

# Financial Reporting Package

For the quarter ended September 30, 2021



## AQUADRILL LLC

4<sup>th</sup> Floor Reading Bridge House  
George Street, Reading UK RG18LS

**AQUADRILL LLC AND SUBSIDIARIES**  
**CONSOLIDATED BALANCE SHEETS**  
As at September 30, 2021 (Successor) and December 31, 2020 (Predecessor)  
(In millions, except unit data)  
(Unaudited)

	Successor	Predecessor
	September 30, 2021	December 31, 2020
<b>ASSETS</b>		
Cash and cash equivalents	\$ 234.7	\$ 362.0
Restricted cash	30.8	16.4
Accounts receivables, net	25.9	56.6
Amount due from related party	-	7.6
Other current assets	38.3	45.0
<b>Total current assets</b>	<b>329.7</b>	<b>487.6</b>
<b>Non-current assets</b>		
Drilling units	278.1	428.3
Deferred tax assets	4.2	3.3
Other non-current assets	7.3	8.0
<b>Total non-current assets</b>	<b>289.6</b>	<b>439.6</b>
<b>Total assets</b>	<b>\$ 619.3</b>	<b>\$ 927.2</b>
<b>LIABILITIES AND MEMBERS' CAPITAL</b>		
<b>Current liabilities</b>		
Trade accounts payable and accruals	\$ 30.8	\$ 4.2
Related party payable	-	7.4
Other current liabilities	51.1	56.3
<b>Total current liabilities</b>	<b>81.9</b>	<b>67.9</b>
<b>Liabilities subject to compromise</b>	<b>-</b>	<b>2,879.1</b>
<b>Non-current liabilities</b>		
Deferred tax liability	-	1.0
Other non-current liabilities	46.2	44.4
<b>Total non-current liabilities</b>	<b>46.2</b>	<b>45.4</b>
<b>Commitments and contingencies</b>		
<b>Equity</b>		
Members' Capital:		
Predecessor Common unitholders (issued 7,527,830 units at December 31, 2020)	-	(944.5)
Predecessor Subordinated unitholders (issued 1,654,335 units at December 31, 2020)	-	(371.4)
Successor Common unitholders (issued 20,000,000 units at September 30, 2021)	491.2	-
<b>Total members' capital</b>	<b>491.2</b>	<b>(1,315.9)</b>
Non-controlling interest	-	(749.3)
<b>Total equity/(deficit)</b>	<b>491.2</b>	<b>(2,065.2)</b>
<b>Total liabilities and equity</b>	<b>\$ 619.3</b>	<b>\$ 927.2</b>

**AQUADRILL LLC AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

For the three months ended September 30, 2021 (Successor) and three months ended September 30,  
2020 (Predecessor)

*(In millions, except unit data)*  
*(Unaudited)*

	Successor	Predecessor
	Three months ended September 30, 2021	Three months ended September 30, 2020
<b>Operating revenues</b>		
Contract revenues	\$ 18.7	\$ 124.8
Reimbursable revenues	1.0	2.3
Other revenues	-	1.3
<b>Total operating revenues</b>	<b>19.7</b>	<b>128.4</b>
<b>Operating expenses</b>		
Vessel and rig operating expenses	55.2	60.5
Depreciation	4.4	53.4
Amortization of favorable contracts	-	11.3
Reimbursable expenses	0.9	2.1
Selling, general and administrative expenses	4.7	9.7
<b>Total operating expenses</b>	<b>65.2</b>	<b>137.0</b>
<b>Other operating items</b>		
Impairment of long-lived assets	-	-
<b>Total other operating items</b>	<b>-</b>	<b>-</b>
<b>Operating loss</b>	<b>(45.5)</b>	<b>(8.6)</b>
<b>Financial and other items</b>		
Interest income	-	1.2
Interest expense	-	(65.6)
Loss on derivative financial instruments	-	(8.0)
Foreign currency exchange loss	(0.2)	0.2
Gain on Reorganization items, net	-	-
Restructuring and other expenses	(3.8)	-
Other financial items	(2.9)	(0.1)
Gain or loss on sale of assets	-	-
<b>Total financial items, net</b>	<b>(6.9)</b>	<b>(72.3)</b>
<b>(Loss)/income before income taxes</b>	<b>(52.4)</b>	<b>(80.9)</b>
Income tax benefit (expense)	(1.7)	(10.2)
<b>Net (loss)/income</b>	<b>\$ (54.1)</b>	<b>\$ (91.1)</b>
<b>Net loss attributable to Aquadrill LLC members</b>	<b>(54.1)</b>	<b>-</b>
<b>Net income/(loss) attributable to Seadrill Partners LLC members</b>	<b>-</b>	<b>(53.2)</b>
<b>Net income/(loss) attributable to the non-controlling interest</b>	<b>-</b>	<b>(37.9)</b>

**AQUADRILL LLC AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**

For the period from May 25, 2021 through September 30, 2021 (Successor), period from January 1, 2021 through May 24, 2021 (Predecessor) and nine months ended September 30, 2020 (Predecessor)

(In millions, except unit data)  
(Unaudited)

	Successor	Predecessor	Predecessor
	Period from May 25, 2021 through September 30, 2021	Period from January 1, 2021 through May 24, 2021	Nine months ended September 30, 2020
<b>Operating revenues</b>			
Contract revenues	\$ 19.2	\$ 53.1	\$ 431.0
Reimbursable revenues	1.1	1.9	9.4
Other revenues	-	-	2.0
<b>Total operating revenues</b>	<b>20.3</b>	<b>55.0</b>	<b>442.4</b>
<b>Operating expenses</b>			
Vessel and rig operating expenses	71.4	63.0	206.0
Depreciation	6.3	11.8	176.4
Amortization of favorable contracts	-	-	33.9
Reimbursable expenses	1.3	1.7	8.7
Selling, general and administrative expenses	6.4	7.4	26.7
<b>Total operating expenses</b>	<b>85.4</b>	<b>83.9</b>	<b>451.7</b>
<b>Other operating items</b>			
Impairment of long-lived assets	-	-	(922.9)
<b>Total other operating items</b>	<b>-</b>	<b>-</b>	<b>(922.9)</b>
<b>Operating loss</b>	<b>(65.1)</b>	<b>(28.9)</b>	<b>(932.2)</b>
<b>Financial and other items</b>			
Interest income	0.1	-	5.4
Interest expense	-	-	(180.4)
Loss on derivative financial instruments	-	-	(13.8)
Foreign currency exchange loss	(0.3)	(0.7)	(2.6)
Gain on Reorganization items, net	-	2,090.3	-
Restructuring and other expenses	(3.8)	-	-
Other financial items	(1.6)	(0.8)	(0.3)
<b>Total financial items, net</b>	<b>(5.6)</b>	<b>2,088.8</b>	<b>(191.7)</b>
<b>(Loss)/income before income taxes</b>	<b>(70.7)</b>	<b>2,059.9</b>	<b>(1,123.9)</b>
Income tax expense	(2.8)	(4.7)	(33.9)
<b>Net (loss)/income</b>	<b>\$ (73.5)</b>	<b>\$ 2,055.2</b>	<b>\$ (1,157.8)</b>
<b>Net loss attributable to Aquadrill LLC members</b>	<b>(73.5)</b>	<b>-</b>	<b>-</b>
<b>Net income/(loss) attributable to Seadrill Partners LLC members</b>	<b>-</b>	<b>1,143.2</b>	<b>(644.0)</b>
<b>Net income/(loss) attributable to the non-controlling interest</b>	<b>-</b>	<b>912.0</b>	<b>(513.8)</b>

**AQUADRILL LLC AND SUBSIDIARIES**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**

For the period from May 25, 2021 through September 30, 2021 (Successor), period from January 1, 2021 through May 24, 2021 (Predecessor) and nine months ended September 30, 2020 (Predecessor)

(In millions)  
(Unaudited)

	Successor Period from May 25, 2021 through September 30, 2021	Predecessor Period from January 1, 2021 through May 24, 2021	Predecessor Nine months ended September 30, 2020
<b>Cash Flows from Operating Activities</b>			
<b>Net (loss)/income</b>	\$ (73.5)	\$ 2,055.2	\$ (1,157.8)
<i>Adjustments to reconcile net (loss)/income to net cash provided by operating activities:</i>			
Depreciation	6.3	11.8	176.4
Amortization of deferred loan charges			22.9
Amortization of favorable contracts			33.9
Impairment of long-lived assets			922.9
Loss on impairment of goodwill	-	-	-
Unrealized (gain)/loss related to derivative financial instruments	-	-	(6.3)
Payment for long term maintenance	-	-	(14.2)
Non-cash reorganization items	-	(2,143.3)	-
Reversal of credit risk on derivatives	-	-	-
Deferred and other taxes	0.5	0.8	5.3
Gain on revaluation of contingent consideration	-	-	-
Accretion of discount on deferred consideration	-	-	0.9
Stock based compensation	0.3	-	-
<i>Changes in operating assets and liabilities, net of effect of acquisitions</i>			
Trade accounts receivable	4.9	25.8	37.8
Prepaid expenses and accrued income	-	-	(29.0)
Trade accounts payable	6.3	14.6	(1.3)
Related party balances	-	0.2	10.6
Other assets	(4.7)	(0.2)	38.7
Other liabilities	6.7	(12.0)	66.2
Changes in deferred revenue	-	-	(1.7)
Other, net	-	-	-
<b>Net cash (used in)/provided by operating activities</b>	<b>(53.2)</b>	<b>(47.1)</b>	<b>105.3</b>
<b>Cash Flows from Investing Activities</b>			
Additions to drilling units and equipment	(7.3)	(11.0)	(5.8)
Sale of rigs and equipment	5.7	-	-
<b>Net cash (used in)/provided by investing activities</b>	<b>(1.6)</b>	<b>(11.0)</b>	<b>(5.8)</b>
<b>Cash Flows from Financing Activities</b>			
Repayments of debt	-	-	(306.6)
Repayments of related party debt	-	-	-
Contingent consideration paid	-	-	(23.0)
Cash distributions	-	-	-
Repayment of shareholder loan	-	-	-
<b>Net cash (used in)/provided by financing activities</b>	<b>-</b>	<b>-</b>	<b>(329.6)</b>
<b>Effect of exchange rate changes on cash</b>	<b>-</b>	<b>-</b>	<b>-</b>
<b>Net (decrease)/increase in cash and cash equivalents</b>	<b>(54.8)</b>	<b>(58.1)</b>	<b>(230.1)</b>
Cash and cash equivalents, including restricted cash at beginning of the period	320.3	378.4	560.0
<b>Cash and cash equivalents, including restricted cash, at the end of period</b>	<b>\$ 265.5</b>	<b>\$ 320.3</b>	<b>329.9</b>

