



**SHELF  
DRILLING**



# **Shelf Drilling Transaction Announcement**

February 21, 2019

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## Introduction – Transaction Overview

- On February 21, 2019, Shelf Drilling (SHLF) entered into agreements with China Merchants and Great Wall Ocean Strategy & Technology Fund (CMG or China Merchants) for the following:
  1. Acquisition of two newbuild premium CJ46 jack-up rigs constructed by China Merchants Heavy Industries (CMHI) for \$87 million per rig
  2. Affiliates of CMG to subscribe for \$174 million of newly issued SHLF common shares, at a subscription price of \$6.50 per share
  3. Bareboat charter agreements for two additional newbuild premium CJ46 jack-up rigs with option to purchase one or both rigs
- Closing and rig delivery for the two acquired rigs targeted for Q2 2019
- Transaction brings new strategic partner and long-term shareholder

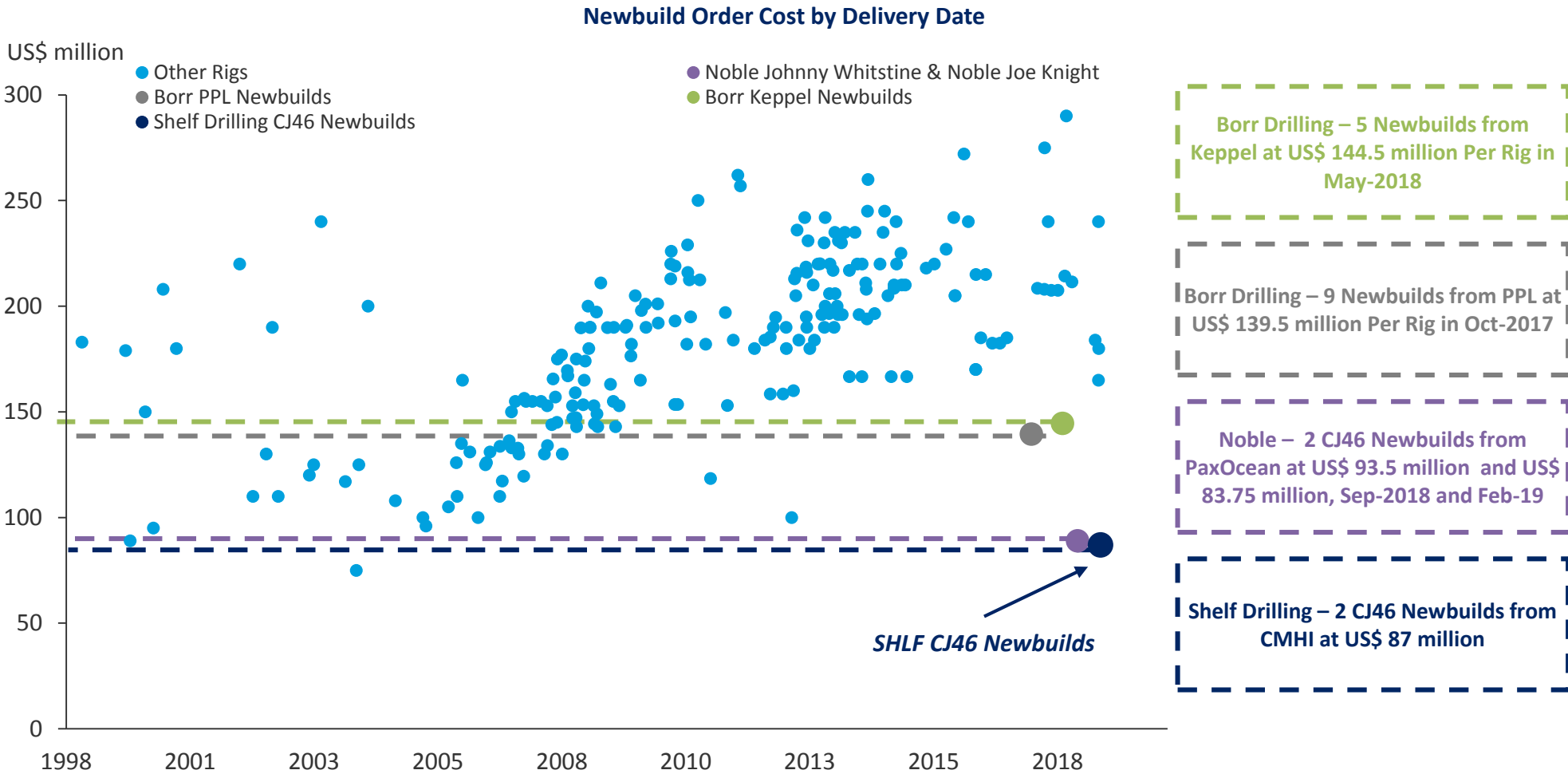
**Opportunity to add four newbuild premium jack-up rigs to SHLF fleet at historically low acquisition cost**



