership percentages prior to the issuance of any new common shares. Without preemptive rights and depending on the structure of any future offering, certain common shareholders may not have the ability to purchase additional equity securities. Future issuances of common shares or other securities may result in substantial dilution in the ownership percentage of, and may have the effect of diluting the value, holdings and voting interests of common shareholders. Additionally, such transactions could have an adverse effect on any trading market for our common shares.

Future sales, or the possibility of future sales, including by the Sponsors or China Merchants, of a substantial number of our common shares could affect the market price of our common shares.

We cannot predict what effect, if any, future sales of our common shares, or the availability of our common shares for future sales, will have on the market price of our common shares. Transaction volumes of our common stock have historically been low, and therefore our stock price may be significantly impacted by large transactions. Sales of substantial amounts of our common shares in the public market, including by the Sponsors, or the perception that such sales could occur, could adversely affect the market price of our common shares, making it more difficult for our common shareholders to sell their common shares or us to sell equity securities in the future at a time and price that they deem appropriate. Additionally, all common shares owned by the Sponsors are unrestricted and thus are eligible for sale or other transfer in the public market, subject to applicable securities laws restrictions.

Exchange rate fluctuations could adversely affect the value of our common shares and any dividends paid on the common shares for an investor whose principal currency is not U.S. dollars.

Our common shares are priced and traded in Norwegian Krone ("NOK") on the Oslo Stock Exchange. Dividends declared by our Board of Directors, if any, would likely be denominated in our functional currency of U.S. dollars, and would be paid to the common shareholders through DNB Bank ASA ("DNB"), being our VPS registrar (the "VPS Registrar"). Such payments would be transacted in the bank account currency of the relevant common shareholder's account, as previously provided to the VPS Registrar. Common shareholders registered in the VPS who have not supplied their bank account details would not receive dividend payments unless and until they register their bank account details for their VPS account and inform the VPS Registrar. The exchange rate(s) applied when transacting payments of dividends to the relevant common shareholder's currency would be the VPS Registrar's exchange rate on the payment date. Exchange rate movements of U.S. dollars would therefore affect the value of these dividends and distributions for investors whose account currency is not U.S. dollars. Further, the market value of the commons shares as expressed in foreign currencies will fluctuate in part as a result of foreign exchange rate fluctuations. This could affect the value of the common shares and of any dividends paid on the common shares for an investor whose principal currency is not U.S. dollars.

The transfer of our common shares and their underlying assets is subject to restrictions under the securities laws of the U.S. and other jurisdictions.

Our common shares or underlying assets have not been registered under the Securities Exchange Act of 1934 in the U.S. or any U.S. state securities laws or any other jurisdiction outside of Norway and the Cayman Islands, and may not be registered in the future. As such, our common shares or underlying assets may not be offered or sold in the U.S. except pursuant to an exemption from the registration requirements of the Securities Exchange Act of 1934 in the U.S. and other applicable securities laws. In addition, common shareholders residing or domiciled in the U.S. and/or other jurisdictions may not be able to participate in future capital increases.

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

We are an exempted company, limited by shares and incorporated under the laws of the Cayman Islands. The Directors of the Board and members of the management reside in the U.S., Saudi Arabia, Australia, China, the U.K. and the UAE. As a result, it may be impossible for investors to effect service of process or to enforce judgments obtained in non-Cayman Islands or non-Norwegian courts against us, our Board of Directors or our management.

Investors may face additional risks related to our common shares due to the VPS Registrar and the Registrar Agreement.

In connection with the Offering on the Oslo Stock Exchange, we have established a facility for the registration of our offered common shares in the VPS. We have appointed DNB as our VPS Registrar in the VPS and entered into an agreement with DNB outlining their related responsibilities (the "Registrar Agreement").

The VPS Registrar has registered the common shares in the VPS. Following such registration, the VPS reflects the beneficial shareholders of our registered common stock, personally or through nominee registrations. As nominee for the common shareholders, the VPS Registrar will be the registered shareholder in our shareholders' register.

Common shareholders must exercise their organizational and economic rights through the VPS Registrar and they are not able to exercise direct shareholder rights. There are no provisions under Cayman Islands law or under our Articles that limit the common shareholders' in exercising their rights in respect of the common shares through the VPS Registrar. In order to exercise their rights, common shareholders must instruct the VPS Registrar as to the voting in the shares represented by their common shares. In order to exercise full shareholder rights, the common shareholders must transfer their holding in the VPS to a registered holding of shares in our shareholders' register.

We cannot guarantee that the VPS Registrar will be able to execute its obligations under the Registrar Agreement. Any such failure may, inter alia, limit the access for, or prevent, investors from exercising their organizational or economic rights attached to the underlying shares. The VPS Registrar may terminate the Registrar Agreement pursuant to a prior written notice of termination.