AQUADRILL LLC AND SUBSIDIARIES  
**CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' CAPITAL**  
For the period from May 25, 2021 through September 30, 2021 (Successor), period from January 1, 2021 through May 24, 2021 (Predecessor)  
and nine months ended September 30, 2020 (Predecessor)  
(In millions)  
(Unaudited)

	Members' Capital		Total before non- controlling interest	Non-controlling interest	Total (Deficit)/Equity
	Common Units	Subordinated Units			
<b>Balance at December 31, 2019 (Predecessor)</b>	1,146.8	88.2	1,235.0	1,288.7	2,523.7
Net loss	(484.4)	(106.4)	(590.8)	(475.9)	(1,066.7)
<b>Balance at June 30, 2020 (Predecessor)</b>	662.4	(18.2)	644.2	812.8	1,457.0
Net loss	(528.0)	(116.0)	(644.0)	(513.8)	(1,157.8)
<b>Balance at September 30, 2020 (Predecessor)</b>	134.4	(134.2)	0.2	299.0	299.2
<b>Balance at December 31, 2020 (Predecessor)</b>	(944.5)	(371.4)	(1,315.9)	(749.3)	(2,065.2)
Net income	937.2	205.9	1,143.2	912.0	2,055.2
Cancellation of Predecessor equity	7.3	165.5	172.7	(162.7)	10.0
<b>Balance at May 24, 2021 (Predecessor)</b>	-	-	-	-	-
Issuance of Successor members' units	564.6	-	564.6	-	564.6
<b>Balance at May 25, 2021 (Successor)</b>	564.6	-	564.6	-	564.6
Net loss	(19.3)	-	(19.3)	-	(19.3)
<b>Balance at June 30, 2021 (Successor)</b>	545.3	-	545.3	-	545.3
Net loss	(54.1)	-	(54.1)	-	(54.1)
<b>Balance at September 30, 2021 (Successor)</b>	491.2	-	491.2	-	491.2

## ITEM 2. MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

AquadriLL (the "Company," "we," "us" or "our") is a limited liability company incorporated under the laws of the Republic of the Marshall Islands and is the successor reporting company to Seadrill Partners LLC ("SDLP"). The following discussion is intended to assist you in understanding our financial position at September 30, 2021, and our results of operations for the period from May 25 through September 30, 2021 (Successor), the period from January 1 through May 24, 2021 (Predecessor), the three months ended September 30, 2021 (Successor), and the three and nine months ended September 30, 2020 (Predecessor).

References to the term "Predecessor" refers to the financial position and results of operations of Seadrill Partners prior to, and including, May 24, 2021. This is also applicable to terms "Seadrill Partners", "SDLP", "SDLP Group", "we", "us", "our", "the Company" or "our Business" in context of events before our emergence from Chapter 11 Proceedings on May 24, 2021.

References to the term "Successor" refers to the financial position and results of operations of Aquadrill after May 24, 2021. This is also applicable to terms "AquadriLL", "we", "us", "our", "the Company" or "our Business" in context of events after our emergence from Chapter 11 Proceedings on May 24, 2021.

### FORWARD-LOOKING INFORMATION

---

THE STATEMENTS INCLUDED IN THIS QUARTERLY REPORT REGARDING FUTURE FINANCIAL PERFORMANCE AND RESULTS OF OPERATIONS AND OTHER STATEMENTS THAT ARE NOT HISTORICAL FACTS ARE FORWARD-LOOKING STATEMENTS. ALL STATEMENTS THAT ARE NOT HISTORICAL FACTS ARE FORWARD-LOOKING STATEMENTS, INCLUDING ANY STATEMENTS THAT RELATE TO FUTURE MARKET CONDITIONS, RESULTS, OPERATIONS, STRATEGIES OR OTHER FUTURE CONDITIONS OR DEVELOPMENTS AND ANY STATEMENTS REGARDING OBJECTIVES, OPPORTUNITIES, POSITIONING OR PROSPECTS. FORWARD-LOOKING STATEMENTS ARE NECESSARILY BASED UPON SPECULATION, EXPECTATIONS, ESTIMATES AND ASSUMPTIONS THAT ARE INHERENTLY UNRELIABLE AND SUBJECT TO SIGNIFICANT BUSINESS, ECONOMIC AND COMPETITIVE UNCERTAINTIES AND CONTINGENCIES. FORWARD-LOOKING STATEMENTS ARE NOT A PROMISE OR GUARANTEE ABOUT FUTURE EVENTS.

FORWARD-LOOKING STATEMENTS IN THIS QUARTERLY REPORT INCLUDE, BUT ARE NOT LIMITED TO, STATEMENTS ABOUT THE FOLLOWING SUBJECTS:

- THE EFFECT, IMPACT, POTENTIAL DURATION, THE RATE OF ANY ECONOMIC RECOVERY OR OTHER IMPLICATIONS OF THE OUTBREAK OF A NOVEL STRAIN OF CORONAVIRUS ("COVID-19"), INCLUDING VIRUS VARIANTS, AND DISPUTES AND ACTIONS WITH RESPECT TO PRODUCTION LEVELS BY, AMONG OR BETWEEN MAJOR OIL AND GAS PRODUCING COUNTRIES AND ANY EXPECTATIONS WE MAY HAVE WITH RESPECT THERETO;
- OUR RESULTS OF OPERATIONS, OUR REVENUE EFFICIENCY AND OTHER PERFORMANCE INDICATORS; OPTIMIZATION OF RIG-BASED SPENDING AND OUR CASH FLOW FROM OPERATIONS;
- THE OFFSHORE DRILLING MARKET, INCLUDING THE EFFECTS OF VARIATIONS IN COMMODITY PRICES, SUPPLY AND DEMAND, UTILIZATION RATES, DAYRATES, CUSTOMER DRILLING PROGRAMS, STACKING AND REACTIVATION OF RIGS, EFFECTS OF NEW RIGS ON THE MARKET, THE IMPACT OF CHANGES TO REGULATIONS IN JURISDICTIONS IN WHICH OUR RIGS ARE DEPLOYED AND CHANGES IN THE GLOBAL ECONOMY OR MARKET OUTLOOK FOR THE VARIOUS GEOGRAPHIES IN WHICH OUR RIGS ARE DEPLOYED OR FOR OUR CLASSES OF RIGS;
- CUSTOMER DRILLING CONTRACTS, INCLUDING CONTRACT BACKLOG, FORCE MAJEURE PROVISIONS, CONTRACT AWARDS, COMMENCEMENTS, EXTENSIONS, TERMINATIONS, RENEGOTIATIONS, CONTRACT OPTION EXERCISES, CONTRACT REVENUES, EARLY TERMINATION PAYMENTS, INDEMNITY PROVISIONS AND RIG MOBILIZATIONS;
- LIQUIDITY, ACCESS TO INCREMENTAL SOURCES OF CAPITAL AT A REASONABLE COST AND ADEQUACY OF CASH FLOWS FOR OUR OBLIGATIONS;
- IMPACTS OF THE CURRENT FINANCIAL AND ECONOMIC DOWNTURN AND OUR EVALUATION OR DECISIONS WITH RESPECT TO ANY STRATEGIC ALTERNATIVES INTENDED TO PRUDENTLY MANAGE OUR LIQUIDITY, AND ASPECTS OF OUR CAPITAL STRUCTURE;
- UPGRADE, SHIPYARD AND OTHER CAPITAL PROJECTS, INCLUDING COMPLETION, RELINQUISHMENT OR ABANDONMENT, DELIVERY AND COMMENCEMENT OF OPERATION DATES, EXPECTED DOWNTIME AND LOST REVENUES, THE LEVEL OF EXPECTED CAPITAL EXPENDITURES AND THE TIMING AND COST OF COMPLETING CAPITAL PROJECTS;
- THE PROCEEDS AND TIMING OF DISPOSITIONS;
- TAX MATTERS, INCLUDING OUR EFFECTIVE TAX RATE, CHANGES IN TAX LAWS, TREATIES AND REGULATIONS, TAX ASSESSMENTS AND LIABILITIES FOR TAX ISSUES IN THE TAX JURISDICTIONS IN WHICH OUR RIGS ARE DEPLOYED OR WHERE WE HAVE A TAXABLE PRESENCE;
- LEGAL AND REGULATORY MATTERS, INCLUDING RESULTS AND EFFECTS OF CURRENT OR POTENTIAL LEGAL PROCEEDINGS AND GOVERNMENTAL AUDITS AND ASSESSMENTS, OUTCOMES AND EFFECTS OF INTERNAL AND GOVERNMENTAL INVESTIGATIONS, CUSTOMS AND ENVIRONMENTAL MATTERS;
- INSURANCE MATTERS, INCLUDING ADEQUACY OF INSURANCE, RENEWAL OF INSURANCE, AND INSURANCE PROCEEDS;
- EFFECTS OF ACCOUNTING CHANGES AND ADOPTION OF ACCOUNTING POLICIES; AND
- ANY OF THE FOREGOING RISKS ASSOCIATED WITH OUR MSA MANAGERS.

FORWARD-LOOKING STATEMENTS IN THIS QUARTERLY REPORT ARE IDENTIFIABLE BY USE OF THE FOLLOWING WORDS AND OTHER SIMILAR EXPRESSIONS, INCLUDING BUT NOT LIMITED TO:

ANTICIPATES; BUDGETS; ESTIMATES; FORECASTS; MAY; PLANS; PROJECTS; SHOULD; BELIEVES; COULD; EXPECTS; INTENDS; MIGHT; PREDICTS; SCHEDULED

SUCH STATEMENTS ARE SUBJECT TO NUMEROUS RISKS, UNCERTAINTIES AND ASSUMPTIONS, INCLUDING, BUT NOT LIMITED TO:

