SHELF DRILLING

Financial Report For the Period Ended March 31, 2017

This Financial Report is presented for Shelf Drilling Holdings, Ltd (the "Company"). The financial and operational data included in this report covers the three months ended March 31, 2017.

Introduction

This report comments on the financial performance of the Company and on the table of results set out on page 3. A complete listing and description of defined terms and the methodology of calculating EBITDA and Adjusted EBITDA are set out in the Explanatory Notes.

"Q1 2017" and "Q1 2016" are used to refer to the three month periods ended March 31, 2017 and 2016, respectively.

Highlights

- Total revenue of $146.3 million in Q1 2017 decreased by $33.4 million (18.6%) compared to Q1 2016 primarily due to the decrease in average dayrates.
- Total operating expenses decreased by $32.6 million (35.1%) in Q1 2017 compared to Q1 2016, mainly reflecting lower expenses for rigs seeking marketing opportunities and cost savings achieved by the Company.
- Selling, general and administrative expenses decreased by $3.2 million (15.0%) in Q1 2017 compared to Q1 2016 reflecting the favorable impact of cost reduction initiatives.
- Provision for doubtful debt was partially reversed for a net favorable impact of $2.3 million in Q1 2017.
- Adjusted EBITDA in Q1 2017 of $70.3 million increased by $1.5 million (2.2%) compared to Q1 2016 mainly due to the significant reduction in operating expenses, which more than offset lower average dayrates.
- Q1 2017 Capital and Deferred Expenditure totaled $16.0 million compared to $70.1 million in Q1 2016. This included $9.8 million related to the construction of the newbuilds (Q1 2016: $43.6 million).
- The Company's second newbuild was delivered on April 6, 2017 and is scheduled to start its five-year contract with Chevron in Thailand in June 2017.
- $1.5 billion in contract backlog at March 31, 2017 across 26 contracted rigs.
- The Company announced the acquisition of three premium jackup rigs on May 1, 2017. The acquisition was financed through a $225.0 million private placement of new Shelf Drilling Ltd common shares, as announced on April 28, 2017.

Revenues

Total revenue was $146.3 million in Q1 2017 compared to $179.7 million in Q1 2016. The decrease in total revenue was largely due to the 16.3% decrease in average dayrates from $81.8 thousand in Q1 2016 to $68.5 thousand in Q1 2017, and the decline in marketed utilization from 72% in Q1 2016 to 70% in Q1 2017. This was partly offset by the increase in revenue from the first newbuild that started its contract on December 1, 2016.

Within the marketable rig fleet, eight rigs were idle awaiting marketing opportunities at the end of Q1 2017 compared to three rigs at the end of Q1 2016. During Q1 2017, four rigs were undergoing major projects or regulatory inspections compared to seven rigs in Q1 2016. There were 31 marketable rigs and two rigs are under non-drilling contract at the end of March 31, 2017.

SHELF DRILLING

Operating Expenses

Total operating expenses decreased by $32.6 million (35.1%) in Q1 2017 to $60.4 million compared to $93.0 million in Q1 2016. This decrease was mainly due to lower expenses for rigs which were seeking marketing opportunities in Q1 2017 compared to Q1 2016 ($21.1 million), cost savings generated by the Company across the fleet ($11.1 million), and lower expenses for stacked rigs in Q1 2017 ($3.4 million), partly offset by $3.2 million of additional operating costs for the first newbuild that started its contract on December 1, 2016.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $18.2 million in Q1 2017 compared to $21.4 million in Q1 2016 largely due to cost savings in all expense categories.

Provision for doubtful debt, which relates to the uncertainty of collectability for specifically identified accounts receivable balances, was partially reversed for a net favorable impact of $2.3 million following customer collections in Q1 2017.

Adjusted EBITDA

Adjusted EBITDA for Q1 2017 was $70.3 million compared to $68.8 million for Q1 2016, an increase of $1.5 million, or 2.2%. The Adjusted EBITDA margin for Q1 2017 was 48.1% compared to 38.3% in Q1 2016.

Capital and Deferred Expenditure

Capital and Deferred Expenditure can vary significantly from quarter to quarter and year over year depending on the timing of required work on rigs for special periodic surveys, underwater inspections, periodic major overhauls of equipment, contract preparations, refurbishments and upgrades required under new contract specifications as well as the timing of any rig reactivations or newbuilds under construction.