Furthermore, the VPS Registrar may terminate the Registrar Agreement with immediate effect if we do not fulfil our payment obligations to the VPS Registrar or commit any other material breach of the Registrar Agreement. In the event of a termination of the Registrar Agreement, there can be no assurance that it would be possible for us to enter into a new registrar agreement on substantially the same terms or at all. A termination of the Registrar Agreement could, therefore, materially adversely affect us and the common shareholders. The VPS Registrar disclaims any liability for any loss attributable to circumstances beyond the VPS Registrar's control, including, but not limited to, errors committed by others. The VPS Registrar is liable for direct losses incurred as a result of the VPS Registrar's breach of contract. Accordingly, we and our common shareholders may not be able to completely recover losses if the VPS Registrar does not perform its obligations under the Registrar Agreement.

General Risk Factors

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 several key customers or other parties were to default on their obligations to us, our business, financial condition, results of operations and cash flows could be adversely affected.

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 nor 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.

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.

We may be subject to litigations 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 litigations 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 in 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.

We are subject to laws and regulations in several jurisdictions, and failure to properly comply with such laws and regulations may adversely affect our operations.

We are an exempted company, limited by shares on the Oslo Stock Exchange. In addition, we have established operations in various other jurisdictions. Due to these international business activities, we are subject to laws and regulations in multiple jurisdictions. Laws and regulations are subject to continual changes, and some legislative changes may be directly disadvantageous to our business or could oblige us to change our operations or amend our strategy. Any failure to comply with applicable national and/or international laws could lead to costly litigations, penalties and other sanctions, and unplanned operational and strategic changes could increase our costs or decrease our profitability. Any of the above could have a material adverse impact on our business, financial condition, results of operations and cash flows.

The price of our common shares could fluctuate significantly.

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

Item 2. Properties

Overview

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.

Drilling 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 compared to newer, higher-specification rigs. Within their given water depth capabilities, we believe our jack-up rigs are well-suited for our customers' typical shallow water drilling operations.

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, including:

- In 2016 the newbuild rig Shelf Drilling Chaophraya was delivered;
- In 2017 the newbuild rig Shelf Drilling Krathong was delivered and the Shelf Drilling Mentor, Shelf Drilling Tenacious, and Shelf Drilling Resourceful were acquired;
- In 2018 the Shelf Drilling Scepter was acquired;
- In 2019 the Shelf Drilling Achiever and Shelf Drilling Journey were acquired and
- In 2020 the Shelf Drilling Enterprise was acquired.

The Shelf Drilling Journey was subsequently and opportunistically sold in February 2021. See "Note 7 – Assets Held for Sale" to our Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data" for additional information.

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 International Association of Classification Societies Special Periodic Survey ("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 Underwater Inspections in Lieu of Drydocking ("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.

The following table sets forth certain information concerning our rig fleet as of December 31, 2020:

Rig Name	Design	Year Built / Last Upgrade	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			
Shelf Drilling Journey (1)	GustoMSC CJ46-X100-D	2019	350	30,000	UAE
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 reported as asset held for sale in the Consolidated Financial Statements in “Item 8. Financial Statements and Supplementary Data”.

(2) Rig is stacked.

Item 3. Legal Proceedings

Information regarding legal proceedings is set forth in "Note 13 – Commitments and Contingencies" to the Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data".

Item 4. Mine Safety Disclosures

Not applicable.

PART II

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

Market Information

Our common stock is listed on the OSE under the ticker symbol "SHLF". The number of holders of record of our common stock as of February 26, 2021 was 2,463. The number of beneficial shareholders is substantially greater than the number of holders as a large portion of our common stock is held through brokerage firms.

Oslo Børs is a stock exchange listing which complies with EU requirements and Norwegian stock exchange legislation. On December 30, 2020, the last reported sale price of our common shares on the OSE was 3.42 NOK per share, which was equivalent to approximately $0.40 per share based on the Bloomberg Composite Rate of 8.54 NOK to $1.00 in effect on that date. The following table sets forth the high and low close prices for our common shares as reported on the Oslo Stock Exchange for the periods listed below. Share prices are presented in $ per common share based on the Bloomberg Composite Rate on each day of measurement.