- THE EFFECTS OF PUBLIC HEALTH THREATS, PANDEMICS AND EPIDEMICS, SUCH AS THE OUTBREAK OF COVID-19, AND THE ADVERSE IMPACT THEREOF ON OUR BUSINESS, FINANCIAL CONDITION AND RESULTS OF OPERATIONS, INCLUDING, BUT NOT LIMITED TO, OUR GROWTH, OPERATING COSTS, SUPPLY CHAIN, LABOR AVAILABILITY, LOGISTICAL CAPABILITIES, CUSTOMER DEMAND FOR OUR SERVICES AND INDUSTRY DEMAND GENERALLY, OUR LIQUIDITY, THE PRICE OF OUR SECURITIES AND TRADING MARKETS WITH RESPECT THERETO, OUR ABILITY TO ACCESS CAPITAL MARKETS, AND THE GLOBAL ECONOMY AND FINANCIAL MARKETS GENERALLY;
- THE EFFECTS OF ACTIONS BY, OR DISPUTES AMONG OR BETWEEN, MEMBERS OF THE ORGANIZATION OF PETROLEUM EXPORTING COUNTRIES AND OTHER OIL AND NATURAL GAS PRODUCING COUNTRIES WITH RESPECT TO PRODUCTION LEVELS OR OTHER MATTERS RELATED TO THE PRICES OF OIL AND NATURAL GAS;
- THE ADEQUACY OF AND ACCESS TO OUR SOURCES OF LIQUIDITY;
- OUR INABILITY TO RENEW DRILLING CONTRACTS AT COMPARABLE, OR IMPROVED DAYRATES AND TO OBTAIN DRILLING CONTRACTS FOR OUR RIGS THAT DO NOT HAVE CONTRACTS;
- THE ABILITY OF OUR MSA MANAGERS TO SECURE COMPETENT CREW FOR ANY OPERATING OR REACTIVATED RIGS OR AS RIGS ARE TRANSITIONED FROM MANAGEMENT BY SEADRILL LTD TO OUR MSA MANAGERS;
- THE ABILITY OF OUR MSA MANAGERS TO TRANSITION RIGS IN A TIMELY MANNER FROM SEADRILL LTD TO THE MANAGEMENT BY THE MSA MANAGER;
- OPERATIONAL PERFORMANCE;
- THE CANCELLATION OF DRILLING CONTRACTS CURRENTLY INCLUDED IN OUR REPORTED CONTRACT BACKLOG;
- LOSSES ON IMPAIRMENT OF LONG-LIVED ASSETS;
- THE OCCURRENCE OF CYBERSECURITY INCIDENTS, ATTACKS OR OTHER BREACHES TO OUR INFORMATION TECHNOLOGY SYSTEMS OR THOSE OF OUR SERVICE PROVIDERS;
- GOVERNMENTAL ACTION, TERRORISM, CYBER-ATTACKS, PIRACY, MILITARY ACTION AND POLITICAL AND ECONOMIC UNCERTAINTIES, INCLUDING CIVIL UNREST, POLITICAL DEMONSTRATIONS, MASS STRIKES, OR AN ESCALATION OR ADDITIONAL OUTBREAK OF ARMED HOSTILITIES OR OTHER CRISES IN OIL OR NATURAL GAS PRODUCING AREAS OF THE MIDDLE EAST, NORTH AFRICA, WEST AFRICA OR OTHER GEOGRAPHIC AREAS, WHICH MAY RESULT IN EXPROPRIATION, NATIONALIZATION, CONFISCATION OR DEPRIVATION OR DESTRUCTION OF OUR ASSETS; OR SUSPENSION AND/OR TERMINATION OF CONTRACTS BASED ON FORCE MAJEURE EVENTS OR ADVERSE ENVIRONMENTAL SAFETY EVENTS;
- CHANGES IN POLITICAL, SOCIAL AND ECONOMIC CONDITIONS; AND
- THE EFFECT AND RESULTS OF LITIGATION, REGULATORY MATTERS, SETTLEMENTS, AUDITS, ASSESSMENTS AND CONTINGENCIES.

THE FOREGOING RISKS AND UNCERTAINTIES ARE BEYOND OUR ABILITY TO CONTROL, AND IN MANY CASES, WE CANNOT PREDICT THE RISKS AND UNCERTAINTIES THAT COULD CAUSE OUR ACTUAL RESULTS TO DIFFER MATERIALLY FROM THOSE INDICATED BY THE FORWARD-LOOKING STATEMENTS. SHOULD ONE OR MORE OF THESE RISKS OR UNCERTAINTIES MATERIALIZE, OR SHOULD UNDERLYING ASSUMPTIONS PROVE INCORRECT, ACTUAL RESULTS MAY VARY MATERIALLY FROM THOSE INDICATED. ALL SUBSEQUENT WRITTEN AND ORAL FORWARD-LOOKING STATEMENTS ATTRIBUTABLE TO US OR TO PERSONS ACTING ON OUR BEHALF ARE EXPRESSLY QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO THESE RISKS AND UNCERTAINTIES. YOU SHOULD NOT PLACE UNDUE RELIANCE ON FORWARD-LOOKING STATEMENTS. EACH FORWARD-LOOKING STATEMENT SPEAKS ONLY AS OF THE DATE OF THE PARTICULAR STATEMENT. WE EXPRESSLY DISCLAIM ANY OBLIGATIONS OR UNDERTAKING TO RELEASE PUBLICLY ANY UPDATES OR REVISIONS TO ANY FORWARD-LOOKING STATEMENT TO REFLECT ANY CHANGE IN OUR EXPECTATIONS OR BELIEFS WITH REGARD TO THE STATEMENT OR ANY CHANGE IN EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH ANY FORWARD-LOOKING STATEMENT IS BASED, EXCEPT AS REQUIRED BY LAW.



## BUSINESS

---

### Introduction

Aquadrill LLC (together with its subsidiaries, "Aquadrill," "we," "us" or "our") is a holding company which owns offshore drilling rigs available to the oil and gas industry. Our primary business is the ownership of drillships, semi-submersible rigs and tender rigs available for operations in shallow to ultra-deepwater areas in both benign and harsh environments.

We compete in a single, global operating segment, which involves contracting our mobile offshore drilling fleet and related equipment primarily on a dayrate basis to drill wells for our customers, typically oil super-majors, national oil companies and independent oil and gas companies. To operate our rigs, we have contracted with reputable service providers who are recognized for providing high quality operations, in some of the most challenging sectors of offshore drilling. Our drilling fleet is one of the most versatile fleets in the world, consisting of drillships, semi-submersible and tender rigs used in support of offshore drilling activities and offshore support services on a worldwide basis.

Our drilling rig fleet is deployed in geographically dispersed oil and gas exploration and development areas throughout the world. Although rigs can be moved from one region to another, the cost of moving rigs and the availability of rig-moving vessels may cause the supply and demand balance to fluctuate somewhat between regions. Still, significant variations between regions do not tend to persist long term because of rig mobility. Our fleet is deployed in a single, global market for the provision of contract drilling services. The location of our rigs and the allocation of our resources are determined by the activities and needs of our customers.

### Our Fleet

We believe our fleet is comparatively one of the youngest and most modern of all the major offshore drilling contractors with an average fleet age of approximately 10.4 years. We currently own and operate a fleet of 10 drilling units, including four drillships, three semi-submersible rigs and three tender rigs.

#### *Drillships*

Drillships are self-propelled ships equipped for drilling offshore in water depths ranging from 1,000 to 12,000 feet and are positioned over the well through a computer-controlled thruster system. Drillships are suitable for drilling in remote locations because of their mobility and large load-carrying capacity. Depending on country of operation, drillships operate with crews of 50 or more people.

#### *Semi-submersible drilling rigs*

Semi-submersibles are self-propelled drilling rigs consisting of an upper working and living quarters deck connected to a lower hull consisting of columns and pontoons. Such rigs operate in a "semi-submerged" floating position, in which the lower hull is below the waterline and the upper deck protrudes above the surface. The rig is situated over a wellhead location and remains stable for drilling in the semi-submerged floating position, due in part to its wave transparency characteristics at the water line.

Semi-submersible rigs can be either moored or dynamically positioned. Moored semi-submersible rigs are positioned over the wellhead location with anchors and typically operate in water depths ranging up to 1,500 feet. Dynamically positioned semi-submersible rigs are positioned over the wellhead location by a computer-controlled thruster system and typically operate in water depths ranging from 1,000 to 12,000 feet. Depending on country of operation, semi-submersible rigs generally operate with crews of 50 or more people.

#### *Tender rigs*

Tender rigs are self-erecting rigs which conduct production drilling from fixed or floating platforms. During drilling operations, the tender rig is moored next to the platform. The modularized drilling package, stored on the deck during transit, is lifted prior to commencement of operations onto the platform by the rig's integral crane. To support the operations, the tender rig contains living quarters, helicopter deck, storage for drilling supplies, power machinery for running the drilling equipment and well completion equipment. There are two types of self-erecting tender rigs, barge type and semi-submersible (semi-tender) type. Tender barges and semi-tenders are equipped with similar equipment, but the semi-tenders' hull structure allows the unit to operate in rougher weather conditions. Tender rigs allow for drilling operations to be performed from platforms without the need for permanently installed drilling packages. Self-erecting tender rigs generally operate with crews of 50 or more people.

## SIGNIFICANT EVENTS

---

### Chapter 11 Proceedings, Emergence from Chapter 11 and Fresh Start Accounting

#### *Overview*

Since 2017, Seadrill Partners LLC and its debtor affiliates, (collectively, the "Debtors," and together with Seadrill Partners LLC's direct and indirect non-Debtor subsidiaries and affiliates, collectively, "SDLP" and/or the "SDLP Group"), faced an onslaught of negative macroeconomic trends, including reduced upstream capital expenditures, a surplus in supply, and increased price competition. In response, SDLP and its seven-member Board of Directors proactively sought to address the SDLP Group's capital structure challenges. Additionally, SDLP, through the four-member Conflicts Committee of its Board of Directors (the "Conflicts Committee"), focused on several key conflict issues, including the potential to restructure and/or replace the management services agreements with Seadrill Limited to best maximize value. To that end, the Conflicts Committee retained Evercore as its independent financial adviser and Sheppard Mullin as its independent legal counsel.

Since the summer of 2020, the Debtors preserved liquidity in anticipation of a holistic balance-sheet restructuring in conjunction with the Strategic Process (as defined below). As part of these efforts, the Debtor Loan Parties executed two amendments to the Term Loan B Credit Agreement that preserved more than \$100.0 million of cash-interest expense and the Debtors elected not to make a periodic payment with respect to certain swap obligations.

In connection with the Term Loan B Credit Agreement amendments, the Conflicts Committee (together with Evercore and Sheppard Mullin) commenced a strategic process by which it solicited third party interest to (a) enter into a new management and administrative services agreement with the Debtors with respect to one or more of their vessels and/or (b) participate in a merger or acquisition transaction involving the Debtors (collectively, the "Strategic Process"). The goal of the Strategic Process was to maximize the Debtors' value for the benefit of their stakeholders, with a view to facilitate further discussion and negotiation surrounding the Debtors' balance-sheet restructuring.

The Debtors, led by the Conflicts Committee, sought to use the Strategic Process to forge consensus with the TLB Lenders regarding a balance-sheet restructuring that would equitize all of the TLB Lenders' claims through a scheme of arrangement or prearranged chapter 11 process. At the same time, the Conflicts Committee engaged with Seadrill Limited to investigate and review potential claims by the Debtors against Seadrill Limited.

On November 25, 2020, Seadrill Limited, without prior notice to SDLP, exercised certain purported rights under the MSA to settle approximately \$24.0 million in purported various claims, which was \$19.4 million in excess of the \$4.8 million authorized by the Conflicts Committee (the "Cash Sweep"). Thereafter, the Conflicts Committee assessed Seadrill Limited's actions and sought to chart a path forward to maximize the value of the Debtors in light of numerous considerations. Among other things, the Conflicts Committee: (a) conferred with the Debtors' management team and the Conflicts Committee's independent advisors; (b) engaged with the advisors to the Ad Hoc Group regarding the situation; (c) considered the effect of Seadrill Limited's actions or potential actions on its operations, customers, and employees; and (d) engaged with independent counsel regarding potential legal recourse.

