Financial Report For the Period Ended June 30, 2017

This report comments on the operating and financial performance of Shelf Drilling, Ltd (the "Company") and on the summary 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.

"Q2 2017" and "Q2 2016" are used to refer to the three month periods ended June 30, 2017 and 2016, respectively.

Highlights

- Revenue of $142.8 million in Q2 2017 decreased by $27.1 million (16.0%) compared to Q2 2016 primarily due to the decrease in average dayrates and lower marketed utilization.
- Rig operating expenses decreased by $11.5 million (15.0%) in Q2 2017 compared to Q2 2016, mainly reflecting lower expenses for rigs seeking marketing opportunities and cost savings achieved by the Company.
- Selling, general and administrative expenses decreased by $1.8 million (8.8%) in Q2 2017 compared to Q2 2016 reflecting the favorable impact of cost reduction initiatives.
- Provisions for doubtful debt totaled $2.1 million in Q2 2017, related to the uncertainty of collectability for specifically identified accounts receivable.
- Adjusted EBITDA in Q2 2017 of $56.5 million decreased by $15.1 million (21.1%) compared to Q2 2016 mainly due to lower average dayrates and marketed utilization, which more than offset the reduction in expenses.
- Q2 2017 Capital Expenditures and Deferred Costs totaled $243.1 million compared to $44.8 million in Q2 2016. This included $150.8 million relating to the acquisition of two premium jackup rigs and $82.1 million for the construction of the newbuilds (Q2 2016: $27.8 million).
- The Company's second newbuild started its five-year contract with Chevron in Thailand on June 1, 2017 after completing final customer acceptance requirements.
- $1.4 billion in contract backlog at June 30, 2017 across 23 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. The first two rigs were delivered on May 18, 2017 and the third rig is expected to be delivered in Q3 2017.
- The Company's cash balance at June 30, 2017 was $173.0 million and included $73.9 million committed to the acquisition of the third rig.
- The Company's total debt at June 30, 2017 was $858.4 million including $331.4 million obligation under sale and leaseback for the two newbuilds.

Revenue

Revenue was $142.8 million in Q2 2017 compared to $169.9 million in Q2 2016. The decrease in total revenue was largely due to the 9.2% decrease in average dayrates from $75.4 thousand in Q2 2016 to $68.5 thousand in Q2 2017, and the decline in marketed utilization from 75% in Q2 2016 to 64% in Q2 2017, which was primarily driven by the contract expirations of four rigs in India in 2017. This was partly offset by the increase in revenue from the two newbuilds that started their contracts on December 1, 2016 and June 30, 2017, respectively.

Within the marketable rig fleet, twelve rigs were idle awaiting marketing opportunities at the end of Q2 2017 compared to six rigs at the end of Q2 2016. During Q2 2017, two rigs were undergoing major projects or regulatory inspections compared to three rigs in Q2 2016. There were 34 marketable rigs, one rig under non-drilling contract and four stacked rigs at the end of Q2 2017.

Rig Operating Expenses

Total rig operating expenses decreased by $11.5 million (15.0%) in Q2 2017 to $65.0 million compared to $76.5 million in Q2 2016. This decrease was mainly due to lower expenses for rigs which were seeking marketing opportunities in Q2 2017 compared to Q2 2016 ($7.7 million), cost savings generated by the Company across the fleet ($4.4 million), lower maintenance and shipyard expenses ($1.6 million), lower costs on a rig that ceased operations on March 22, 2015 following a fire incident ($1.2 million), lower costs for rigs operating under non-drilling contracts ($1.1 million), and lower costs on rigs that are stacked ($0.4 million). This was partly offset by $4.4 million of operating costs for the two newbuilds and $0.5 million for the two premium jackup rigs acquired in May 2017.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $18.7 million in Q2 2017 ($8.1 million for shore-based offices G&A and $10.6 million for Corporate G&A) compared to $20.5 million in Q2 2016 ($9.3 million for shore-based offices G&A and $11.2 million for Corporate G&A) largely due to cost savings in all expense categories.