	2020	
	High	Low
First quarter	$ 2.65	$ 0.49
Second quarter	0.52	0.32
Third quarter	0.42	0.22
Fourth quarter	0.43	0.16

	2019	
	High	Low
First quarter	$ 5.21	$ 4.01
Second quarter	4.60	3.46
Third quarter	3.53	1.66
Fourth quarter	2.41	1.90

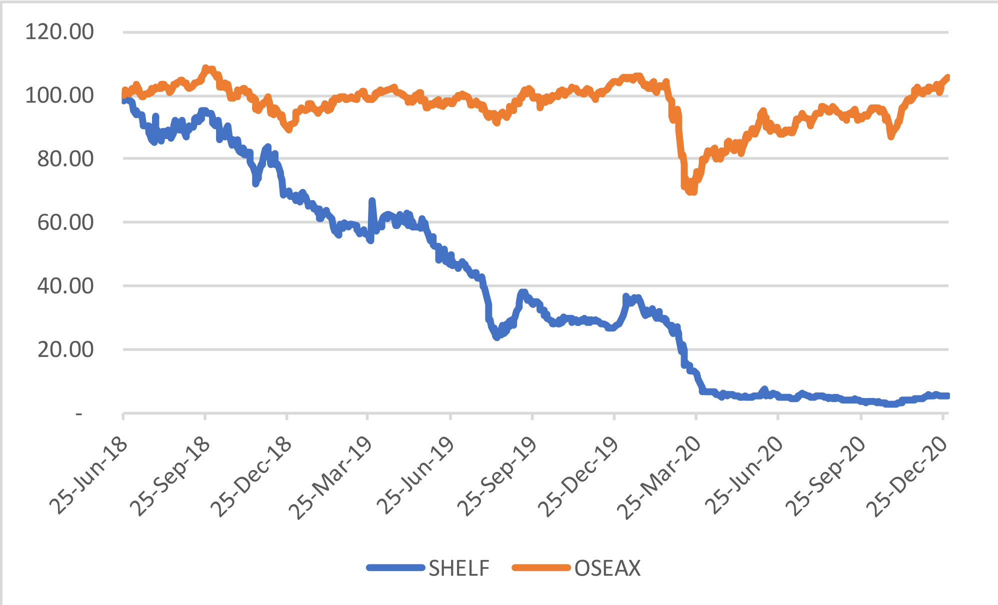
Dividends

In recent years, the Company has not issued dividends to its common shareholders, and the Company did not distribute any dividends for the financial year ended December 31, 2020. The Company's future dividend policy is within the discretion of the Board of Directors, who will consider issuing dividends to holders of common shares with other relevant considerations and factors, including but not limited to the Company's working capital and capital expenditure needs, results of operations, financial condition and investment opportunities. Certain of the Company's debt agreements contain covenants that limit the payment of dividends.

See "Note 11 – Debt", "Note 16 – Mezzanine Equity" and "Note 17 – Shareholders' Equity" to our Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data" for additional information.

Stock Performance Graph

The graph below compares the cumulative total stockholder return on our common stock with the cumulative total return on the Oslo Stock Exchange All Share Index ("OSEAX") for the period ending on December 31, 2020. The graph assumes an investment of $100 at the beginning of this period. The comparisons in the graph below are based upon historical data and are not indicative of, nor intended to forecast, future performance of our common stock.



Issuer Purchases of Equity Securities

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 will be canceled and will 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 will be available for issuance in the future. Shares will be repurchased in the open market on the OSE. 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 debt 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. As of December 31, 2020, approximately $20.5 million remains available for repurchase under the 2019 Repurchase Program.

Item 6. Selected Financial Data

The following table sets forth our selected financial data for the five years ended December 31, 2020 (in thousands, except per share data). This information should be read in connection with, and is qualified in its entirety by, the more detailed information in our financial statements included in "Item 8. Financial Statements and Supplementary Data" of this Form 10-K Equivalent.

	Years ended December 31,				
	2020	2019	2018	2017	2016
Total revenues	$ 585,176	$ 576,153	$ 613,319	$ 571,964	$ 684,317
Operating (loss) / income	(164,697)	(56,224)	(17,243)	28,954	68,163
Net loss	(274,859)	(149,536)	(136,243)	(71,210)	(29,836)
Total debt (1)	1,023,963	924,540	887,764	840,600	1,053,721
Cash and cash equivalents	73,408	26,055	91,203	84,563	213,139
Property and equipment, net	1,066,320	1,296,984	1,214,880	1,249,990	1,030,676
Total assets	1,516,353	1,700,045	1,645,896	1,682,950	1,585,940
Loss per share (2):					
Basic and Diluted – Common shares	$ (2.02)	$ (1.16)	$ (1.50)	$ (1.02)	$ -
Basic and Diluted – Class A shares	-	-	-	(10.79)	(66.99)
Basic and Diluted – Class B, C and D shares	-	-	-	-	-
Statement of cash flows data (3):					
Net cash provided by / (used in) operating activities	$ 54,218	$ (12,868)	$ 37,705	$ 62,036	$ 136,532
Net cash used in investing activities	(88,675)	(83,032)	(95,763)	(231,397)	(35,171)
Net cash provided by / (used in) financing activities	95,121	31,364	51,068	46,791	(3,486)

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

(2) For the year ended December 31, 2017 the loss per share is calculated based on information for the four months ended April 30, 2017 for the ordinary Class A, B, C and D shares and based on information for the eight months ended December 31, 2017 for the common shares. See "Note 22 – Earnings / (Loss) Per Share" to the Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data".

(3) Effective January 1, 2018, we adopted ASU No. 2016-15 and included debt extinguishment costs of $9.8 million and cash payment of original discount of $10.5 million during the year ended December 31, 2017 under cash flows from financial activities in the consolidated statements of cash flows. The debt extinguishment costs were previously reported under cash flows from operating activities.