Following several days of review and numerous formal and informal meetings, both at the Conflicts Committee level and at the Board level, the Debtors determined that it was prudent to commence the reorganization proceedings (the "Chapter 11 Proceedings") to ensure that no additional unauthorized settlements like the Cash Sweep occurred by Seadrill Limited and to use the Chapter 11 process to maximize the value of the Debtors' enterprise for the benefit of all stakeholders. In conjunction with their decision to commence the Chapter 11 Cases, the Debtors negotiated with the Ad Hoc Group for consensual use of cash collateral. As part of that agreement, the Debtors were to complete the Strategic Process, the outcome of which the Debtors anticipated would serve as the foundation for a plan of reorganization to address the Debtors' over-leveraged balance sheet and an expeditious exit from Chapter 11 bankruptcy.

On December 1, 2020 (the "Petition Date"), the Debtors filed voluntary petitions (the "Bankruptcy Petitions") for relief under Chapter 11 ("Chapter 11") of the United States Bankruptcy Code (the "Bankruptcy Code") in the United States Bankruptcy Court for the Southern District of Texas (the "Bankruptcy Court"), triggering a stay on enforcement of remedies with respect to the Company's debt obligations. As part of the Chapter 11 proceedings, the Debtors were granted "first-day" relief which enabled us to continue operations without interruption and the Debtors continued to operate their businesses as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code and orders of the Bankruptcy Court. The cases were jointly administered under Case No. 20-35740 ("Chapter 11 Cases").

On February 12, 2021, the Debtors and certain of their pre-petition lenders executed a plan support agreement, which contemplated a series of restructuring transactions that would equitize approximately \$2.8 billion in secured term loan obligations and select go-forward, value maximizing services providers. The restructuring transactions were effectuated through the Plan.

#### ***Emergence from Chapter 11***

On May 14, 2021, the Debtors filed the Fourth Amended Joint Chapter 11 Plan of Reorganization of Seadrill Partners LLC and its Debtor Affiliates Pursuant to Chapter 11 of the Bankruptcy Code (the "Plan of Reorganization", or the "Plan") with the Bankruptcy Court. On May 14, 2021 (the "Confirmation Date"), the Bankruptcy Court entered an order (the "Confirmation Order") approving the Disclosure Statement and confirming the Plan.

On May 24, 2021 (the "Effective Date"), SDLP successfully completed its financial restructuring and the Debtors successfully emerged from bankruptcy as Aquadrill LLC ("Aquadrill", or the "Reorganized Debtor"). All conditions precedent to the restructuring contemplated by the Plan were satisfied or otherwise waived on or prior to the Effective Date. The Plan equitized approximately \$2.8 billion in funded debt obligations, leaving the Company debt free on emergence. On the Effective Date, SDLP's common and subordinated units were cancelled and common units of Aquadrill ("New Common Units") were issued to former holders of SDLP's Super Senior Term Loan Claims and TLB Secured Claims. Due to the cancellation of SDLP's common and subordinated units on the Effective Date, Seadrill Limited was no longer a related party to, and holds no ownership interest in, Aquadrill. As part of the Plan, New Management Services Agreements were entered into for the management of the Company's offshore drilling units and a Transition Services Agreement was agreed to with Seadrill Limited that provides for a safe and efficient transition. Additionally, the Plan has resolved all potential claims against the Company alleged by related parties, secured creditors and unsecured creditors. All cash payments made by the Company under the Plan on the Effective Date were funded from cash on hand.

#### ***Key terms of the Plan of Reorganization***

As set out above, the Plan was confirmed by the Bankruptcy Court on May 14, 2021 and became effective when the Debtors emerged from the Chapter 11 Proceedings on May 24, 2021. The Plan provided for, among other things, that:

- Predecessor equity interests were cancelled, released, and extinguished and the Predecessor equity holders did not receive any consideration;
- 20 million New Common Units of the Successor company were issued or reserved for issuance, in accordance with the Plan;
- Approximately 31.8% of the New Common Units were issued or are reserved for issuance to holders of super senior term loan claims against the Company and certain of its Chapter 11 debtor affiliates;
- Approximately 68.2% of the New Common Units were issued or are reserved for issuance to holders of TLB secured claims against the Company and certain of its Chapter 11 debtor affiliates;
- All outstanding obligations under the Term Loan B were settled;
- A new limited liability company agreement was entered into and included the authorization of the New Common Units and to provide registration rights thereunder, among other corporate governance actions;
- \$13.3 million of certain general unsecured claims were to receive their pro-rata share of the \$2.3 million that was funded on the Effective Date into the General Unsecured Claim Distribution Account with the residual continuing unimpaired;
- The holders of other secured claims and other priority claims received payment in full in cash on the Effective Date or through the ordinary course of business after the Effective Date;
- The MSA Agreements were entered into for the management of the Company's offshore drilling units. See the New Management Services Agreements item below for further discussion on the MSA Agreements;
- The Settlement Agreement was entered into with Seadrill Limited which cancelled and released all pre-petition receivables and payables between us and Seadrill Limited. Approximately \$4.9 million in payables to Seadrill Limited remained as of the Effective Date, which were reclassified to third-party payables upon emergence. See the Seadrill Limited Global Settlement item below for further discussion on the Settlement Agreement with Seadrill Limited;
- A Transition Services Agreement was agreed to with Seadrill Limited that provides for a safe and efficient transition. See the Seadrill Limited Global Settlement item below for further discussion on the Transition Services Agreement;
- The Plan resolved all potential claims against the Company alleged by related parties, secured creditors and unsecured creditors;

- The Board of Directors authorized the 2021 Long-term Incentive Plan ("2021 LTIP") which provides for awards in the form of Options, Unit Appreciation Rights, Restricted Unit Awards, Restricted Settlement Unit Awards, Performance Awards, or other Unit-Based awards. 1,052,631 New Common Units were authorized and reserved for issuance pursuant to the 2021 LTIP. No New Common Units were issued under the 2021 LTIP as of the Effective Date.

As of the Effective Date, in accordance with the Plan, the Board of Directors consisted of five members, comprised of the Company's Chief Executive Officer, Steven L. Newman, and four new members, Alan S. Bigman, John Bishop, Daniel C. Herz, and N. John Lancaster, Jr.

### ***Fresh Start Accounting***

Upon emergence from bankruptcy, the Company met the criteria and were required to adopt fresh start accounting in accordance with the provisions set forth in ASC 852, *Reorganizations*, as (i) the holders of the then-existing voting units of the Predecessor prior to emergence received less than 50% of the new voting units of the Successor outstanding following its emergence from bankruptcy and (ii) the reorganization value of the Company's assets immediately prior to confirmation of the Plan was less than the total of all post-petition liabilities and allowed claims.

We applied fresh start accounting effective May 24, 2021 which resulted in a new basis of accounting and Aquadrill becoming a new entity for financial reporting purposes with no beginning retained earnings or deficit as of the Effective Date. The effects of the Plan and the application of fresh start accounting were applied as of May 24, 2021 and the new basis of our assets and liabilities are reflected in our Consolidated Balance Sheet as of September 30, 2021 and the related adjustments thereto were recorded in the Consolidated Statement of Operations of the Predecessor as "Reorganization items, net" during the period from January 1, 2021 through May 24, 2021. As a result of the application of fresh start accounting and the effects of the implementation of the Plan, certain values and operational results of the consolidated financial statements subsequent to May 24, 2021 are not comparable to those in the Company's consolidated financial statements prior to and including May 24, 2021. The Effective Date fair values of the Successor's assets differ materially from their recorded values as reflected on the historical balance sheet of the Predecessor.

### ***Debtor-In-Possession***

During the pendency of the Chapter 11 Cases, we operated our business as debtors-in-possession in accordance with the applicable provisions of the Bankruptcy Code. The Bankruptcy Court granted all first day motions filed by us which were designed primarily to minimize the impact of the Chapter 11 Cases on our normal day-to-day operations, our customers, regulatory agencies, including taxing authorities, and employees. As a result, we were able to conduct normal business activities and pay all associated obligations for the post-petition period and we were also authorized to pay and have paid pre-petition employees' wages and benefits, pre-petition amounts owed to certain lienholders and critical vendors, amounts due to taxing authorities and other related taxes and funds belonging to third parties. During the pendency of the Chapter 11 Cases, all transactions outside the ordinary course of our business required the approval of the Bankruptcy Court.

### ***Rejection of Executory Contracts***

Subject to certain exceptions, under the Bankruptcy Code, the Debtors had the right to assume, amend and assume, assign or reject certain executory contracts and unexpired leases, subject to the approval of the Bankruptcy Court and certain other conditions. Generally, the assumption of a contract required the Debtors to satisfy pre-petition obligations under the contract, which potentially included payment of pre-petition liabilities in whole or in part. Rejection of a contract was typically treated as a breach occurring as of the moment immediately preceding the Petition Date. Subject to certain exceptions, this rejection relieved the Company from performing our future obligations under the contract but entitled the counterparty to assert a pre-petition general unsecured claim for damages.

### ***Pre-petition claims and liabilities subject to compromise***

On January 29, 2021, the Debtors filed schedules of assets and liabilities and statements of financial affairs with the Bankruptcy Court setting forth, among other things, the assets and liabilities of the Debtors, subject to the assumptions filed in connection therewith. The schedules and statements were subject to further amendment or modification after filing.

During bankruptcy, the Debtors' liabilities were segregated into those subject to compromise and those not subject to compromise under ASC 852. Liabilities subject to compromise represented pre-petition obligations that were not fully secured and had at least a possibility of not being repaid at the full claim amount.

The Chapter 11 petition triggered an event of default under the Term Loan B Credit Agreement. As of the Petition Date, the Company reclassified the Term Loan B to liabilities subject to compromise and discontinued recording interest. During the year ended December 31, 2020, we paid interest of LIBOR + 6% on the original term loan and LIBOR + 10% on the super senior loans. LIBOR was subject to a 1% floor. As of the date of filing for Chapter 11, we were subject to an additional 2% default interest. The contractual interest expense on the Term Loan B not accrued in the Company's Consolidated Statements of Operations was \$21.3 million for the period from the Petition Date through December 31, 2020 and \$77.9 million for the period from January 1, 2021 through the Effective Date.

All holders of pre-petition claims except governmental units were required to file proofs of claim by February 15, 2021 (the "Bar Date"). Governmental units holding claims against the Debtors were required to file proof of claim by May 30, 2021. At the Bar Date, 285 claims totaling approximately \$3.2 billion had been filed with the Bankruptcy Court against the Debtors. Subsequent to this date, approximately 166 further claims have been filed but this did not materially impact the overall amount claimed against the Debtors. Through the claims resolution process, we identified claims that we believed should be disallowed by the Bankruptcy Court because they were duplicative, were later amended or superseded, were without merit, were overstated or for other reasons. Through the claims resolution process, differences in amounts scheduled by the Debtors and claims filed by creditors were investigated and resolved, including through the filing of objections with the Bankruptcy Court where appropriate. We filed objections with the Bankruptcy Court as necessary for claims we believed should be disallowed. Claims we believed were allowable were reflected in "Liabilities subject to compromise" in the Consolidated Balance Sheets.