Provision for doubtful debt, which relates to the uncertainty of collectability connected with specifically identified accounts receivable, was $2.1 million in Q2 2017 compared to nil in Q2 2016.

Other, net expense / (gain)

Other, net expense / (gain) was a net expense of $0.5 million for Q2 2017 compared to a net expense of $1.3 million for Q2 2016 largely due to lower exchange rate losses in Q2 2017 related to currency fluctuations.

Adjusted EBITDA

Adjusted EBITDA for Q2 2017 was $56.5 million compared to $71.6 million for Q2 2016, a decrease of $15.1 million, or 21.1%. The Adjusted EBITDA margin for Q2 2017 was 40% compared to 42% in Q2 2016.

Capital Expenditures and Deferred Costs

Capital expenditures and deferred costs 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 acquisitions, rig reactivations or newbuilds under construction.

Capital expenditures and deferred costs were $243.1 million in Q2 2017 compared to $44.8 million in Q2 2016. Capital expenditures and deferred costs increased by $198.3 million due to $150.8 million related to the acquisition of two premium jackup rigs and the increase of $54.3 million attributable to the two newbuild rigs under construction, from $27.8 million in Q2 2016 to $82.1 million in Q2 2017. This was partly offset by the decline in non-newbuild capital expenditures and deferred costs from $17.0 million in Q2 2016 to $10.2 million in Q2 2017 mainly due to a $5.7 million reduction in contract preparation expenditure in Q2 2017.

Following the delivery of the Company’s second newbuild on April 6, 2017 from Lamprell, Plc. in the UAE, the rig started its five-year contract with Chevron in Thailand on June 1, 2017 after completing final customer acceptance requirements.

SHELF DRILLING

Financial Report For the Period Ended June 30, 2017

	Three Months Ended June 30, 2016	Three Months Ended June 30, 2017	Six Months Ended June 30, 2016	Six Months Ended June 30, 2017	Twelve Months Ended June 30, 2017
Revenue (1)........	$ 169.9	$ 142.8	$ 349.6	$ 289.1	$ 623.8
Rig operating expenses (2):					
Personnel expenses........	46.3	39.7	105.9	78.6	161.5
Maintenance expenses........	25.5	17.7	48.1	30.9	77.8
Other rig-related expenses........	4.7	7.6	15.3	15.8	34.0
Total rig operating expenses........	76.5	65.0	169.3	125.3	273.3
Gross Profit........	93.4	77.8	180.3	163.8	350.5
Selling, general, and administrative expenses (3):					
Shore-based offices G&A........	9.3	8.1	19.8	16.3	32.9
Corporate G&A........	11.2	10.6	22.2	20.7	41.1
Total Selling, general, and administrative expenses	20.5	18.7	42.0	37.0	74.0
Sponsors' fee (4)........	1.1	1.1	2.3	2.3	4.5
Share-based compensation expense, net of forfeitures (5)...	0.2	0.2	(0.1)	0.4	0.7
Provision for / (Reversal of) doubtful accounts, net........	-	2.1	-	(0.2)	(0.6)
Other, net expense / (gain) (6)........	1.3	0.5	0.6	0.8	(1.4)
EBITDA (7)........	$ 70.3	$ 55.2	$ 135.5	$ 123.5	$ 273.3
Share-based compensation expense, net of forfeitures........	0.2	0.2	(0.1)	0.4	0.7
Sponsors' fee........	1.1	1.1	2.3	2.3	4.5
Total adjustments........	1.3	1.3	2.2	2.7	5.2
Adjusted EBITDA (7)........	$ 71.6	$ 56.5	$ 137.7	$ 126.2	$ 278.5
Adjusted EBITDA Margin........	42%	40%	39%	44%	45%
Operating Data:					
Average marketable rigs (8)........	31.0	32.3	31.2	32.1	31.6
Average stacked rigs (9)........	3.4	3.0	4.2	3.0	3.0
Average rigs under non-drilling contract (10)........	1.0	2.0	0.8	1.5	1.3
New build rigs under construction........	2.0	0.7	2.0	0.8	1.3
Total rigs........	37.4	38.0	38.3	37.4	37.2
Average dayrate (in thousands) (11)........	$ 75.4	$ 68.5	$ 78.6	$ 68.5	$ 70.2
Marketed utilization (12)........	75%	64%	73%	67%	71%
Capital Expenditures and Deferred Costs :					
Regulatory and capital maintenance (13)........	$ 7.6	$ 6.2	$ 22.3	$ 11.2	$ 26.9
Contract preparation (14)........	8.5	2.8	20.0	4.7	7.1
Marketable Rigs........	16.1	9.0	42.3	15.9	34.0
Fleet spares and others (15)........	0.9	1.2	1.3	0.5	6.2
Reactivation projects (16)........	-	-	-	-	-
Sub-Total (excluding Newbuilds & Acquisitions)........	17.0	10.2	43.6	16.4	40.2
Newbuilds (17)........	27.8	82.1	71.4	91.9	210.5
Acquisitions (18)........	-	150.8	-	150.8	150.8
Total........	$ 44.8	$ 243.1	$ 115.0	$ 259.1	$ 401.5