Effective January 1, 2018, we also adopted ASU No. 2016-18 and have included restricted cash of $1.6 million, $15.3 million and $9.3 million as part of cash, cash equivalents and restricted cash on the statements of cash flow for the years ended December 31, 2018, 2017 and 2016 respectively. The cash used for restricted cash of $6.0 million and $0.4 million during the years ended December 31, 2017 and 2016, respectively, previously reported as cash flow from investing activities, has been presented as part of cash, cash equivalents and restricted cash.

Certain financial information of SDL and SDHL

The following tables present certain financial information for SDL and SDHL for the years ended December 31, 2020, 2019 and 2018, and certain adjustments to show the differences in this financial information between SDL and SDHL for these periods. These adjustments primarily reflect the preferred shares outstanding at SDL during the year ended December 31, 2018 and general and administrative costs relating to certain professional expenses that are recorded at SDL and not at SDHL. This information is presented pursuant to the Indenture for our 8.25% Senior Unsecured Notes.

Consolidated Statements of Operations for the year ended December 31, 2020
(In thousands)

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.
Revenues			
Operating revenues	$ 570,343	$ -	$ 570,343
Other revenues	14,833	-	14,833
	585,176	-	585,176
Operating costs and expenses			
Operating and maintenance	341,426	-	341,426
Depreciation	69,895	-	69,895
Amortization of deferred costs	47,148	-	47,148
General and administrative	45,849	(208)	45,641
Loss on impairment of assets	249,156	-	249,156
Gain on disposal of assets	(3,601)	-	(3,601)
	749,873	(208)	749,665
Operating loss	(164,697)	208	(164,489)
Other (expense) / income, net			
Interest income	175	-	175
Interest expense and financing charges	(89,703)	-	(89,703)
Other, net	(939)	(8)	(947)
	(90,467)	(8)	(90,475)
Loss before income taxes	(255,164)	200	(254,964)
Income tax expense	19,695	-	19,695
Net loss and net loss attributable to common shares	$ (274,859)	$ 200	$ (274,659)

Consolidated Balance Sheets as of December 31, 2020
(In thousands, except per share data)

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.
Assets			
Cash and cash equivalents	$ 73,408	$ (3,514)	$ 69,894
Accounts and other receivables, net [(1)]	129,009	594	129,603
Assets held for sale	77,075	-	77,075
Other current assets	56,654	-	56,654
Total current assets	336,146	(2,920)	333,226
Property and equipment	1,575,114	-	1,575,114
Less accumulated depreciation	(508,794)	-	(508,794)
Property and equipment, net	1,066,320	-	1,066,320
Deferred tax assets	1,958	-	1,958
Other long-term assets	111,929	-	111,929
Total assets	$ 1,516,353	$ (2,920)	$ 1,513,433
Liabilities and equity			
Accounts payable	$ 66,632	$ (3)	$ 66,629
Interest payable	29,333	-	29,333
Accrued income taxes	4,680	-	4,680
Other current liabilities	46,682	-	46,682
Total current liabilities	147,327	(3)	147,324
Long-term debt	1,023,963	-	1,023,963
Deferred tax liabilities	5,591	-	5,591
Other long-term liabilities	50,509	-	50,509
Total long-term liabilities	1,080,063	-	1,080,063
Commitments and contingencies			
Common shares [(2)]	1,362	(1,362)	-
Additional paid-in capital [(3)]	1,002,914	(93,528)	909,386
Accumulated other comprehensive income	-	-	-
Accumulated losses [(4)]	(715,313)	91,973	(623,340)
Total equity	288,963	(2,917)	286,046
Total liabilities and equity	$ 1,516,353	$ (2,920)	$ 1,513,433

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

(2) This adjustment reflects the total number of outstanding shares of 136,223,040 with a par value of $0.01 per share.

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

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

Consolidated Statements of Cash flows for year ended December 31, 2020
(In thousands)

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.
Cash flows from operating activities			
Net loss	$ (274,859)	$ 200	$ (274,659)
Adjustments to reconcile net loss to net cash provided by operating activities			
Depreciation	69,895	-	69,895
Loss on impairment of assets	249,156	-	249,156
Loss on derivative financial instruments, net	334	-	334
Provision for doubtful accounts, net	2,634	-	2,634
Amortization of deferred revenue	(12,417)	-	(12,417)
Share-based compensation expense, net of forfeitures / Capital contribution by Parent share-based compensation	4,169	(77)	4,092
Amortization of debt issue costs and premium	3,335	-	3,335
Gain on disposal of assets	(3,601)	-	(3,601)
Deferred tax expense, net	1,182	-	1,182
Payments for settlement of derivative financial instruments, net	(334)	-	(334)
Changes in deferred costs, net	5,327	-	5,327
Changes in operating assets and liabilities			
Intercompany receivables	-	(128)	(128)
Other operating assets and liabilities, net	9,397	6	9,403
Net cash provided by operating activities	54,218	1	54,219
Cash flows from investing activities			
Additions to property and equipment	(111,817)	-	(111,817)
Deposits related to rig sales, net	15,948	-	15,948
Proceeds from disposal of assets	7,194	-	7,194
Net cash used in investing activities	(88,675)	-	(88,675)
Cash flows from financing activities			
Proceeds from issuance of debt	80,000	-	80,000
Proceeds from revolving credit facility	75,000	-	75,000
Repayments of revolving credit facility	(55,000)	-	(55,000)
Purchase of common shares [1]	(1,639)	1,639	-
Ordinary shares dividend paid [2]	-	(3,000)	(3,000)
Payments of debt financing costs	(3,240)	-	(3,240)
Net cash provided by financing activities	95,121	(1,361)	93,760
Net increase in cash, cash equivalents and restricted cash	60,664	(1,360)	59,304
Cash, cash equivalents and restricted cash at beginning of period	28,299	(2,154)	26,145
Cash, cash equivalents and restricted cash at end of year	$ 88,963	$ (3,514)	$ 85,449