Prior to the Company's emergence from Chapter 11 bankruptcy on the Effective Date, all pre-petition amounts of known or potential pre-petition claims to be resolved in connection with the Chapter 11 proceedings were classified as "Liabilities subject to compromise" in the Consolidated Balance Sheets at the expected amount of the allowed claim. All liabilities subject to compromise will either be settled or reinstated pursuant to the terms of the Plan.

In light of the number of claims filed, the claims resolution process will take additional time to complete and continued after emergence. Accordingly, the ultimate number and amount of allowed claims is not presently known, nor can the ultimate recovery with respect to allowed claims be presently ascertained.

### **New Management Services Agreements**

Prior to the Chapter 11 filing, Seadrill Limited, a related party of the Company, owned 46.6% of the outstanding limited liability interests of the Company, which included 34.9% of the outstanding common units and 100% of the subordinated units. Seadrill Limited was responsible for the management, marketing, and operation of our fleet of drilling units through a series of management, operational support, and technical supervision service agreements. We were charged a fee for the services provided to us.

On January 20, 2021, the Company entered into a management agreement with Energy Drilling Management Pte. Ltd. ("Energy Drilling") to maintain, market and operate our owned tender rigs; *T-15*, *T-16*, and *Vencedor*. The Energy Drilling MSA was the result of an extensive marketing process conducted by the Debtors. As part of this process, the Debtors reached out to numerous potential counterparties, received, and evaluated several bids in consultation with Sheppard Mullin, and in the Debtors' business judgment, decided to enter into the Energy Drilling MSA. On February 2, 2021, the Bankruptcy Court entered the Energy Drilling Order, approving the Debtors' entry into the Energy Drilling MSA agreement. The agreement started a 90-day transition period of services provided from Seadrill Limited to Energy Drilling.

On February 9, 2021, the Debtors entered into the Vantage Drilling MSA with Vantage Holdings International ("Vantage Drilling") for the management and operation of the Debtors' fleet vessels. The Vantage Drilling MSA was the result of an extensive marketing process conducted by the Debtors, Evercore, and Sheppard Mullin, as conflicts counsel. The Debtors, through Evercore, reached out to numerous potential counterparties, received, and evaluated several bids in consultation with Sheppard Mullin, and in the Debtors' business judgment, decided to enter into the Vantage Drilling MSA. On February 9, 2021, the Debtors submitted a motion for approval of a new framework agreement with Vantage Drilling for the management of certain rigs in our fleet.

Following the execution of the Vantage Drilling MSA, the Debtors continued to receive proposals with respect to the operation of certain of the Debtors' vessels. Because the Vantage Drilling MSA remained subject to Bankruptcy Court approval (and was therefore not binding upon the Debtors), the Debtors undertook to assess such alternative proposals. Upon assessing such alternative proposals, the Debtors determined in their reasonable business judgment that the commercial proposition served by using a combination of Vantage Drilling, Diamond Offshore Drilling Inc. ("Diamond Offshore"), and Odfjell Drilling Ltd. ("Odfjell Drilling"), each as managers of certain of the Debtors' vessels, was superior to the original Vantage Drilling management structure. Therefore, on March 16, 2021, the Debtors filed their Supplement to Debtors' Emergency Motion for an Order (A) Authorizing the Debtors to Enter into a New Framework Agreement with Vantage Drilling International for the Debtors' Fleet Vessels, and (B) Granting Related Relief (the "Supplement to MSA Motion") seeking approval of management services agreements with Vantage Drilling, Diamond Offshore, and Odfjell. The Supplement to MSA Motion was heard on March 18, 2021. The Bankruptcy Court approved the motion, authorizing the Debtors to enter into management services agreements with Diamond Offshore, Odfjell Drilling, and an amended management services agreement with Vantage Drilling (collectively the Energy Drilling, Vantage Drilling, Diamond Offshore and Odfjell Drilling agreements are the "MSA Agreements" and Energy Drilling, Vantage Drilling, Diamond Offshore and Odfjell Drilling are the "MSA Managers").

Under amended Vantage Drilling MSA, Vantage Drilling is the Manager of the *Polaris* and *Leo*. Vantage Drilling will be the Manager of the *Capella* at the conclusion of the current contract following the transition from Seadrill Limited. Under the Diamond Offshore MSA, Diamond Offshore is the Manager of the *Auriga* and *Capricorn*. Diamond Offshore will be the Manager of the *Vela* at the conclusion of the current contract following the transition from Seadrill Limited. Under the Odfjell MSA, Odfjell Drilling agreed to prepare a feasibility assessments for upgrading the *Aquarius* to comply with requirements for the rig to operate in Norway and also for reactivation of the rig to operate in Canada.

### **Seadrill Limited Global Settlement**

On April 16, 2021, the Bankruptcy Court entered the MSA Settlement Order, which among other things, approved the Settlement (as defined in the MSA Settlement Order) by and among SDLP and each of its direct and indirect debtor and non-debtor subsidiaries and affiliates and Seadrill Limited and Seadrill Management Ltd. collectively with each of its debtor and non-debtor subsidiaries that provide services to SDLP under the Amended and Restated Management and Administrative Services Agreement, dated as of September 11, 2017, and all related agreements, and certain ancillary agreements (collectively, the "Seadrill Limited MSA") (collectively, the "Parties"). The MSA Settlement Order provided for a global settlement between SDLP and Seadrill Limited, under which there was a comprehensive resolution of all disputes and claims and causes of action regarding pre-petition claims between SDLP and Seadrill Limited, post-petition charges under the management and administrative services agreements between the Parties, and provisions for go-forward transition services, each pursuant to a final order of the Bankruptcy Court. The Settlement Order among other things, deemed all payments due under the Settlement to be administrative claims against SDLP as defined in the Bankruptcy Code, authorized the Parties to perform any and all obligations contemplated by the Settlement, modified the MSAs between the Parties during the transition period to reflect the terms of the Settlement and terminated the MSAs between the Parties at the conclusion of the transition period.

Under the MSA Settlement Order, Seadrill Limited was to provide restructuring and transition services to SDLP, within the scope set forth in the MSA Settlement Order through June 30, 2021 in exchange for a total fee of \$3.0 million inclusive of a restructuring services fee of \$0.75 million for the period December 2020 through June 2021 (the "Restructuring Services Fee") and a fee of \$2.3 million (the "Transition Support Fee"), which fees were to be paid by SDLP in accordance with the terms and on the timing set forth in the MSA Settlement Order. Under the MSA Settlement Order, Seadrill Limited was not obligated to provide restructuring or transition services after June 30, 2021, so long as Seadrill Limited had made reasonable efforts to plan and complete the transition by such date. Further the MSA Settlement Order provided that Seadrill Limited ceased to be obliged to market the SDLP vessels. Note that Seadrill Limited continued to provide services subsequent to June 30, however these services were provided and charged in the manner agreed to in the Transition Services Agreement.

Additionally, the SDLP Debtors were authorized and directed to pay Seadrill Limited a total fixed amount of \$11.3 million on account of management services provided, consisting of \$2.3 million per month from December 1, 2020 through April 30, 2021. The fixed fees covered all rigs, regardless of operating status. The fixed fees also included access to the capital-spares pool through April 30, 2021.

Furthermore, under the MSA Settlement Order, Seadrill Limited committed to seeking customer approval to transition the *Vela* and *Capella* rigs to the applicable MSA providers prior to drilling contract completion date and work in good faith to achieve a safe and efficient transition if customer consent was received. SDLP was to pay Seadrill Limited operating fees of \$25,000 per day for each of those rigs, effective May 1, 2021, through the date that any third party MSA provider was then in control of any respective rig. This fee included access to the capital spares pool through successful transition of the SDLP rigs to their new MSA providers.

In addition, the MSA Settlement Order provided that outstanding amounts for direct pass-through costs paid by Seadrill Limited from December 2020 onward were to be paid by SDLP to Seadrill Limited. Additionally, SDLP was to pay Seadrill Limited for unpaid pass-through costs accrued in December 2020, January 2021, and February 2021, in the amount of approximately \$6.5 million. Furthermore, SDLP was to pay Seadrill Limited for ongoing monthly pass-through costs.

The MSA Settlement Order additionally authorized and directed the SDLP Debtors to fund \$9.0 million in cash into a separate, segregated SDLP bank account to be used for the sole purpose of securing payments under the MSA Settlement Order (the "Segregated Account"). The

balance of the Segregated Account was to remain at or above the initial funding amount until services being provided to SDLP by Seadrill Limited under the terms of the Settlement were fully paid for. The Settlement Order deemed the cash in the Segregated Account free and clear of all preexisting liens, claims, and encumbrances and granted Seadrill Limited a first priority lien on the Segregated Account to secure amounts owed under the Settlement. Other than with respect to payments contemplated by the Settlement, SDLP was to not remove cash from the Segregated Account.

Furthermore, under the MSA Settlement Order, Seadrill Limited waived all claims it held with respect to the SDLP estates and SDLP waived all claims against Seadrill Limited's estates.

### **Contract Awards**

On July 15, 2021, we secured a one well contract with Equinor for the *Vela* in the US Gulf of Mexico. The rig will be managed and operated by Seadrill Limited. Total contract value for the firm portion of the contract is expected to be \$55.0 million and the contract is expected to commence in November 2021 and run until May 2022. On October 12, 2021, we reached an agreement with a subsidiary of Vantage Drilling to provide the *Capella*, a Managed Pressure Drilling capability ("MPD") outfitted 6th generation drillship, for a two well contract plus two priced optional wells for operations in Indonesia. The rig will be contracted to Premier Oil Andaman Limited for one well and subcontracted to Repsol Andaman B.V for a second well. The total contract value for the firm portion of the contract is expected to be approximately \$42.0 million and work is expected to commence in Q1 2022 following the completion of its current contract, transitioning the rig to Vantage Drilling, relocation of the rig from Malaysia to Indonesia and contract preparation. The contract is expected to run into mid Q3 2022. In the event the options are exercised, and the work scope is similar to the firm wells, the rig is expected to be available in late Q4 2022 / early Q1 2023 and the total additional contract value is expected to be approximately \$37.0 million.

### **Arbitration**

On July 20, 2021, we reported that the International Arbitration Tribunal in the matter of various Aquadrill subsidiaries (as Claimants) -v- BP Exploration and Production, Inc. (as Respondent) decided that Aquadrill's claims for breach of contract and related requests for relief and damages were denied in full. According to the arbitration agreement between the parties, the arbitration was conducted in New York City in accordance with the Commercial Arbitration Rules of the American Arbitration Association and the result is binding upon the parties, subject to a limited right to appeal. The Company's appeal was denied by the court.