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

(percentages and figures may include rounding differences)

Explanatory Notes

The above Financial Report reflects certain GAAP and non-GAAP financial measures to evaluate the performance of our business. We believe the non-GAAP financial measures we use are useful in assessing our historical and future performance throughout the commodity price cycles that have characterized our industry since our inception.

(1) ‘‘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) “Rig Operating Expenses” consist of “Personnel expenses”, “Maintenance expenses” and “Other rig-related expenses”. “Personnel expenses” include compensation, transportation, training and catering costs for rig crews. Such expenses vary from country to country reflecting the combination of expatriates and nationals, local market rates, unionized trade arrangements, local law requirements regarding social security, payroll charges and end of service benefit payments. “Maintenance expenses” relate to maintaining our rigs in operation, including the associated freight and customs duties, which are not capitalized nor deferred. Such expenses do not directly extend the rig life or increase the functionality of the rig. “Other rig-related expenses” include all remaining operating expenses such as insurance, professional services, equipment rental and other miscellaneous costs.

(3) “Selling, general, and administrative expenses” as used herein include corporate general & administrative expenses and shore-based offices general and administrative expenses. Corporate general & administrative expenses as used herein exclude the share-based compensation expense and the fixed annual fees payable to the Sponsors under a Management Agreement as a privately held company for providing business, organizational, strategic, financial and other advisory services.

(4) “Sponsor’s fee” represents the fixed annual fees payable to the Sponsors under a Management Agreement as a privately held company for providing business, organizational, strategic, financial and other advisory services.

(5) “Share-based compensation expense, net of forfeitures” is recognized as general and administrative expense in the consolidated statements of operations under US GAAP.

(6) “Other, net expense / (gain)” as used herein is composed of currency exchange loss / (gain), tax indemnities and vendor discounts.

(7) ‘‘EBITDA’’ as used herein represents revenue less: operating expenses, selling, general and administrative expenses, provision for doubtful debt, sponsors’ fee, share-based compensation expense, net of forfeitures, interest income and other, net, and excludes interest, income taxes, depreciation and amortization. ‘‘Adjusted EBITDA’’ as used herein represents EBITDA as adjusted for the exclusion of sponsor’s fee, share-based compensation expense, net of forfeitures, and, in certain periods, other specific items. 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.

(8) ‘‘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.

(9) ‘‘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.

(10) ‘‘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.

(11) ‘‘Average dayrate’’ is defined as the average contract dayrate earned by marketable rigs over the reporting period excluding amortization of lump sum mobilization fees, contract preparation and capital expenditure reimbursements, recharges, bonuses and other revenue.

(12) ‘‘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 stacked rigs and rigs operating under non-drilling contract.

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

(14) "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").

(15) "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.

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

(17) "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.

(18) "Acquisitions" include all Capital and Deferred Expenditure associated with the acquisition of three premium jackup rigs in 2017.