(1) This adjustment relates to the repurchase of common shares recorded at SDL level.

(2) This adjustment reflects the ordinary shares dividend paid by SDHL to fund SDL's repurchase of common shares.

Consolidated Statements of Operations for the year ended December 31, 2019
(In thousands)

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.
Revenue			
Operating revenues	$ 561,295	$ -	$ 561,295
Other revenues	14,858	-	14,858
	576,153	-	576,153
Operating costs and expenses			
Operating and maintenance	366,715	-	366,715
Depreciation	82,503	-	82,503
Amortization of deferred costs	75,305	-	75,305
General and administrative	50,773	(135)	50,638
Loss on impairment of assets	57,986	-	57,986
Gain on disposal of assets	(905)	-	(905)
	632,377	(135)	632,242
Operating loss	(56,224)	135	(56,089)
Other (expense) / income, net			
Interest income	1,138	-	1,138
Interest expense and financing charges	(80,708)	-	(80,708)
Other, net	(763)	(11)	(774)
	(80,333)	(11)	(80,344)
Loss before income taxes	(136,557)	124	(136,433)
Income tax expense	12,979	-	12,979
Net loss attributable to common shares	$ (149,536)	$ 124	$ (149,412)

Consolidated Balance Sheets as of December 31, 2019
(In thousands, except per share data)

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.
Assets			
Cash and cash equivalents	$ 26,055	$ (2,154)	$ 23,901
Accounts and other receivables, net [(1)]	154,834	466	155,300
Assets held for sale	1,583	-	1,583
Other current assets	68,787	-	68,787
Total current assets	251,259	(1,688)	249,571
Property and equipment	1,775,678	-	1,775,678
Less: accumulated depreciation	478,694	-	478,694
Property and equipment, net	1,296,984	-	1,296,984
Deferred tax assets	2,732	-	2,732
Other long-term assets	149,070	-	149,070
Total assets	$ 1,700,045	$ (1,688)	$ 1,698,357
Liabilities and equity			
Accounts payable	$ 79,236	$ (91)	$ 79,145
Interest payable	28,245	-	28,245
Accrued income taxes	5,029	-	5,029
Other current liabilities	41,455	-	41,455
Total current liabilities	153,965	(91)	153,874
Long-term debt	924,540	-	924,540
Deferred tax liabilities	5,183	-	5,183
Other long-term liabilities	54,907	-	54,907
Total long-term liabilities	984,630	-	984,630
Commitments and contingencies			
Common shares [(2)]	1,366	(1,366)	-
Additional paid-in capital [(3)]	1,000,298	(92,004)	908,294
Accumulated other comprehensive income	240	-	240
Accumulated losses [(4)]	(440,454)	91,773	(348,681)
Total equity	561,450	(1,597)	559,853
Total liabilities and equity	$ 1,700,045	$ (1,688)	$ 1,698,357

(1) On February 21, 2019 we announced the signing of definitive agreements with affiliates of China Merchants to acquire two newbuild CJ46 rigs and bareboat charter a further two with options to buy one or both through the initial contract term of three years. This adjustment primarily relates to legal and accounting fees paid by SDHL on behalf of SDL.

(2) This adjustment reflects the total number of outstanding shares of 136,643,239 with a par value of $0.01 per share.

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

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

SHELF DRILLING

Consolidated Statements of Cash flows for year ended December 31, 2019
(In thousands)