# High Quality Assets at Historically Low Prices



## Lowest Levels for Newbuild Jack-ups Since 2004



Source: IHS Petrodata, DNB Markets

## Key Transaction Terms

### 2 x CJ46 Rig Purchase and Equity Investment

- US\$87 million per rig, or US\$174 million in total
- Assuming completion of both rig acquisitions, affiliates of CMG will subscribe for \$174 million of newly issued SHLF shares at a subscription price of \$6.50/share which equals the aggregate purchase price for the two rigs
- Closing expected to be completed during Q2 2019, subject to successful completion of rig acceptance and certain other customary conditions
- The two rig purchases are not conditional upon, and may therefore be completed independently of, each other.
- SHLF responsible for costs incurred in preparing the rigs for operation including project supervision, procurement of inventory and owner furnished equipment, rig readiness and mobilization

### Additional 2 x CJ46 Bareboat Charter (BBC)

- Same design, equipment and specifications to two rigs being purchased
- SHLF's option to purchase one or both rigs at any time during the BBC period
- BBC rate and purchase option price over three year period:

	Year 1	Year 2	Year 3
<b>BBC Rate</b> (US\$000/rig/day)	10	15	20
<b>Purchase Option Price</b> (US\$ MM)	90	92	95

- Term can be extended for additional three years upon mutual agreement
- SHLF responsible for any additional costs required to operate the rigs including contract preparation and mobilization
- BBCs to commence six months after signing (Q3 2019 – three months after expected completion of the 2-rig purchase)

# Best in Class Equipment and High Build Quality

## Technical Summary

Main Characteristics	Delivery Year	2019
	Design	Gusto MSC CJ46-X100-D
	Build Yard	China Merchants Heavy Industry (Shenzhen)
	Water Depth	350 ft.
	Drilling Depth	30,000 ft.
Equipment	Accommodation	120 persons (1 & 2 person rooms)
	Drilling Package	NOV
	Hook Load	1,500,000 lbs. (with NOV TDS-8SA topdrive)
	Cantilever Reach	70x40ft.
	BOP	NOV Shaffer 15K
	Draw Works	NOV ADS-10T – Max line pull (14 lines), 1,501,000 lbs.
	Cranes	3 Favelle Favco diesel-hydraulic 50t / 32.8ft. 1 NOV knuckle boom pipe handling crane
	Mud Pumps	3 x NOV 14-P-220 Triplex pumps – 2,200 hp
	Power	5 x Caterpillar 3516C KW + 1 x Caterpillar C32 994 KW

## Advantages of Gusto MSC CJ46-X100-D

- Rig design meets a majority of incoming premium jack-up tender requirements (Middle East, Southeast Asia, West Africa, Mexico, North Sea)
- XY cantilever – skids both longitudinally and transversely, increased operational flexibility
- Larger drilling envelope with max hoisting capacity in any position
- Increased free main deck area
- 15k well control equipment
- High variable deck load capacity
- Offline stand building



*CJ46 design has a proven track record with tier 1 operators*

## Highly Reputable OEMs and Service Providers



# Shipyard Overview and Rig Delivery & Acceptance Process

## Shipyard Overview

- CMHI is one of the most prominent and reputed offshore rig construction companies in China
- CMHI is the world's largest CJ jack-up drilling rig manufacturer
- CMHI yards have built 25 rigs to date

19

*Gusto CJ46*

4

*Gusto CJ50*

2

*F&G JU2000E*

- 14 of these rigs have been delivered for operations (in the Middle East, Southeast Asia, Mexico and China)
- Yards are very well laid out, with very good infrastructure for rig construction



## Rig Delivery & Acceptance

- Multiple inspections to date by the Shelf Drilling team and third-party inspectors revealed high build quality
- CMHI signed a maintenance contract with various OEMS (including NOV, Gusto, COSL) to ensure that all the major equipment is maintained in good condition during the time the rigs have been available
- CMHI has agreed to Shelf Drilling's rig acceptance requirements
- Shelf Drilling project team delivered our two earlier newbuilds (Shelf Drilling Chaophraya and Shelf Drilling Krathong) on time and budget
- Targeting simultaneous delivery of both rigs in April or May 2019
- Rigs could commence drilling contracts by Q3 2019 following:
  - **Procurement:** owner-furnished equipment and inventory required for any operation
  - **Mobilization:** from CMHI yard in Shenzhen to future operating location in SHLF's geographic footprint
  - **RTO:** 'Ready To Operate' process for taking the rigs into operation, which include crew familiarization and competency training, as well as outfitting of workshops, warehouses, etc.

