SHELF DRILLING

Financial Report For the Period Ended December 31, 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 4. A complete listing and description of defined terms and the methodology of calculating EBITDA and Adjusted EBITDA are set out in the Explanatory Notes.

"Q4 2017" and "Q4 2016" are used to refer to the three month periods ended December 31, 2017 and 2016, respectively.

Highlights

- Revenue of $145.1 million in Q4 2017 decreased by $11.0 million (7.0%) compared to Q4 2016 primarily due to higher dayrate and marketed utilization from the two newbuilds which was more than offset by lower utilization and average dayrates from the rest of the fleet.
- Revenue of $572.0 million for the twelve months ended December 31, 2017 decreased by $112.3 million (16.4%) compared to the same period in 2016 primarily due to lower marketed utilization and the decrease in average dayrates.
- Rig operating expenses increased by $18.4 million (24.1%) in Q4 2017 compared to Q4 2016, mainly reflecting the reactivation of the three premium jackup rigs acquired in 2017 and the increase in operating expenses for rigs in India and Nigeria ahead of scheduled contract commencements.
- Selling, general and administrative expenses increased by $2.8 million (15.5%) in Q4 2017 compared to Q4 2016 mainly due to higher legal and accounting fees.
- Provision for doubtful accounts was a release of $0.6 million in Q4 2017 due to collections of previously reserved accounts receivable compared to a provision of $7.4 million in Q4 2016.
- Adjusted EBITDA in Q4 2017 of $44.7 million decreased by $12.5 million (21.9%) compared to Q4 2016 mainly due to lower marketed utilization and average dayrates. The Adjusted EBITDA margin for Q4 2017 was 31%.
- Adjusted EBITDA for the twelve months ended December 31, 2017 of $228.4 million decreased by $61.4 million (21.2%) compared to the same period in 2016 primarily due to lower marketed utilization and average dayrates. The Adjusted EBITDA margin for 2017 was 40%.
- Q4 2017 Capital Expenditures and Deferred Costs totaled $46.2 million compared to $50.7 million in Q4 2016. This included $24.3 million relating to the reactivation and contract preparation of the three premium jackup rigs acquired in 2017 compared to $31.7 million for the construction of the newbuilds in Q4 2016.
- $1.4 billion in contract backlog at December 31, 2017 across 28 contracted rigs.
- The Company's cash and cash equivalents balance at December 31, 2017 was $84.6 million.
- The Company's total debt at December 31, 2017 was $840.6 million including $313.9 million obligation under sale and leaseback for the two newbuilds.
- Two of the three recently acquired premium jackup rigs started their respective contracts in January 2018 and the third premium jackup rig started its contract in March 2018.
- In February 2018, the Company completed the issuance of $600.0 million of new 8.25% Senior Unsecured Notes due 2025. The net proceeds were used to purchase and cancel the $502.8 million of 9.5% Senior Secured Notes due 2020 and the $30.4 million of 8.625% Senior Secured Notes due 2018, with the remaining cash retained for general corporate purposes.

Revenue

Revenue was $145.1 million in Q4 2017 compared to $156.1 million in Q4 2016. The decrease in total revenue was largely due to the decline in marketed utilization from 71% in Q4 2016 to 57% in Q4

2017 and the decrease in average dayrates (excluding the newbuilds), 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 which started their contract on December 1, 2016 and June 1, 2017, respectively.

Total revenue for the twelve months ended December 31, 2017 was $572.0 million compared to $684.3 million for the same period in 2016. The decrease in total revenue was largely due to the 6.4% decrease in average dayrate from $75.2 thousand in 2016 to $70.4 thousand in 2017, and the decline in marketed utilization from 74% in 2016 to 62% in 2017. This was partly offset by the increase in revenue from the two newbuilds that started their contract on December 1, 2016 and June 1, 2017, respectively.

Within the marketable rig fleet, eight rigs were idle awaiting marketing opportunities at the end of Q4 2017 compared to nine rigs at the end of Q4 2016. During Q4 2017, seven rigs were undergoing major projects, contract preparation or regulatory inspections compared to one rig in Q4 2016. There were 35 marketable rigs, one rig under non-drilling contract and three stacked rigs at the end of Q4 2017.