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.
Cash flows from operating activities			
Net loss	$ (149,536)	$ 124	$ (149,412)
Adjustments to reconcile net loss to net cash used in operating activities			
Depreciation	82,503	-	82,503
Loss on impairment of assets	57,986	-	57,986
Gain on derivative financial instruments, net	(284)	-	(284)
Reversal of doubtful accounts, net	(232)	-	(232)
Amortization of deferred revenue	(6,284)	-	(6,284)
Share-based compensation expense, net of forfeitures / Capital contribution by Parent share-based compensation (1)	1,536	(87)	1,449
Amortization of debt issue costs and premium	2,700	-	2,700
Gain on disposal of assets	(905)	-	(905)
Deferred tax expense, net	1,038	-	1,038
Proceeds from settlement of derivative financial instruments, net	284	-	284
Changes in deferred costs, net	(4,940)	-	(4,940)
Changes in operating assets and liabilities			
Intercompany receivables (2)	-	434	434
Other operating assets and liabilities, net (3)	3,266	(872)	2,394
Net cash used in operating activities	(12,868)	(401)	(13,269)
Cash flows from investing activities			
Additions to property and equipment	(91,391)	-	(91,391)
Proceeds from disposal of assets	8,359	-	8,359
Net cash used in investing activities	(83,032)	-	(83,032)
Cash flows from financing activities			
Proceeds from revolving credit facility	35,000	-	35,000
Purchase of common shares (4)	(2,866)	2,866	-
Payments of common shares issuance costs (5)	(623)	623	-
Ordinary shares dividend paid (6)	-	(5,000)	(5,000)
Payments of debt financing costs	(147)	-	(147)
Net cash used in financing activities	31,364	(1,511)	29,853
Net decrease in cash, cash equivalents and restricted cash	(64,536)	(1,912)	(66,448)
Cash, cash equivalents and restricted cash at beginning of year	92,835	(242)	92,593
Cash, cash equivalents and restricted cash at end of year	$ 28,299	$ (2,154)	$ 26,145

(1) This adjustment primarily relates to share-based compensation expense recorded at SDL level.

(2) This adjustment primarily relates to settlement of the intercompany receivable balance between SDL and SDHL during the year ended December 31, 2019.

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

(4) This adjustment relates to the repurchase of common shares recorded at SDL level.

(5) This adjustment relates to the issuance of 26,769,230 new common shares on May 9, 2019 to China Merchants related to the acquisition of two premium newbuild CJ46 jack-up rigs.

(6) This adjustment reflects the ordinary shares dividend paid by SDHL to fund SDL's repurchase of common shares.

Consolidated Statements of Operations for the year ended December 31, 2018
(In thousands)

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.
Revenues			
Operating revenues	$ 599,043	$ -	$ 599,043
Other revenue	14,276	-	14,276
	613,319	-	613,319
Operating costs and expenses			
Operating and maintenance	358,030	-	358,030
Depreciation	86,796	-	86,796
Amortization of deferred costs	82,953	-	82,953
General and administrative [(1)]	61,030	(4,118)	56,912
Loss on impairment of assets	40,071	-	40,071
Loss on disposal of assets	1,682	-	1,682
	630,562	(4,118)	626,444
Operating loss	(17,243)	4,118	(13,125)
Other (expense) / income, net			
Interest income	1,454	-	1,454
Interest expense and financing charges	(106,772)	-	(106,772)
Other, net	354	-	354
	(104,964)	-	(104,964)
Loss before income taxes	(122,207)	4,118	(118,089)
Income tax expense	14,036	-	14,036
Net loss	$ (136,243)	$ 4,118	$ (132,125)
Preferred dividend [(2)]	9,550	9,550	-
Net loss attributable to common shares	$ (145,793)	$ 13,668	$ (132,125)

(1) This adjustment relates primarily to third party professional service expenses recorded at the SDL level for certain accounting and legal activities, including, among other things, the preparation of SDL financial statements.

(2) This adjustment relates to the dividend on preferred shares recorded at SDL for the year ended December 31, 2018.

SHELF DRILLING

Consolidated Balance Sheets as of December 31, 2018
(In thousands, except per share data)

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.
Assets			
Cash and cash equivalents (1)	$ 91,203	$ (242)	$ 90,961
Accounts and other receivables, net (2)	143,439	32	143,471
Assets held for sale	5,154	-	5,154
Other current assets	81,532	-	81,532
Total current assets	321,328	(210)	321,118
Property and equipment	1,637,489	-	1,637,489
Less accumulated depreciation	422,609	-	422,609
Property and equipment, net	1,214,880	-	1,214,880
Deferred tax assets	2,526	-	2,526
Other long-term assets	107,162	-	107,162
Total assets	$ 1,645,896	$ (210)	$ 1,645,686
Liabilities and equity			
Accounts payable	$ 83,930	$ -	$ 83,930
Accrued income taxes	4,771	-	4,771
Interest payable	28,050	-	28,050
Obligations under sale and leaseback	-	-	-
Current maturities of long-term debt	-	-	-
Other current liabilities	20,143	-	20,143
Total current liabilities	136,894	-	136,894
Long-term debt	887,764	-	887,764
Obligations under sale and leaseback	-	-	-
Deferred tax liabilities	3,939	-	3,939
Other long-term liabilities	26,042	-	26,042
Total long-term liabilities	917,745	-	917,745
Mezzanine equity, net of issuance costs	-	-	-
Commitments and contingencies			
Common shares (3)	1,112	(1,112)	-
Additional paid-in capital (4)	880,820	(90,747)	790,073
Accumulated other comprehensive income	243	-	243
Accumulated losses (5)	(290,918)	91,649	(199,269)
Total equity	591,257	(210)	591,047
Total liabilities and equity	$ 1,645,896	$ (210)	$ 1,645,686

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

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

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

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

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

SHELF DRILLING

Consolidated Statements of Cash flows for year ended December 31, 2018
(In thousands)