## Pro Forma Ownership and Board Composition

- Purchase price to be fully funded with proceeds from the share subscriptions
- Sufficient existing liquidity to fund other transaction-related expenses through cash on hand and availability under Revolving Credit Facility
- ~26.8 million shares to be issued to CMG (19.4% post money ownership)
  - Will result in increase in number of common shares outstanding from 111.2 million to 138.0 million
  - Implied pro forma market capitalization of \$897 million (at subscription price of \$6.50 per share)
  - SHLF has undertaken to list the new common shares on the OSE
  - Completion of share issuance expected in Q2 2019, subject to: 1) completion of rig acquisitions, 2) approval of a prospectus for the listing of the new common shares by the NFSA, and 3) certain other customary conditions
  - AGM scheduled for Q2 2019 to include, among other things, a shareholder vote on changes to SHLF board composition as illustrated in the table on right
- Transaction brings new strategic partner and long-term shareholder
  - CMG is one of the largest and oldest state-owned enterprises in China with total assets in excess of US\$1 trillion
  - China Merchants & Great Wall Ocean Strategy & Technology Fund: US\$1 billion fund sponsored by CMG primarily focused on investments in the marine industry

### Impact on Shareholder Structure

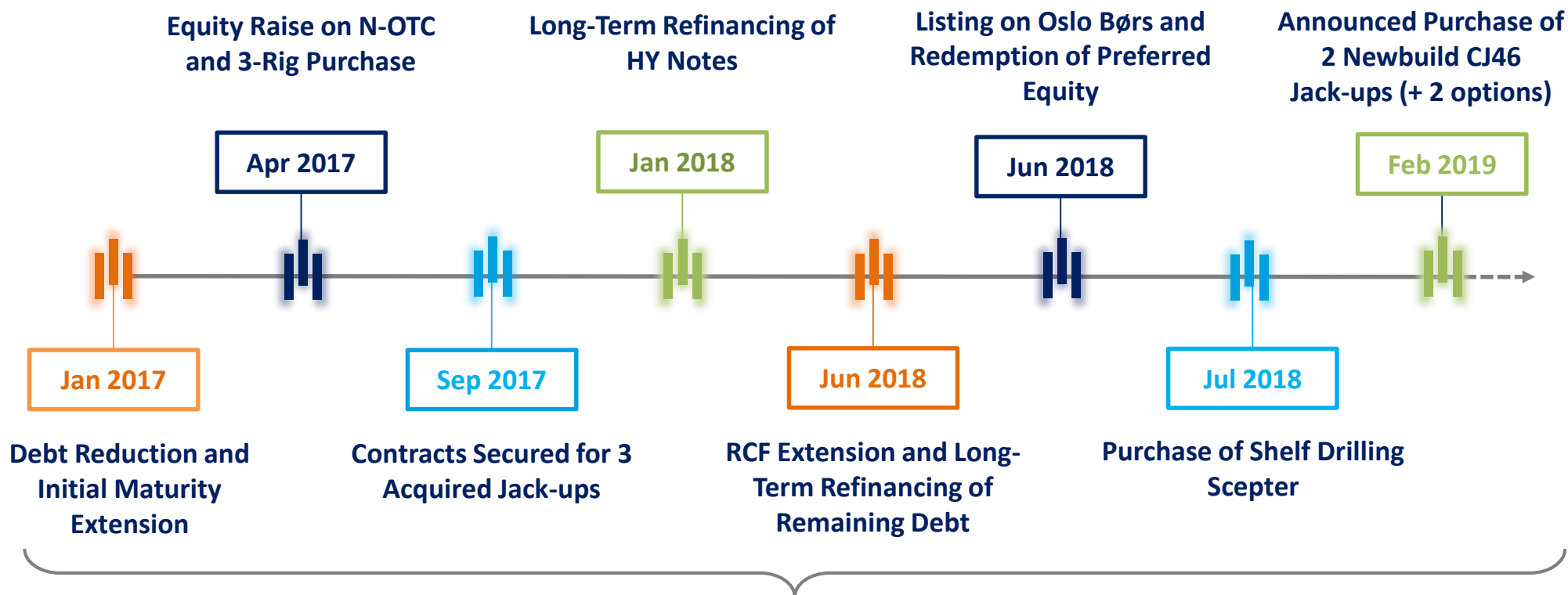
Shareholder	Ownership %		Shares Outstanding (MM)	
	Current	Pro Forma	Current	Pro Forma
Free Float	50.6%	40.8%	56.3	56.3
Lime Rock	15.5%	12.5%	17.2	17.2
Castle Harlan	15.5%	12.5%	17.2	17.2
CHAMP	15.5%	12.5%	17.2	17.2
Sub-Total	46.4%	37.4%	51.6	51.6
China Merchants	0.0%	19.4%	0	26.8
Management	3.1%	2.5%	3.4	3.4
Total	100.0%	100.0%	111.2	138.0