### **Sales of Drilling Units**

On September 23, 2021 we completed the sale of one ultra-deepwater semi-submersible, the *Sirius*, along with related assets, for which we received \$5.7 million aggregate gross cash proceeds and recognized no gain or loss associated with the disposal of this asset.

On October 25, 2021, we entered into an agreement for the sale of a semi-submersible drilling unit, the *Leo*, with a subsidiary of BW Energy for \$14.0 million. The rig is expected to be repurposed as a Floating Production Unit, thereby removing the rig from the drilling market. Under the terms of the agreement, if the unit is used to perform drilling services in the future, liquidated damages of \$50 thousand for each day the unit is used to perform such services will apply, up to a maximum of \$6.0 million. Additionally, if within the first two years of closing the unit is sold on terms which do not exclude the use of the unit for drilling purposes, and the resale price exceeds \$15.0 million, BW Energy will be obliged to pay the Company 50% of the amount by which the resale price exceeds \$15.0 million. Certain pieces of capital equipment belonging to the unit have been excluded from the sale including but not limited to the blowout preventer ("BOP"), top drive and travelling block, which will become part of the Company's capital spares inventory. In the event these capital spares are used for our existing fleet, the Company expects to realize approximately \$7.0 million in savings versus purchasing equivalent replacement parts. Closing of the transaction is subject to customary closing procedures and conditions.

### **Charter Hire Agreement**

On September 21, 2021 we entered into a charter hire agreement with a subsidiary of Diamond Offshore to provide the *Auriga* for a one year drilling contract plus a one year mutually agreed option for operations in the US Gulf of Mexico. The charter hire agreement will be extended if the parties mutually agree to exercise the optional term. The terms of the charter hire agreement are consistent with the current MSA in place between the Company and Diamond Offshore. Further, the resulting financial benefits are as if the Company had entered into the drilling contract directly. Under the drilling contract associated with the charter hire agreement, the *Auriga* will be upgraded with MPD. The total contract value for the firm portion of the drilling contract is expected to be \$94.0 million and commencement is expected in February 2022 following reactivation, upgrade, contract preparation and system integration testing.

### **Modification to Awards Issued under the 2021 Long-term Incentive Plan**

On September 21, 2021, the Board approved an amendment to certain Restricted Settlement Unit ("RSU") Award Agreements issued under the 2021 LTIP such that the form of settlement is at the discretion of the Compensation Committee rather than at the discretion of the grantee. The amendment removes the optionality for cash or equity settlement and requires all awards to be settled in Company Common Units, or in cash at the option of the Compensation Committee. Upon the Board's approval of the amendment, the awards were remeasured at the modification-date fair value and will be accounted for as an equity-classified award going forward, so long as there are no further changes to the award. The previously liability-classified RSUs were reclassified to equity as part of the modification.

## **OUTLOOK**

---

### **Drilling market**

We have observed a sustained improvement in the outlook for the global economic recovery and for oil and natural gas fundamentals and pricing throughout the second half of 2021. This improved outlook is supported by the delivery of effective vaccines for COVID-19, the deployment of economic stimulus packages, and the improving economic activities associated with a more confident stance on controlling the pandemic. We remain cautiously optimistic about the continuing recovery of the global economy, even in the context of emerging COVID variants, inflationary pressure and emerging global supply chain issues, and can see the path to pre-pandemic levels of economic activity. We expect that recent increases in demand for hydrocarbons support the return to or potential to exceed pre-pandemic levels within the next year or two as oil and gas remains a significant contributor to the world's energy mix. This, coupled with restrained growth in supply will lead to a rebalancing of supply and demand and normalized inventory levels. We expect that the return to stable oil demand and commodity prices coupled with the continued attrition of rigs in the global offshore drilling fleet will further support improved market conditions for our services.

As a result, many of our current or potential customers are now shifting their focus to increase exploration and production activities, many previously delayed projects are being reactivated and we now expect bid opportunities for work commencing in 2023 will come to market in the near term. Offshore drilling activity is increasing in almost every ultra-deepwater market, and due to attrition of the global offshore drilling

fleet over the last several years, there are significantly fewer available drilling units and increased opportunities for tender assist rigs in southeast Asia. Particularly, as it relates to our fleet, there is an increasing scarcity of the highest specification drilling units as customers look to secure the best equipment for their projects.

Considerable uncertainty remains about the speed of the global economic recovery and the associated demand for and supply of hydrocarbons, particularly with respect to prospective actions of the Organization of the Petroleum Exporting Countries ("OPEC") and their allies. We believe that the continuing measured pace of production increases by OPEC and rapid curtailment in production in non-OPEC countries due to the ongoing pandemic, combined with the lack of investment in exploration and production activities over the past several years will precipitate substantial supply constraints that are not easily reversed without significant new investment in drilling.

With deepwater and harsh environment fields offering increasingly competitive returns, together with their relatively low carbon intensity of production, we expect a significant portion of required spending in fossil fuel development will be for deepwater and harsh environment projects. Similarly, national oil companies and regional champions will continue to invest in local hydrocarbon development to support their domestic energy needs and demand for hard currency. The restructuring and subsequent consolidation of many of our competitors plus the accelerated retirement of units seen over the past several months and projected through the remainder of this year, should facilitate higher utilization of active assets and more efficient allocation of capital amongst restructured drilling contractors. In summary, our improving market dynamics combined with increasing demand for deepwater, harsh environment and tender assist rigs have the potential to provide a materially better business environment for offshore drillers and a more favorable outlook for 2022 and beyond.

#### Fleet status

Depending on market conditions, we may idle or stack our non-contracted rigs. An idle rig is between drilling contracts, readily available for operations, and operating costs are typically at or near normal operating levels. A stacked rig typically has reduced operating costs, is staffed by a reduced crew or has no crew and is (a) preparing for an extended period of inactivity, (b) expected to continue to be inactive for an extended period, or (c) completing a period of extended inactivity. Stacked rigs will continue to incur operating costs at or above normal operating levels for approximately 30 days following initiation of stacking. Some idle rigs and all stacked rigs require additional costs to return to service. The actual cost to return to service, which in many instances could be significant and could fluctuate and may increase over time, depends upon various factors, including the availability and cost of shipyard facilities, the cost of equipment and materials, the extent of repairs and maintenance that may ultimately be required, the duration of time the rig is stacked and time and cost of assembling and training crew. We consider these factors, together with market conditions, length of contract, dayrate and other contract terms, when deciding whether to return a stacked rig to service. We may not return some stacked rigs to work for drilling services.

#### Drilling units

The following table, presented as of September 30, 2021, provides certain specifications for our rigs. Unless otherwise noted, the stated location of each rig indicates either the current drilling location, if the rig is operating, or the next operating location, if the rig is in shipyard or preparing for contract commencement with a follow-on contract.

Rig category and name	Generation	Specifications	Year Built	Water Depth Capacity (in feet)	Drilling depth capacity (in feet)	Contracted location or standby status
<b>Drillship (4)</b>						
Auriga	7 <sup>th</sup>	(a)(b)(c)(d)(g)	2013	12,000	40,000	Gulf of Mexico
Vela	7 <sup>th</sup>	(a)(b)(c)(d)(g)	2013	12,000	40,000	Gulf of Mexico
Capella	6 <sup>th</sup>	(a)(b)(d)(g)	2008	10,000	35,000	Malaysia
Polaris	6 <sup>th</sup>	(a)(b)(g)	2008	10,000	35,000	Idle
<b>Semi-submersible (3)</b>						
Leo <sup>(1)</sup>	6 <sup>th</sup>	(a)(f)	2012	10,000	35,000	Stacked
Capricorn	6 <sup>th</sup>	(a)(e)(g)	2011	10,000	35,000	Stacked
Aquarius	6 <sup>th</sup>	(a)(f)	2009	10,000	35,000	Stacked
<b>Tender Rig (3)</b>						
T-15	Barge	(c)(e)(g)	2013	6,500	30,000	Idle
T-16	Barge	(c)(e)(g)	2013	6,500	30,000	Stacked
Vencedor	Semi	(c)(e)(g)	2009	6,500	30,000	Stacked

(1) On October 25, 2021, the Company entered into an agreement for the sale of a semi-submersible drilling unit, the Leo. Please refer to Significant Events - Sales of Drilling Units for further detail.

- (a) Dynamically positioned.
- (b) Dual activity.
- (c) Two blowout preventers.
- (d) Managed pressure drilling capability.
- (e) Moored.
- (f) Harsh environment.
- (g) Benign environment.

#### IMPORTANT FINANCIAL AND OPERATIONAL TERMS AND CONCEPTS

We use a variety of financial and operational terms and concepts when analyzing our performance. These include the following:

## **Contract Revenues**

We contract our drilling units to oil and gas companies to provide offshore drilling services at an agreed dayrate for a specified contract term. Dayrates can vary, depending on the type of drilling unit and its capabilities, contract length, geographical location, operating expenses, taxes, and other factors such as prevailing economic conditions. We do not provide "turnkey" or other risk-based drilling services to the customer. Instead, we provide a drilling unit and, through our MSA Managers, rig crews and charge the customer a fixed amount per day regardless of the number of days needed to drill the well. The customer bears substantially all the ancillary costs of constructing the well and supporting drilling operations, as well as most of the economic risk relative to the success of the well.

Where operations are interrupted or restricted due to equipment breakdown or operational failures, we may not receive dayrate compensation for the period of the interruption in excess of contractual allowances. Furthermore, the dayrate we receive may be reduced in instances of interrupted or suspended service due to, among other things, repairs, upgrades, weather, maintenance, force majeure or requested suspension of services by the customer and other operating factors.

However, contracts normally allow for compensation when factors beyond our control, including weather conditions, influence the drilling operations. In some cases contracts allow for compensation when planned maintenance activities are performed. In some contracts there are dayrate escalation clauses to compensate for industry specific cost increases as reflected in publicly available cost indexes.

We may receive lump sum or dayrate based fees for the mobilization of equipment and personnel or for capital additions and upgrades prior to the start of drilling services. In some cases, we may also receive lump sum or dayrate based fees for demobilization upon completion of a drilling contract. We recognize revenue for mobilization, capital upgrades and non-contingent demobilization fees on a straight-line basis over the expected contract term.

Our contracts may be terminated by the customer in the event the drilling unit is destroyed or lost or if drilling operations are suspended for an extended period because of a breakdown of major rig equipment, "force majeure" or upon the occurrence of other specified conditions. Some contracts include provisions that allow the customer to terminate the contract without cause for a specified early termination fee.

A drilling unit may be "stacked" if it has no contract in place. Drilling units may be either warm stacked or cold stacked. When a rig is warm stacked, the rig is idle but can deploy relatively quickly if an operator requires its services. Cold stacking a rig involves reducing the crew to either zero or just a few key individuals, storing the rig in a harbor, shipyard, or designated area offshore and may include additional costs to preserve key equipment.