Rig Operating Expenses

Total rig operating expenses increased by $18.4 million (24.1%) in Q4 2017 to $94.8 million compared to $76.4 million in Q4 2016. This increase was mainly due to the reactivation and contract preparation costs of the three premium jackup rigs acquired in 2017 ($15.7 million), contract preparation and operating expenses for rigs that were idle in Q4 2016 but operating or preparing for contract in Q4 2017 ($7.6 million), operating costs for the two newbuilds ($4.5 million) and higher shipyard costs ($1.6 million). This was partly offset by lower expenses for rigs which were seeking marketing opportunities in Q4 2017 compared to Q4 2016 ($3.9 million), cost savings generated by the Company across the fleet ($3.7 million), and lower maintenance and mobilization expenses ($3.4 million).

Total operating expenses for the twelve months ended December 31, 2017 decreased by $30.5 million (9.6%) to $286.8 million compared to $317.3 million for the same period in 2016. This decrease was mainly due to lower expenses for rigs which were seeking marketing opportunities in 2017 compared to 2016 ($32.4 million), cost savings generated by the Company across the fleet ($22.1 million), lower maintenance, mobilization and shipyard expenses ($5.2 million), lower expenses for rigs which were stacked in 2017 compared to 2016 ($4.4 million), and lower other costs ($3.4 million). This was partly offset by the reactivation and contract preparation costs of the three premium jackup rigs acquired in 2017 ($18.6 million) and operating costs for the two newbuilds ($18.4 million).

Selling, General and Administrative Expenses

Selling, general and administrative expenses were $20.9 million in Q4 2017 ($9.1 million for shore-based offices G&A and $11.8 million for Corporate G&A) compared to $18.1 million in Q4 2016 ($8.4 million for shore-based offices G&A and $9.7 million for Corporate G&A). The $2.8 million increase was largely due to higher legal and accounting fees in Q4 2017.

Provision for doubtful accounts, which relates to the uncertainty of collectability connected with specifically identified accounts receivable, was a release of $0.6 million in Q4 2017 compared to a provision of $7.4 million recorded in Q4 2016. The release in Q4 2017 was due to the collections of specific receivables that were previously reserved.

Selling, general and administrative expenses decreased by $2.1 million (2.7%) to $77.0 million for the twelve months ended December 31, 2017 compared to $79.1 million for the same period in 2016, largely due to cost savings in all expense categories.

Provision for doubtful accounts was a net favorable impact of $5.4 million in 2017 compared to a net favorable impact of $0.4 million in 2016 due to the collections of specific receivables that were previously reserved.

Other, net expense / (gain)

Other, net expense / (gain) was a net expense of $1.0 million for Q4 2017 compared to a net gain of $3.0 million for Q4 2016.

Other, net expense / (gain) was a net expense of $3.0 million for the twelve months ended December 31, 2017 compared to a net gain of $1.5 million for the same period in 2016.

Other, net consisted primarily of gains / (losses) due to foreign currency exchange fluctuations.

Adjusted EBITDA

Adjusted EBITDA for Q4 2017 was $44.7 million compared to $57.2 million for Q4 2016, a decrease of $12.5 million, or 21.9%. The Adjusted EBITDA margin for Q4 2017 was 31% compared to 37% in Q4 2016.

Adjusted EBITDA for the twelve months ended December 31, 2017 was $228.4 million compared to $289.8 million for the same period in 2016, a decrease of $61.4 million, or 21.2%. The Adjusted EBITDA margin for the twelve months ended December 31, 2017 was 40% compared to 42% for the same period in 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 $46.2 million in Q4 2017 compared to $50.7 million in Q4 2016. Capital expenditures and deferred costs excluding newbuilds and acquisitions increased from $19.0 million in Q4 2016 to $21.9 million in Q4 2017 mainly due to a $2.1 million increase in contract preparation expenditure and a $0.8 million increase in regulatory and capital maintenance and fleet spares.

Capital expenditures and deferred costs in Q4 2017 included $24.3 million relating to the reactivation of the three premium jackup rigs acquired in 2017 compared to $31.7 million attributable to the two newbuild rigs under construction in Q4 2016.