### Pro Forma Board Composition <sup>1</sup>

Independent	Castle Harlan	CHAMP	Lime Rock	CMG	SHLF Mgt.
4	2	2	2	2	1

<sup>1</sup> Subject to shareholder vote at AGM in Q2 2019.

# Focused Execution of Growth Strategy



**Positioned the company for success ahead of market recovery**

*Simplification of our capital structure*

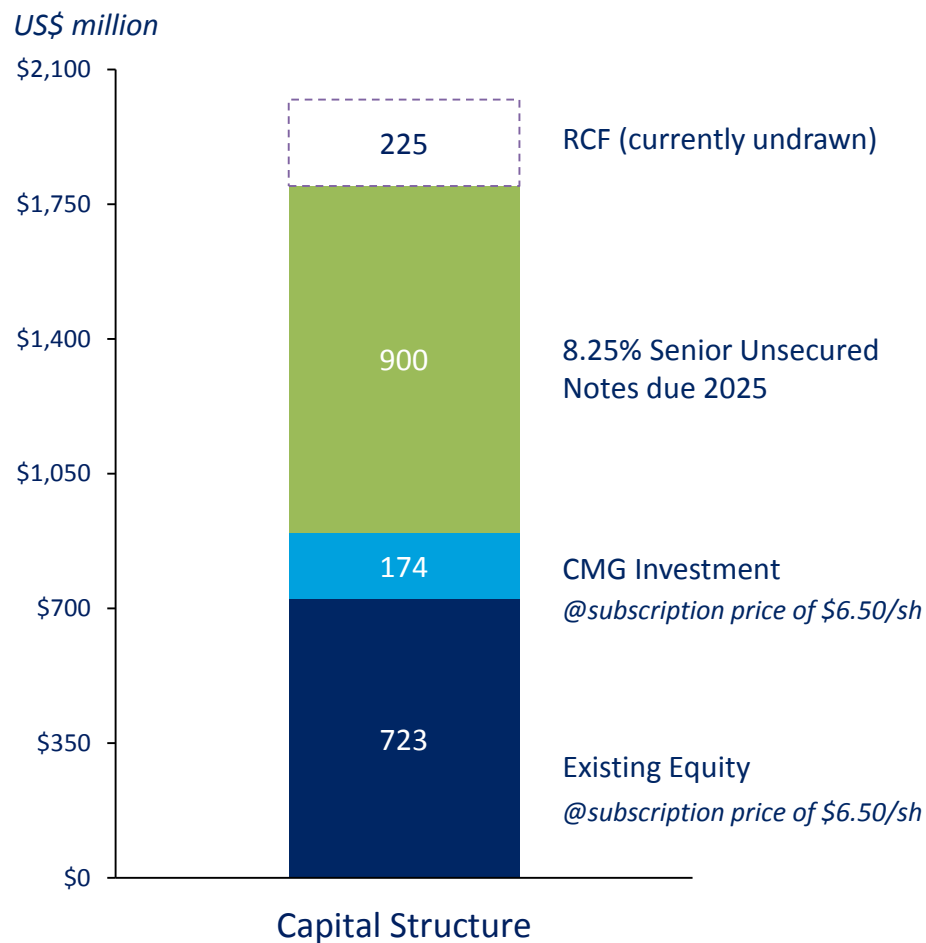
*Further liquidity and credit profile improvement*