In certain countries, taxes such as sales, use, value-added, gross receipts, and excise may be assessed by the local government on our revenues and certain payments may be subject to withholding taxes. We record tax-assessed revenue transactions on a net basis in the Consolidated Statement of Income.

## **Other Revenues**

Other revenues include amounts recognized as early termination fees under the drilling contracts which have been terminated prior to the contract end date. Contract termination fees are recognized at the point our performance obligations under the drilling contract have been satisfied and when any material contingencies or uncertainties are resolved. Other revenues also previously included operation support fees charged to Seadrill Limited for certain onshore support services provided.

## **Revenue Efficiency**

Revenue efficiency is calculated as the total revenue, excluding bonuses, received divided by the full operating dayrate multiplied by the number of days on contract in the period.

If a drilling unit earns its full operating dayrate throughout a reporting period, its revenue efficiency would be 100%. However, there are many situations that give rise to a dayrate being earned that is less than the contractual operating rate. In such instances revenue efficiency reduces below 100%.

Examples of situations where the drilling unit would operate at reduced operating dayrates, include, among others, a standby rate, where the rig is prevented from continuing operations for reasons such as bad weather, waiting for customer orders, waiting on other contractors; a moving rate, where the drilling unit is in transit between locations; a reduced performance rate in the event of major equipment failure; or a force majeure rate in the event of a force majeure that causes the suspension of operations. In addition, the drilling unit could operate at a zero rate in the event of a shutdown of operations for repairs where the general repair allowance has been exhausted or for any period of force majeure in excess of a specific number of days allowed under a drilling contract.

## **Reimbursable Revenues and Expenses**

Reimbursable revenues are revenues that constitute reimbursements from our customers for reimbursable expenses. Reimbursable expenses are expenses we incur on behalf, and at the request, of customers, and include provision of supplies, personnel and other services that are not covered under the drilling contract.

## **Operating Expenses**

Operating expenses consist primarily of vessel and rig operating expenses, amortization of favorable contracts, reimbursable expenses, depreciation, amortization, and selling, general and administrative expenses.

- Vessel and rig operating expenses are costs associated with operating a drilling unit that is either in operation or stacked. This includes the personnel costs of offshore crews, running costs of the rigs, expenditures for repairs and maintenance activities, costs for onshore personnel that provide operational support to the rigs and management charges from our MSA Managers and Seadrill Limited for the rigs they manage.
- In the Predecessor's Consolidated Statement of Operations, amortization of favorable contracts is amortization expense for acquired drilling contracts with above market rates. When the Predecessor acquired an in-progress drilling contract at above market rates through a business combination, the Company recorded an intangible asset equal to its fair value on the date of acquisition. The asset was then amortized on a straight-line basis over its estimated remaining contract term.
- Selling, general and administrative expenses include management charges from our MSA Managers and Seadrill Limited, legal and professional fees and other general administration expenses.
- Depreciation expense was based on the historical cost of our drilling units in the Predecessor period and is based on the estimated fair value of our drilling units in the Successor period. In the Predecessor period, drilling units were recorded at historical cost, adjusted for any impairments, less accumulated depreciation. Drilling units were recorded at their estimated fair value in connection with the application of fresh start accounting, resulting in the remeasurement of accumulated depreciation to zero as of the Effective

Date. The cost or fair value of these assets less estimated residual value is depreciated on a straight-line basis over their estimated remaining economic useful lives. The estimated economic useful life of one of our rigs, when new, is 30 years. The estimated remaining economic useful life of our rigs was updated on the Effective Date based on the respective rig's estimated retirement year. Costs related to periodic surveys and other major maintenance projects are capitalized as part of drilling units and amortized over the anticipated period covered by the survey or maintenance project, which is up to five years. These costs are primarily shipyard costs and the cost of employees directly involved in the work. Amortization costs for periodic surveys and other major maintenance projects are included in depreciation expense.

#### Other Operating Items

Other operating items include impairments of long-lived assets in the Predecessor period and gains or losses on sale of assets.

- Impairments of long-lived assets arise where the carrying values of each of our drilling units are determined to not be recoverable and its fair value decreases below its carrying value.
- Gains or losses on sale of assets occur where proceeds received from an asset sale are higher or lower than the carrying value of the asset.

#### Financial Items

Our financial items and other income/expense consist primarily of interest income, interest expense, gain or loss on derivative financial instruments in the Predecessor period and foreign exchange gain or loss.

- Interest income relates to the interest on cash deposits
- Interest expense depends on the overall level of debt and may significantly increase if we incur debt. Interest expense may also change with prevailing interest rates, although interest rate swaps or other derivative instruments may reduce the effect of these changes. As a result of the petition for Chapter 11, interest expense was no longer incurred on the debt facilities. All Predecessor debt facilities were settled at emergence and the Successor does not have any debt as of September 30, 2021.
- In the Predecessor period, gains and losses recognized on derivative financial instruments reflected various mark-to-market and counter party credit risk adjustments to the value of the interest rate swap agreements and the net settlement amount paid or received on swap agreements. In preparation for the Chapter 11 filing, the Company defaulted on payments due on the interest rate swaps on November 23, 2020. As a result, our counterparties terminated all outstanding transactions governed by the International Swaps and Derivatives Association, Inc. ("ISDA"). The derivative transactions were previously recognized at the recoverable amount under the ISDA's as agreed with our lenders.
- Foreign exchange gains or losses recognized generally relate to transactions and revaluation of balances carried in currencies other than U.S. Dollars.
- Reorganization items, net includes the incremental income, expenses, gains and losses that were realized or incurred between the Petition Date and the Effective Date and as a direct result of the Chapter 11 Cases and the implementation of the Plan, gains on the settlement of liabilities under the Plan and the net impact of fresh start accounting adjustments and include advisory and professional fees directly associated with the Chapter 11 proceedings, unamortized debt issuance costs written off, interest income on surplus cash, gain on liabilities subject to compromise and fresh start valuation adjustments.
- Other financial items include the reversal of credit risk on derivatives and advisory and professional fees directly associated with the Chapter 11 proceedings that were incurred prior to the Petition Date.
- Restructuring and other expenses include advisory and professional fees associated with our restructuring that were incurred after the Effective Date.

#### Income Taxes

Income tax expense consists of taxes currently payable and changes in deferred tax assets and liabilities related to our ownership and deployment of drilling units and may vary significantly depending on jurisdictions and contractual arrangements. In most cases the calculation of taxes is based on net income or deemed income, the latter generally being a function of gross revenue.

#### PERFORMANCE AND OTHER KEY INDICATORS

We are not able to compare the results of operations for the period ended May 24, 2021 ("2021 Predecessor Period") to any of the previous periods reported in the consolidated financial statements, and we do not believe reviewing this period in isolation would be useful in identifying any trends in or reaching any conclusions regarding our overall operating performance. We believe that the discussion of our results of operations and performance for the period from May 25, 2021 through September 30, 2021 (the "Successor Period") combined with the 2021 Predecessor Period provide more meaningful comparisons to the comparable periods in 2020 and are more useful in understanding operational trends. These combined results do not comply with GAAP and have not been prepared as pro forma results because we believe they provide the most meaningful comparison of our results to prior period.

#### Contract backlog

Contract backlog includes all firm contracts at the maximum contractual operating dayrate multiplied by the total contract value of drilling contracts adjusted for the number of days remaining in the firm contract period. Total contract revenue includes revenues for mobilization, demobilization, contract preparation, add-on services and reimbursement revenues, which are not expected to be significant to our contract drilling revenues. The contract backlog represents the maximum contract drilling revenues that can be earned considering the contractual operating dayrate in effect during the firm contract period. The contract backlog for our fleet was as follows:

	November 11, 2021	October 12, 2020	December 31, 2020
<b>Contract backlog</b>	<b>(In millions)</b>		
Drillships	\$ 206.3	\$ 213.7	\$ 46.8
Semi-submersible rigs	-	-	-
Tender rigs	-	-	-
<b>Total contract backlog</b>	<b>\$ 206.3</b>	<b>\$ 213.7</b>	<b>\$ 46.8</b>

Our contract backlog includes only firm commitments represented by signed drilling contracts. The full contractual operating dayrate may differ from the actual dayrate we ultimately receive. For example, an alternative contractual dayrate, such as a waiting on weather rate, repair



rate, standby rate, or force majeure rate, may apply under certain circumstances. The contractual operating dayrate may also differ from the actual dayrate we ultimately receive because of several other factors, including rig downtime or suspension of operations. In certain contracts, the dayrate may be reduced to zero if, for example, repairs extend beyond a stated period.

We calculate the average contractual dayrate by dividing the aggregate contractual dayrates during a reporting period by the aggregate number of days for the reporting period.

At November 11, 2021, the contract backlog for our fleet was as follows:

	For the years ending December 31,					
	Total	2021	2022	2023	2024	Thereafter
<b>Contract backlog</b>						
		(in millions)				
Drillships	\$ 206.3	\$ 23.7	\$ 174.3	\$ 8.3	\$ -	\$ -
Semi-submersible rigs	-	-	-	-	-	-
Tender rigs	-	-	-	-	-	-
Total contract backlog	\$ 206.3	\$ 23.7	\$ 174.3	\$ 8.3	\$ -	\$ -

The actual amounts of revenues earned and the actual periods during which revenues are earned will differ from the amounts and periods shown in the tables above due to various factors, including shipyard and maintenance projects, unplanned downtime, the impact of COVID-19 on rig crews, any delays in transition of rigs from Seadrill Limited to our MSA Managers and other factors that result in lower applicable dayrates than the full contractual operating dayrate. Additional factors that could affect the amount and timing of actual revenue to be recognized include customer liquidity issues and contract terminations, which may be available to our customers under certain circumstances.

The COVID-19 pandemic and the volatility in oil prices could have significant adverse consequences for the financial condition of our customers. This could result in contract cancellations, early terminations, customers seeking price reductions or more favorable economic terms, a reduced ability to ultimately collect receivables, or entry into lower dayrate contracts or having to idle, stack or retire more of our rigs.

#### Average daily revenue

Average daily revenue is defined as contract drilling revenues, excluding revenues for contract terminations, reimbursements, and contract intangible amortization, earned per operating day. An operating day is defined as a calendar day during which a rig is contracted to earn a dayrate during the firm contract period after commencement of operations. The average daily revenue for our fleet was as follows:

	Three months ended	Nine months ended	Twelve months ended
	September 30, 2021	September 30, 2021	December 31, 2020
<b>Average daily revenue</b>			
Drillships	\$ 155,000	\$ 157,000	\$ 386,504
Semi-submersible rigs	\$ -	\$ -	\$ 270,000
Tender rigs	\$ -	\$ -	\$ -
Total fleet average daily revenue	\$ 155,000	\$ 157,000	\$ 363,203

Our average daily revenue fluctuates relative to market conditions and our revenue efficiency. The average daily revenue may be affected by revenues for lump sum bonuses and mobilization or demobilization fees received from our customers. Our total fleet average daily revenue is also affected by the mix of rig capabilities being operated, as rigs that do not have dual activity, dual blow-out preventers or managed pressure drilling capabilities are typically contracted at lower dayrates compared to ultra-deepwater floaters that have these capabilities and harsh environment floaters. We remove rigs from the calculation upon disposal or classification as held for sale, unless we continue to operate rigs subsequent to sale, in which case we remove the rigs at the time of completion or novation of the contract.