	Shelf Drilling, Ltd.	Adjustments	Shelf Drilling Holdings, Ltd.
Cash flows from operating activities			
Net loss	$ (136,243)	$ 4,118	$ (132,125)
Adjustments to reconcile net loss to net cash provided by operating activities			
Depreciation	86,796	-	86,796
Loss on impairment of assets	40,071	-	40,071
Loss on derivative financial instruments, net	1,029	-	1,029
Amortization of deferred revenue	(12,660)	-	(12,660)
Provision for doubtful accounts, net	19	-	19
Share-based compensation expense, net of forfeitures / Capital contribution by Parent share-based compensation (1)	11,334	(11)	11,323
Non-cash portion of loss on debt extinguishment	7,368	-	7,368
Debt extinguishment and retirement costs	18,783	-	18,783
Amortization of debt issue costs and premium	2,941	-	2,941
Loss on disposal of assets	1,682	-	1,682
Deferred tax benefit, net	(1,673)	-	(1,673)
Payments of settlement of derivative financial instruments, net	(1,349)	-	(1,349)
Changes in deferred costs, net	10,511	-	10,511
Changes in operating assets and liabilities			
Intercompany receivables (2)	-	5,357	5,357
Other operating assets and liabilities, net (3)	9,096	(3,335)	5,761
Net cash provided by operating activities	37,705	6,129	43,834
Cash flows from investing activities			
Additions to property and equipment	(98,969)	-	(98,969)
Proceeds from disposal of assets	3,206	-	3,206
Net cash used in investing activities	(95,763)	-	(95,763)
Cash flows from financing activities			
Proceeds from issuance of common shares / Proceeds from capital contribution by Parent (4)	226,908	(179,658)	47,250
Payments for common and preferred shares issuance costs (5)	(10,681)	10,681	-
Payments for redemption of preferred shares (6)	(166,667)	166,667	-
Proceeds from issuance of debt	928,000	-	928,000
Payments for obligations under sale and leaseback	(313,930)	-	(313,930)
Payments to retire long-term debt	(558,250)	-	(558,250)
Payments of debt financing costs	(19,581)	-	(19,581)
Payments of debt extinguishment and retirement costs	(18,783)	-	(18,783)
Preferred shares dividend paid (7)	(16,268)	16,268	-
Ordinary shares dividend paid (8)	-	(20,275)	(20,275)
Proceeds from settlement of interest rate swaps	320	-	320
Net cash provided by financing activities	51,068	(6,317)	44,751
Net decrease in cash, cash equivalents and restricted cash	(6,990)	(188)	(7,178)
Cash, cash equivalents and restricted cash at beginning of year	99,825	(54)	99,771
Cash, cash equivalents and restricted cash at end of year	$ 92,835	$ (242)	$ 92,593

(1) This adjustment primarily relates to share-based compensation expense recorded at SDL level.

(2) This adjustment primarily relates to the settlement of intercompany receivable balance between SDL and SDHL during the year ended December 31, 2018.

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

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

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

(6) This adjustment relates to the redemption of SDL’s preferred shares.

(7) This adjustment relates to the payment of SDL’s preferred dividends.

(8) This adjustment reflects the ordinary shares dividend paid by SDHL to primarily fund SDL’s preferred shares dividend payment.

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

The following discussion of our results of operations, liquidity and capital resources includes a comparison of the years ended December 31, 2020 and 2019. This information should be read in conjunction with the information contained in "Part I. Item 1. Business", Part I. Item 1A. Risk Factors" and the audited consolidated financial statements and the notes thereto included under "Item 8. Financial Statements and Supplementary Data" elsewhere in this Form 10-K equivalent.

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, making 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 "Item 1. 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 mid $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 changing 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 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 expect to 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 and Shelf Drilling Journey in August 2020 and February 2021, respectively. We also signed the Amendment to the SDHL Revolver in September 2020, which provides relief from the Total Net Leverage Ratio financial covenant until September 2021, and continue to explore additional options 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.
- *Total recordable incident rate ("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	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%

Financial measures

In addition to terms under U.S. generally accepted accounting principles ("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") in addition to net income (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%**

(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" or "IPO").

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

Our restricted subsidiaries accounted for 100% of our Adjusted EBITDA for both the years ended December 31, 2020 and 2019 and 93% and 100% of our assets as of December 31, 2020 and 2019, respectively.

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	**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 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 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 $2.8 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 SDHL 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 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 SDHL 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 and 2019, the Company owed $55.0 million and $35.0 million, 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. 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.

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 and amounts available under the SDHL Revolver 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, 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. In addition to our existing cash reserves, we also have amounts available under the SDHL Revolver. 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 the termination of the Amendment on September 29, 2021 or upon the Company’s voluntary election to early terminate in accordance with the Amendment. 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 and anticipates that such relief is likely to be extended. Alternatively, 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. Additional covenant relief, capital and/or refinancing of our existing debt may be required in the future if the current market situation continues and/or worsens.

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 mainly 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 SDHL 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 SDHL Revolver.

