Financial Report For the Period Ended September 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.

"Q3 2017" and "Q3 2016" are used to refer to the three month periods ended September 30, 2017 and 2016, respectively.

Highlights

- Revenue of $137.8 million in Q3 2017 decreased by $40.9 million (22.9%) compared to Q3 2016 primarily due to lower marketed utilization and the decrease in average dayrates which was partly offset by the additional revenue from the two newbuilds.
- Rig operating expenses decreased by $4.9 million (6.8%) in Q3 2017 compared to Q3 2016, mainly reflecting lower expenses for rigs seeking marketing opportunities and cost savings achieved by the Company.
- Selling, general and administrative expenses increased by $0.3 million (1.6%) in Q3 2017 compared to Q3 2016.
- Provisions for doubtful accounts was a release of $4.6 million in Q3 2017 compared to a release of $7.8 million in Q3 2016, related to the collections of previously reserved accounts receivable.
- Adjusted EBITDA in Q3 2017 of $57.4 million decreased by $37.7 million (39.6%) compared to Q3 2016 mainly due to lower marketed utilization and average dayrates, which more than offset the reduction in expenses. The Adjusted EBITDA margin for Q3 2017 was 42%.
- Q3 2017 Capital Expenditures and Deferred Costs totaled $91.7 million compared to $91.7 million in Q3 2016. This included $78.1 million mainly relating to the acquisition of one premium jackup rig in Q3 2017 compared to $86.9 million for the construction of the newbuilds in Q3 2016.
- $1.4 billion in contract backlog at September 30, 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. The first two rigs were delivered in May 2017 and the third rig was delivered in September 2017. All three acquired rigs have now secured contracts that are expected to commence in Q4 2017 and Q1 2018.
- The Company's cash and cash equivalents balance at September 30, 2017 was $106.6 million.
- The Company's total debt at September 30, 2017 was $850.6 million including $322.8 million obligation under sale and leaseback for the two newbuilds.

Revenue

Revenue was $137.8 million in Q3 2017 compared to $178.7 million in Q3 2016. The decrease in total revenue was largely due to the decline in marketed utilization from 77% in Q3 2016 to 58% in Q3 2017 and the decrease in average dayrates from $72.7 thousand in Q3 2016 to $71.5 thousand in Q3 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 1, 2017, respectively.

Within the marketable rig fleet, ten rigs were idle awaiting marketing opportunities at the end of Q3 2017 compared to seven rigs at the end of Q3 2016. During Q3 2017, five rigs were undergoing major projects or regulatory inspections compared to no rigs in Q3 2016. There were 35 marketable rigs, one rig under non-drilling contract and four stacked rigs at the end of Q3 2017.

Rig Operating Expenses

Total rig operating expenses decreased by $4.9 million (6.8%) in Q3 2017 to $66.7 million compared to $71.6 million in Q3 2016. This decrease was mainly due to lower expenses for rigs which were seeking marketing opportunities in Q3 2017 compared to Q3 2016 ($7.4 million), cost savings generated by the Company across the fleet ($3.2 million), lower maintenance and shipyard expenses ($2.5 million), and lower costs on rigs that are stacked ($0.6 million). This was partly offset by $6.3 million of operating costs for the two newbuilds and $2.5 million for the three premium jackup rigs acquired in May and September 2017.

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $19.3 million in Q3 2017 ($7.9 million for shore-based offices G&A and $11.4 million for Corporate G&A) compared to $19.0 million in Q3 2016 ($8.3 million for shore-based offices G&A and $10.7 million for Corporate G&A) largely due to higher legal and accounting fees.

Provision for doubtful accounts, which relates to the uncertainty of collectability connected with specifically identified accounts receivable, was a release of $4.6 million in Q3 2017 compared to a release of $7.8 million in Q3 2016. The releases were due to the collections of specific receivables that were previously reserved.

Other, net expense / (gain)

Other, net expense / (gain) was a net expense of $1.1 million for Q3 2017 compared to a net expense of $0.8 million for Q3 2016 largely due to additional exchange rate losses in Q3 2017 related to currency fluctuations.

Adjusted EBITDA

Adjusted EBITDA for Q3 2017 was $57.4 million compared to $95.1 million for Q3 2016, a decrease of $37.7 million, or 39.6%. The Adjusted EBITDA margin for Q3 2017 was 42% compared to 53% in Q3 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 $91.7 million in Q3 2017 compared to $91.7 million in Q3 2016. Capital expenditures and deferred costs excluding newbuilds and acquisitions increased from $4.8 million in Q3 2016 to $13.5 million in Q3 2017 mainly due to a $5.5 million increase in regulatory and capital maintenance and $4.4 million increase in contract preparation expenditure.

Capital expenditures and deferred costs in Q3 2017 included $78.1 million relating mainly to the acquisition of one premium jackup rig compared to $86.9 million attributable to the two newbuild rigs under construction in Q3 2016.