Capital and Deferred Expenditure was $16.0 million in Q1 2017 compared to $70.1 million in Q1 2016. Capital and Deferred Expenditure decreased by $54.1 million due to the decline of $33.8 million attributable to the two newbuild rigs under construction, from $43.6 million in Q1 2016 to $9.8 million in Q1 2017 and the significant decline of non-newbuild capital and deferred expenditure from $26.5 million in Q1 2016 to $6.2 million in Q1 2017 mainly due to $10.7 million reduction in regulatory & maintenance and fleet spares capital and deferred expenditure in Q1 2017, and $9.6 million lower contract preparation in Q1 2017.

Following the delivery of the Company's first newbuild on September 29, 2016 from Lamprell, Plc. in the UAE, the rig started its five-year contract with Chevron in Thailand on December 1, 2016 after completing final customer acceptance requirements. The second newbuild was delivered on April 6, 2017 and is scheduled to start its five-year contract with Chevron in Thailand in June 2017.

SHELF DRILLING

Financial Report For the Period Ended March 31, 2017

	Three Months Ended March 31,		Twelve Months Ended March 31,
	2016	2017	2017
Statement of Operations:			
Total Revenue (1)	$ 179.7	$ 146.3	$ 650.9
Operating expenses:			
Labor expenses (2)	59.5	38.9	168.1
Rig maintenance expenses (2)	22.7	13.3	85.6
Other operating expenses (2)	10.8	8.2	31.2
Total operating expenses	93.0	60.4	284.9
Gross Profit	86.7	85.9	366.0
Selling, general, and administrative expenses (3)	21.4	18.2	73.8
Provision for / (Reversal of) doubtful accounts, net	-	(2.3)	(2.7)
EBITDA (4)	$ 65.3	$ 70.0	$ 294.9
Adjustments:			
Exclusion of non-income tax related costs	0.2	0.3	0.8
Severance costs	3.3	-	1.5
Other	-	-	0.1
Total adjustments	3.5	0.3	2.4
Adjusted EBITDA (4)	$ 68.8	$ 70.3	$ 297.3
Adjusted EBITDA Margin	38%	48%	46%
Operating Data:			
Average marketable rigs (5)	31.4	31.9	31.3
Average stacked rigs (6)	5.0	3.0	3.1
Average rigs under non-drilling contract (7)	0.6	1.1	1.0
New build rigs under construction	2.0	1.0	1.7
Total rigs	39.0	37.0	37.1
Average dayrate (in thousands) (8)	$ 81.8	$ 68.5	$ 71.9
Marketed utilization (9)	72%	70%	73%
Capital and Deferred Expenditure:			
Regulatory & Maintenance (10)	$ 14.7	$ 5.0	$ 28.3
Contract preparation (11)	11.5	1.9	12.8
Marketable Rigs	26.2	6.9	41.1
Fleet spares and others (12)	0.3	(0.7)	5.9
Reactivation projects (13)	-	-	-
Sub-Total (excluding Newbuilds)	26.5	6.2	47.0
Newbuilds (14)	43.6	9.8	156.3
Total	$ 70.1	$ 16.0	$ 203.3

(In US$ millions, except rig numbers, average dayrate and marketed utilization)

(percentages and figures may include rounding differences)

SHELF DRILLING

Explanatory Notes

The above Statement of Operations is presented on a Pro Forma presentation basis rather than on a United States Generally Accepted Accounting Principles ("US GAAP") financial statement presentation basis. The Pro Forma Statement of Operations is presented as defined in the Confidential Information Memorandum of the Bond offering in 2012.

(1) ''Total Revenue'' includes all revenues earned over the period including drilling service contract dayrates, mobilization and contract preparation fees amortized over the firm contract term, demobilization and contract termination fees.

(2) ''Labor expenses'' are defined as all personnel remuneration related expenses directly attributable to operating the rig fleet. ''Rig maintenance expenses'' are defined as all non-capitalized or deferred expenses related to maintaining a rig and fall into two categories: ordinary and extraordinary expenditures. Ordinary expenditures include all maintenance expenses less than $50,000. Extraordinary expenditures include all maintenance expenditures that are greater than $50,000 and that do not qualify as capital or deferred expenditures by virtue of not directly extending the life, or increasing the functionality of the rig. Rig maintenance expenses before adjustments also include rig reactivation costs which are required to be accounted for as operating expenditures under US GAAP. ''Other operating expenses'' are defined as all remaining directly attributable operating expenses and include costs relating to insurance, professional services, equipment rental and other miscellaneous costs.