*Wider access to capital markets*

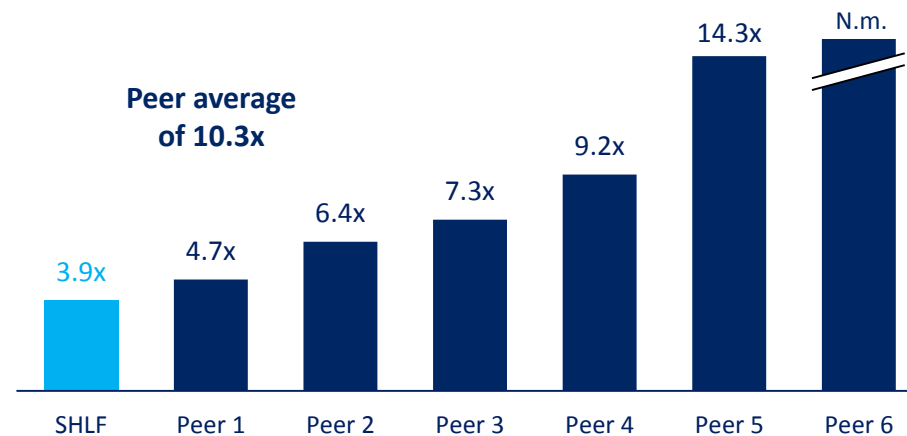
*Enhancing our fleet composition*

# Simple Capital Structure with Strong Credit Profile and Liquidity Runway

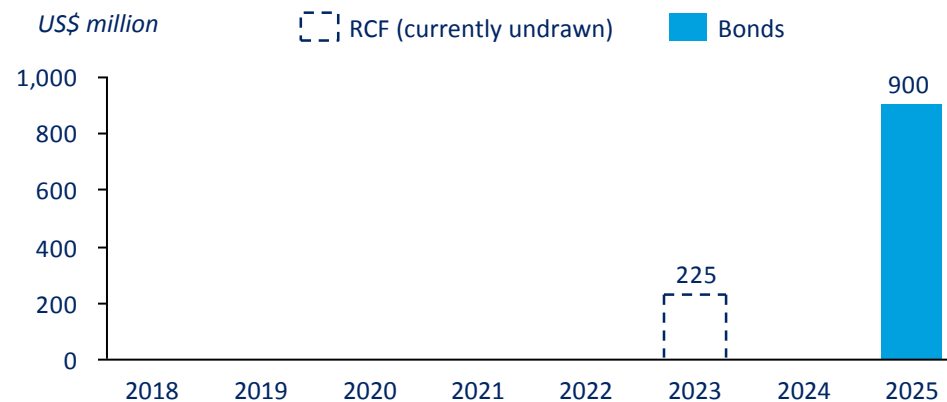
## Pro Forma Capital Structure (Illustrative)



## Net Debt / LTM EBITDA<sup>1</sup>



## Debt Maturity Profile



Source: Company filings

Note (1): Peers include ESV, NE, RDC, RIG, DO and BDRILL; fully invested net debt figures include reported newbuilding capex; max 20.0x for average calculation as of 30 September 2018