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	Three Months Ended September 30, 2016	Three Months Ended September 30, 2017	Nine Months Ended September 30, 2016	Nine Months Ended September 30, 2017	Twelve Months Ended September 30, 2017
Revenue (1)	$ 178.7	$ 137.8	$ 528.2	$ 426.9	$ 582.9
Rig operating expenses (2):					
Personnel expenses	41.9	37.2	147.8	115.9	156.8
Maintenance expenses	18.5	21.4	66.6	52.3	80.7
Other rig-related expenses	11.2	8.1	26.5	23.8	30.9
Total rig operating expenses	71.6	66.7	240.9	192.0	268.4
Gross Profit	107.1	71.1	287.3	234.9	314.5
Selling, general, and administrative expenses (3):					
Shore-based offices G&A	8.3	7.9	28.1	24.2	32.6
Corporate G&A	10.7	11.4	32.9	32.0	41.7
Total Selling, general, and administrative expenses	19.0	19.3	61.0	56.2	74.3
Sponsors' fee (4)	1.1	1.1	3.4	3.4	4.5
Share-based compensation expense, net of forfeitures (5)	0.2	0.2	-	0.6	0.8
Provision for / (Reversal of) doubtful accounts, net	(7.8)	(4.6)	(7.8)	(4.8)	2.6
Other, net expense / (gain) (6)	0.8	1.1	1.5	1.9	(1.1)
EBITDA (7)	$ 93.8	$ 54.0	$ 229.2	$ 177.5	$ 233.4
Share-based compensation expense, net of forfeitures	0.2	0.2	-	0.6	0.8
Sponsors' fee	1.1	1.1	3.4	3.4	4.5
Acquired rig reactivation costs (8)	-	2.1	-	2.1	2.1
Total adjustments	1.3	3.4	3.4	6.1	7.4
Adjusted EBITDA (7)	$ 95.1	$ 57.4	$ 232.6	$ 183.6	$ 240.8
Adjusted EBITDA Margin	53%	42%	44%	43%	41%
Operating Data:					
Average marketable rigs (9)	31.0	33.7	31.1	32.6	32.3
Average stacked rigs (10)	3.0	4.0	3.8	3.3	3.3
Average rigs under non-drilling contract (11)	1.0	1.5	0.9	1.5	1.4
New build rigs under construction	2.0	-	2.0	0.6	0.8
Total rigs	37.0	39.2	37.8	38.0	37.8
Average dayrate (in thousands) (12)	$ 72.7	$ 71.5	$ 76.5	$ 69.4	$ 69.9
Marketed utilization (13)	77%	58%	75%	64%	66%
Capital Expenditures and Deferred Costs :					
Regulatory and capital maintenance (14)	$ 3.7	$ 9.2	$ 26.0	$ 20.4	$ 32.4
Contract preparation (15)	0.4	4.8	20.3	9.6	11.6
Marketable Rigs	4.1	14.0	46.3	30.0	44.0
Fleet spares and others (16)	0.7	(0.5)	2.0	-	5.0
Reactivation projects (17)	-	-	-	-	-
Sub-Total (excluding Newbuilds & Acquisitions)	4.8	13.5	48.3	30.0	49.0
Newbuilds (18)	86.9	0.1	158.3	92.0	123.7
Acquisitions (19)	-	78.1	-	228.9	228.9
Total	$ 91.7	$ 91.7	$ 206.6	$ 350.9	$ 401.6

(In US$ millions, except rig numbers, average dayrate and marketed utilization)
(percentages and figures may include rounding differences)

SHELF DRILLING

Explanatory Notes

The above Financial Report reflects certain US GAAP and non-US GAAP financial measures to evaluate the performance of our business. We believe the non-US 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 Sponsors fee.

(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 accounts, sponsors’ fee, share-based compensation expense, net of forfeitures, 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, acquired rig reactivation costs 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 expenditures and deferred costs, 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) “Acquired rig reactivation costs” represent the expenditures accounted for as operating expenses in accordance with US GAAP, which were incurred in connection with the reactivation of stacked or idle rigs acquired with the specific intention to reactivate and deploy.

(9) ‘‘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.

(10) ‘‘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.

(11) ‘‘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.

(12) ‘‘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.

(13) ‘‘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.

(14) “Regulatory and capital maintenance” includes major overhauls, regulatory costs, general upgrades and sustaining capital expenditures on rigs in operation.

(15) “Contract preparation” 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”).

(16) “Fleet Spares and Others” 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.

(17) “Reactivation projects” include all capital expenditures and deferred costs associated with reactivation projects, including regulatory and capital maintenance as well as Contract Preparation.

(18) “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.

(19) "Acquisitions" include all capital expenditures and deferred costs associated with the acquisition and reactivation of three premium jackup rigs in 2017.