Our SDHL 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 SDHL Revolver. See "Note 11 – Debt" to our Consolidated Financial Statements in "Item 8. Financial Statements and Supplementary Data".

Contractual Obligations

In the normal course of business, we enter into various contractual obligations that impact or could impact our liquidity. The table below contains our estimated contractual obligations stated at face value as of December 31, 2020 (in thousands):

	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 SDHL Revolver assuming no change in the undrawn balance from December 31, 2020. Assumes the margin applied to the interest rate on the SDHL Revolver decreases by 100 basis points after the termination of the September 21, 2020 fifth amendment to the SDHL Revolver. Assumes no change in the current variable interest applied on the SDHL Revolver. See "Note 11 – Debt" to our Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data" for additional information.

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 SDHL 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 SDHL 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 in “Item 8. Financial Statements and Supplementary Data”. 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.

Derivative Instruments

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

Off-balance Sheet Financing

We had no off-balance sheet arrangements during the years ended December 31, 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 judgements 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 in “Item 8. Financial Statements and Supplementary Data”.

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" to the Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data". 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 the Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data".

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. As such, the fair values used to calculate impairment of long lived assets are considered non-recurring level 3 fair value measurements.

New Accounting Pronouncements

See "Note 3 – Recently Issued and Adopted Accounting Pronouncements" to the Consolidated Financial Statements included in "Item 8. Financial Statements and Supplementary Data" for a discussion on recently adopted and issued accounting pronouncements.

Item 7A. Quantitative and Qualitative Disclosures About Market Risks

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

Liquidity risk

We manage our liquidity risk by maintaining adequate cash reserves and debt facilities, and by continuously monitoring our actual and forecast cash flows and by matching the maturity profiles of financial assets and liabilities when possible.

Interest Rate Risk

We are exposed to interest rate risk related to the fixed rate debt under the 8.25% Senior Unsecured Notes, 8.75% Senior Secured Notes and variable rate debt under our revolving credit facility. 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 us to changes in market interest rates if and when maturing debt is refinanced with new debt. Variable rate debt, where the interest rate may be adjusted frequently over the life of the debt, exposes us to short-term changes in market interest rates.

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

Foreign Currency Risk

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

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

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

Credit Risk

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

Our trade receivables are with a variety of government owned or controlled energy companies, publicly listed integrated oil companies or independent exploration and production companies. We perform ongoing credit evaluations of our customers, and generally do not require material collateral. We may from time-to-time require our customers to make an advance payment or issue a bank guarantee/letter of credit in our favor to cover the risk of non-payment under our 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. Allowance for credit losses was $2.6 million and $1.8 million as of December 31, 2020 and 2019, respectively.

Item 8. Financial Statements and Supplementary Data

The Consolidated Financial Statements as of December 31, 2020 can be found in the Exhibits section pages F-1 to F-42.

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

None

Item 9A. Controls and Procedures

We are not required to report this Item.

Item 9B. Other Information

None

PART III

Item 10. Directors, Executive Officers, and Corporate Governance

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

Name	Age as of December 31, 2020	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-deep water drilling contractor. Prior to Ocean Rig ASA, Mr. Mullen also spent four years as a senior leader of Transocean Ltd. As Senior Vice President of Global Marketing, Business Development and M&A at Transocean Ltd., Mr. Mullen spearheaded marketing and strategic planning. Mr. Mullen had a 23-year career at Schlumberger, including as President of Oilfield Services for North and South America. Mr. Mullen received a B.A. in Geology & Physics from Trinity College Dublin and an M.Sc. degree in Geophysics from University College Galway.

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 14 August 2015 to 6 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.

Item 11. Executive Compensation

We are not required to report this Item.

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

We are not required to report this Item.

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

We are not required to report this Item.

Item 14. Principal Accounting Fee and Services

We are not required to report this Item.

Part IV

Item 15. Exhibits

Financial Statements pages F-1 to F-42.

Material agreements governing indebtedness can be found on our website at www.shelfdrilling.com in the investor relations section under key documents.

Shelf Drilling, Ltd.

Consolidated Financial Statements
for the years ended December 31, 2020, 2019 and 2018

SHELF DRILLING, LTD.
CONSOLIDATED FINANCIAL STATEMENTS
YEARS ENDED DECEMBER 31, 2020, 2019 AND 2018
INDEX

CONTENTS

pwc

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

PricewaterhouseCoopers
Dubai, United Arab Emirates
March 4, 2021

PricewaterhouseCoopers (Dubai Branch), License no. 102451
Emaar Square, Building 5, P O Box 11987, Dubai - United Arab Emirates
T: +971 (0)4 304 3100, F: +971 (0)4 346 9150, www.pwc.com/me

SHELF DRILLING

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 Shares	Common Par value	Additional paid-in capital	Accumulated other comprehensive income	Accumulated losses	Total equity
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

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),	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.

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	Years ended December 31, 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	December 31, 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	Years ended December 31, 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	Years ended December 31, 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	December 31, 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	December 31, 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	December 31, 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)

	Years ended December 31,		
	2020	2019	2018
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.