(3) "Selling, general, and administrative expenses" as used herein includes corporate general & administrative expenses and shorebase office costs.

(4) ''EBITDA'' as used herein represents revenue less: operating expenses, selling, general and administrative expenses and provision for doubtful debt, excluding interest, sponsors' management fees, income taxes, depreciation and amortization. ''Adjusted EBITDA'' as used herein represents EBITDA as adjusted for the exclusion of non-recurring items: tax related costs, severance costs. These terms, as we define them, may not be comparable to similarly titled measures employed by other companies and are not a measure of performance calculated in accordance with US GAAP. EBITDA and Adjusted EBITDA should not be considered in isolation or as a substitute for operating income, net income or other income or cash flow statement data prepared in accordance with US GAAP.

We believe that EBITDA and Adjusted EBITDA are useful because they are widely used by investors in our industry to measure a company's operating performance without regard to items such as interest expense, income tax expense (benefit), depreciation and amortization and non-recurring expenses (benefits), which can vary substantially from company to company. EBITDA and Adjusted EBITDA have significant limitations, such as not reflecting our cash requirements for Capital and Deferred Expenditure, contractual commitments, working capital, taxes or debt service.

Our management uses EBITDA and Adjusted EBITDA for the reasons stated above. In addition, our management uses Adjusted EBITDA in presentations to our Board of Directors to provide a consistent basis to measure operating performance of management; as a measure for planning and forecasting overall expectations; for evaluation of actual results against such expectations; and in communications with equity holders, lenders, note holders, rating agencies and others concerning our financial performance.

We reconcile EBITDA to Adjusted EBITDA in the table on page 4 as follows:
(a) ''Exclusion of non-income tax related costs'' represents certain charges incurred by the Company whereby a fee of a percentage of an Egyptian entity's consolidated revenues is levied bi-annually by

SHELF DRILLING

the Egyptian General Authority for Investment. For U.S. GAAP reporting purposes the Company recognizes these costs as operating and maintenance expenses.
(b) “Severance costs” represents one time employee termination costs.

(5) ‘‘Marketable rigs’’ are defined as the total number of rigs excluding: (i) stacked rigs, (ii) stacked rigs under reactivation, (iii) rigs under non-drilling contract and (iv) newbuild rigs under construction.

(6) ‘‘Stacked rigs’’ are defined as rigs that have been taken out of service and placed in long-term storage. It can also include rigs that have been taken out of service as a result of natural disaster or operational event such as a fire incident. Stacking a rig involves a total reduction of the rig crew and “storing” the rig in a harbor or designated area offshore. Steps are typically taken to protect the rig including installing dehumidifiers, applying protective coatings to fight corrosion and filling engines and machinery with protective fluids. Total rig costs are generally reduced to minimum levels during stacking periods.

(7) ‘‘Rigs under non-drilling contract’’ are defined as rigs operating under: (i) bareboat charter, an arrangement between the owner and charterer of a rig whereby rig operating costs are borne by the charterer as part of the agreement and (ii) accommodation contract.

(8) ‘‘Average dayrate’’ is defined as the average contract dayrate earned by marketable rigs over the reporting period excluding any mobilization fees, contract preparation and capital expenditure reimbursements.

(9) ‘‘Marketed utilization’’ is defined as the actual number of calendar days during which marketable rigs generate dayrate revenues divided by the maximum number of calendar days during which those same rigs could have generated dayrate revenues. Marketable rigs exclude rigs we consider stacked.

(10) “Regulatory & Maintenance” Capital and Deferred Expenditure includes major overhauls, regulatory costs, general upgrades and sustaining capital expenditures on rigs in operation.

(11) “Contract preparation” Capital and Deferred Expenditure includes specific upgrade, mobilization and preparation costs associated with a customer contract. It excludes contract preparation costs associated with reactivation projects (such amounts are included under “Reactivation projects”).
(12) “Fleet Spares and Others” Capital and Deferred Expenditure includes: (i) acquisition and certification costs for the rig fleet spares pool which is allocated to specific rig expenditure as and when required by that rig which will result in an expenditure charge to that rig and a credit to Fleet spares and (ii) office and infrastructure expenditure.

(13) “Reactivation projects” include all Capital and Deferred Expenditure associated with reactivation projects including Regulatory & Maintenance and Contract Preparation.

(14) “Newbuilds” include all payments made under the construction contracts with Lamprell shipyard for the two newbuild jackup rigs, internal costs associated with project management, machinery and equipment provided to the project by the Company and capitalized interest.