# Strategic Evolution and Positioning of Jack-Up Fleet

## 13 x Premium Jack-ups



*Demonstrated ability to invest and deploy*

- Newbuilds: 2
- Acquired Rigs: 4
- Major Upgrades: 3
- Newbuild CJ46: 4

NEW

## 6 x Shallow Draft



*Uniquely positioned to meet niche demand*

- Arabian Gulf: 5
- Nigeria: 1

## 18 x Standard

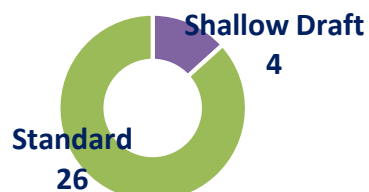


*Cost efficient and well suited for brownfield activity*

- India & Egypt: 10
- Other Areas: 8

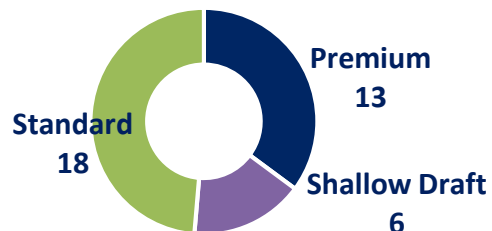
**2012**

Total Active = 30



**2019**

Total Active = 37



***“Right Assets in Right Locations”***

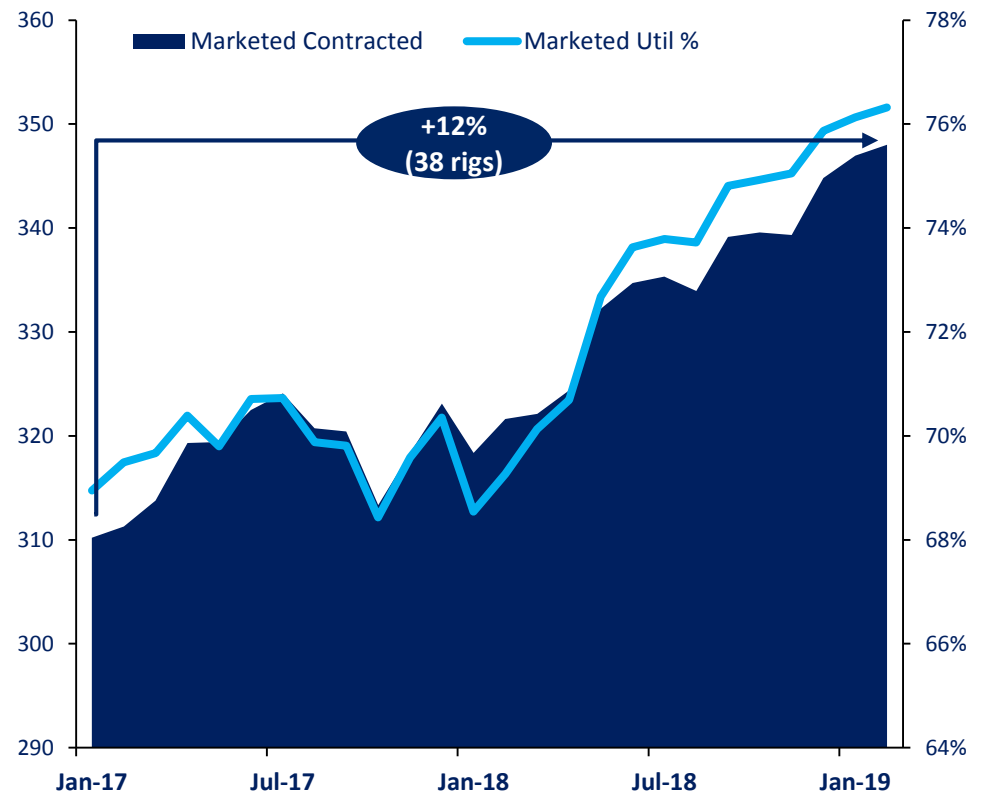
*Blend of premium & standard jack-ups provides ideal match to customer requirements across our regions*

## Cycle Turning Off of Historic Lows...*Gradually*

- Oil price improvement over the last three years to current range of \$60-65/bbl (Brent)
- Gradual recovery in jack-up supply and demand dynamics
  - Global demand has increased 12% since Q1 2017 but still well below long-term averages
  - Total of 58 jack-ups retired in same time period
  - Marketed utilization up from <70% to 76% today
- Despite commodity price volatility in Q4 2018, we expect further increase in global jack-up activity in 2019
- Continued contracting success in recent months for SHLF across regions and asset classes
  - Jack-ups contemplated in this transaction well-suited for a number of near-term contract opportunities scheduled for start-up in H2 2019 or H1 2020 (Middle East, Southeast Asia, West Africa, Mexico)

### # of Contracted Jack-ups

<b>Peak (April 2014)</b>	<b>457 jack-ups</b>
<b>Average since 2006</b>	<b>368 jack-ups</b>
<b>Minimum since 2006 (Jan 2017)</b>	<b>310 jack-ups</b>
<b>Current (Feb 2019)</b>	<b>348 jack-ups</b>



Source: Bloomberg, IHS Petrodata

### Opportunity to add four newbuild premium jack-up rigs to SHLF fleet at historically low acquisition cost

#### Consistent with SHLF's rig acquisition strategy

- *Significantly enhances our fleet at an attractive price and funding structure*

#### Improves SHLF's ability to access an increasing number of contracting opportunities

- *Rigs well suited to a majority of incoming premium jack-up tender requirements*
- *Will enable SHLF to further grow its business and future earnings capacity*

#### Compelling value proposition for all our stakeholders

- *Shelf Drilling's unique operating platform, low cost structure and customer relationships*
- *China Merchants' demonstrated rig construction capabilities*