For the twelve months ended December 31, 2017, the Capital expenditures and deferred costs were $397.1 million compared to $257.3 million for the same period in 2016. Capital expenditures and deferred costs, excluding newbuilds and acquisitions, were $51.7 million for the twelve months ended December 31, 2017 compared to $67.3 million for the same period in 2016. The decrease of $15.6 million was primarily due to lower contract preparation, regulatory and capital maintenance and fleet spares expenditures.

Capital expenditures and deferred costs for the twelve months ended December 31, 2017 included $253.2 million related to the acquisition and reactivation of three premium jackup rigs and $92.2 million relating to the construction of the second newbuild, compared to $190.0 million attributable to the two newbuild rigs under construction in 2016.

SHELF DRILLING

Financial Report For the Period Ended December 31, 2017

	Three Months Ended December 31,		Twelve Months Ended December 31,	
	2016	2017	2016	2017
Revenue (1)..	$ 156.1	$ 145.1	$ 684.3	$ 572.0
Rig operating expenses (2):				
Personnel expenses...	41.0	46.5	188.7	162.4
Maintenance expenses..	28.4	46.7	95.0	99.0
Other rig-related expenses..	7.0	1.6	33.5	25.4
Total rig operating expenses...	76.4	94.8	317.3	286.8
Gross Profit...	79.7	50.3	367.0	285.2
Selling, general, and administrative expenses (3):				
Shore-based offices G&A..	8.4	9.1	36.5	33.2
Corporate G&A...	9.7	11.8	42.6	43.8
Total Selling, general, and administrative expenses	18.1	20.9	79.1	77.0
Sponsors' fee (4)..	1.1	1.1	4.5	4.5
Share-based compensation expense, net of forfeitures (5)...	0.2	0.2	0.2	0.8
Provision for / (Reversal of) doubtful accounts, net.............	7.4	(0.6)	(0.4)	(5.4)
Other, net expense / (gain) (6)..	(3.0)	1.0	(1.5)	3.0
EBITDA (7)..	$ 55.9	$ 27.7	$ 285.1	$ 205.3
Share-based compensation expense, net of forfeitures........	0.2	0.2	0	0.8
Sponsors' fee..	1.1	1.1	4.5	4.5
Acquired rig reactivation costs (8)....................................	-	15.7	-	17.8
Total adjustments..	1.3	17.0	4.7	23.1
Adjusted EBITDA (7)..	$ 57.2	$ 44.7	$ 289.8	$ 228.4
Adjusted EBITDA Margin..	37%	31%	42%	40%
Operating Data:				
Average marketable rigs (9)..	31.3	35.0	31.2	33.2
Average stacked rigs (10)...	3.0	3.1	3.6	3.3
Average rigs under non-drilling contract (11).......................	1.0	1.0	0.9	1.4
New build rigs under construction......................................	1.7	-	1.9	0.4
Total rigs..	37.0	39.1	37.6	38.3
Average dayrate (in thousands) (12)....................................	$ 70.9	$ 73.3	$ 75.2	$ 70.4
Marketed utilization (13)..	71%	57%	74%	62%
Capital Expenditures and Deferred Costs :				
Regulatory and capital maintenance (14)...........................	$ 12.0	$ 14.8	$ 38.0	$ 35.0
Contract preparation (15)..	2.0	4.1	22.3	13.7
Marketable Rigs...	14.0	18.9	60.3	48.7
Fleet spares and others (16)...	5.0	3.0	7.0	3.0
Sub-Total (excluding Newbuilds & Acquisitions)..............	19.0	21.9	67.3	51.7
Newbuilds (17)..	31.7	-	190.0	92.2
Acquisitions (18)..	-	24.3	-	253.2
Total...	$ 50.7	$ 46.2	$ 257.3	$ 397.1

(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 generally accepted accounting principles ("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 and non-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, the Sponsors' fee and provision/(release) for doubtful accounts.

(4) "Sponsors' 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.

SHELF DRILLING

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) “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 expenditures and deferred costs associated with the acquisition and reactivation of three premium jackup rigs in 2017.