#### Revenue efficiency

Revenue efficiency is defined as actual contract drilling revenues, excluding revenues for contract terminations and reimbursements, for the measurement period divided by the maximum revenue calculated for the measurement period, expressed as a percentage. Maximum revenue is defined as the greatest amount of contract drilling revenues the drilling unit could earn for the measurement period, excluding revenues for incentive provisions, reimbursements, and contract terminations. The revenue efficiency rates for our fleet were as follows:

	Three months ended	Nine months ended	Twelve months ended
	September 30, 2021	September 30, 2021	December 31, 2020
<b>Revenue efficiency</b>			
Drillships	89.0%	96.0%	97.0%
Semi-submersible rigs	-%	-%	100.0%
Tender rigs	-%	-%	-%
Total fleet average revenue efficiency	89.0%	96.0%	97.6%

Revenue efficiency measures our ability to ultimately convert our contractual opportunities into revenues. Our revenue efficiency rate varies due to revenues earned under alternative contractual dayrates, such as a waiting on weather rate, repair rate, standby rate, force majeure rate or zero rate, which may apply under certain circumstances. Our revenue efficiency rate is also affected by incentive performance bonuses or penalties. We exclude rigs that are not operating under contract, such as those that are idle or stacked.

## OPERATING RESULTS

### Three months ended September 30, 2021 compared to the three months ended September 30, 2020

The following is an analysis of our operating results. See "Performance and Other Key Indicators" above for definitions of operating days, average daily revenue, revenue efficiency and rig utilization.

	Successor	Predecessor		
	Three months ended September 30, 2021	Three months ended September 30, 2020	\$ Change	% Change
(in millions, except percentages)				
<b>Operating revenues:</b>				
Contract revenues	\$ 18.7	\$ 124.8	\$ (106.1)	(85.0)%
Reimbursable revenues	1.0	2.3	(1.3)	(56.5)%
Other revenues	-	1.3	(1.3)	nm
<b>Total operating revenues</b>	<b>19.7</b>	<b>128.4</b>	<b>(108.7)</b>	<b>(84.7)%</b>
<b>Operating expenses:</b>				
Vessel and rig operating expenses	55.2	60.5	(5.3)	(8.8)%
Depreciation	4.4	53.4	(49.0)	(91.8)%
Amortization of favorable contracts	-	11.3	(11.3)	nm
Reimbursable expenses	0.9	2.1	(1.2)	(57.1)%
Selling, general and administrative expenses	4.7	9.7	(5.0)	(51.5)%
<b>Total operating expenses</b>	<b>65.2</b>	<b>137.0</b>	<b>(71.8)</b>	<b>(52.4)%</b>
<b>Other operating items:</b>				
Impairment of long-lived assets	-	-	-	nm
<b>Total other operating items</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>nm</b>
<b>Operating loss</b>	<b>(45.5)</b>	<b>(8.6)</b>	<b>(36.9)</b>	<b>429.1%</b>
<b>Financial and other items:</b>				
Interest income	-	1.2	(1.2)	nm
Interest expense	-	(65.6)	65.6	nm
Loss on derivative financial instruments	-	(8.0)	8.0	nm
Foreign currency exchange (loss) gain	(0.2)	0.2	(0.4)	nm
Reorganization items, net	-	-	-	nm
Restructuring and other expenses	(3.8)	-	(3.8)	nm
Other financial items	(2.9)	(0.1)	(2.8)	2,800.0%
<b>Total financial items, net</b>	<b>(6.9)</b>	<b>(72.3)</b>	<b>65.4</b>	<b>(90.5)%</b>
<b>Loss before income taxes</b>	<b>(52.4)</b>	<b>(80.9)</b>	<b>28.5</b>	<b>(35.2)%</b>
Income tax expense	(1.7)	(10.2)	8.5	(83.3)%
<b>Net loss</b>	<b>\$ (54.1)</b>	<b>\$ (91.1)</b>	<b>\$ 37.0</b>	<b>(40.6)%</b>

"nm" means not meaningful.

## Operating Revenues

### Contract revenues

Contract revenues decreased \$106.1 million or 85.0% for the three months ended September 30, 2021, compared to the three months ended September 30, 2020 primarily due to the following: (a) approximately \$124.8 million resulting from the *Auriga* (\$54.8 million), *Polaris* (\$11.8 million) and *Vela* (\$58.2 million) being warm stacked or idle in 2021 but on contract in 2020. These decreases were partially offset by an increase of \$19.0 million resulting from the *Capella* being on contract at a higher dayrate in 2021 compared to 2020.

### Reimbursable revenues

Reimbursable revenues decreased \$1.3 million or 56.5% for the three months ended September 30, 2021, compared to the three months ended September 30, 2020, primarily due to fewer equipment purchases being made on behalf of customers under the reimbursable arrangements in our drilling contracts as a result of fewer rigs on contract in the 2021 period.

### Other revenues

During the three months ended September 30, 2020, we recognized \$1.3 million of other revenues primarily related to revenues for onshore support and offshore personnel provided to Seadrill Limited. There were no other revenues recognized during the three months ended September 30, 2021.

## Operating Expenses

### Vessel and rig operating expenses

Vessel and rig operating expenses decreased \$5.3 million or 8.8% for the three months ended September 30, 2021, compared to the three months ended September 30, 2020, primarily due to the following: (a) approximately \$15.2 million resulting from the *Polaris* (\$10.4 million) and the *Vela* (\$4.8 million) being warm stacked or idle in 2021 but on contract in 2020, (b) approximately \$4.9 million resulting from cost incurred during 2020 to prepare the *Capricorn* to be cold stacked and (c) approximately \$3.7 million resulting from cost incurred during 2020

to prepare the *Aquarius* to be cold stacked. These increases were partially offset by the following: (a) an increase of \$9.5 million resulting from deferred mobilization expenses on the *Capella* in 2021, (b) \$5.3 million in increased operating expenses on the *Auriga* and (c) \$3.7 million in other increases in vessel and rig operating expenses.

#### **Depreciation**

Depreciation expense decreased \$49.0 million or 91.8% for the three months ended September 30, 2021, compared to the three months ended September 30, 2020, primarily due to the reduction in carrying value of drilling units and equipment when we applied fresh start accounting on the Effective Date. The depreciation expense for the Successor period is based on lower carrying values of drilling units and equipment and is not comparable to the level of depreciation expense recorded in the Predecessor period.

#### **Amortization of favorable contracts**

During the three months ended September 30, 2020, we recognized \$11.3 million of amortization expense related to favorable contracts with BP acquired for the *Auriga* and the *Vela* from Seadrill Limited. There was no amortization expense recognized related to the favorable contracts during the three months ended September 30, 2021 as these contracts were fully amortized in October 2020 and November 2020, respectively.

#### **Reimbursable expenses**

Reimbursable expenses decreased \$1.2 million or 57.1% for the three months ended September 30, 2021, compared to the three months ended September 30, 2020 which was approximately in line with the reduction in reimbursable revenue.

#### **Selling, general and administrative expenses**

Selling, general and administrative expenses decreased \$5.0 million or 51.5% for the three months ended September 30, 2021, compared to the three months ended September 30, 2020, primarily due to lower management fee billings from Seadrill Limited.

#### **Financial items**

##### **Interest income**

Interest income decreased \$1.2 million or 100.0% for the three months ended September 30, 2021, compared to the three months ended September 30, 2020, primarily due to a decrease in cash balances.

##### **Interest expense**

During the three months ended September 30, 2020, we recognized \$65.6 million of interest expense on our debt instruments. There was no interest expense recognized during the three months ended September 30, 2021 as the Company no longer has any outstanding debt.

##### **Loss on derivative financial instruments**

During the three months ended September 30, 2020, we recognized \$8.0 million of losses related to derivative financial instruments which included a realized loss of \$10.5 million and an unrealized mark to market gain of \$2.5 million, inclusive of credit risk adjustments. There were no gains or losses on the derivative financial instruments during the three months ended September 30, 2021 as the Successor does not have any derivative financial instruments.

##### **Foreign currency exchange (loss)/gain**

During the three months ended September 30, 2021 we recognized \$0.2 million of losses related to foreign currency exchange rate changes in various jurisdictions. During the three months ended September 30, 2020 we recognized \$0.2 million of gains related to foreign currency exchange primarily due to a one-off clean up exercise that was carried out in the Nigerian and Mexican entities during 2020 which was not repeated in 2021.

##### **Restructuring and other expenses**

During the three months ended September 30, 2021 we recognized \$3.8 million in restructuring and other expenses primarily related to advisory and professional fees associated with our restructuring that were incurred after the Effective Date. There were no restructuring and other expenses recognized during the three months ended September 30, 2020 as this period was prior to the Petition Date.

##### **Other financial items**

During the three months ended September 30, 2021 we recognized \$2.9 million in expenses related to other financial items compared to \$0.1 million of expense related to other financial items during the three months ended September 30, 2020.

#### **Income tax expense**

During the three months ended September 30, 2021 we recognized \$1.7 million of income tax expense primarily due to our estimated effective tax rate based on our expected successor period net losses. During the three months ended September 30, 2020 we recognized \$10.2 million of income tax expense primarily due to pre-tax losses recognized in certain jurisdictions where we do not generate any tax benefit from pre-tax losses and taxes in certain jurisdictions based on deemed profits based on revenues. During the three months ended September 30, 2021 and the three months ended September 30, 2020, our effective tax rate, excluding discrete items, was (3.2)% and (12.6)%, respectively, based on loss before income tax expense.

#### **Successor and Predecessor periods in 2021 compared to the nine months ended September 30, 2020**

The following is an analysis of our operating results. See "Performance and Other Key Indicators" above for definitions of operating days, average daily revenue, revenue efficiency and rig utilization.

	Successor	Predecessor	Combined (Non-GAAP)	Predecessor		
	Period from May 25, 2021 through September 30, 2021	Period from January 1, 2021 through May 24, 2021	Nine months ended September 30, 2021	Nine months ended September 30, 2020	\$ Change	% Change
(in millions, except percentages)						
<b>Operating revenues:</b>						
Contract revenues	\$ 19.2	\$ 53.1	\$ 72.3	\$ 431.0	\$ (358.7)	(83.2)%
Reimbursable revenues	1.1	1.9	3.0	9.4	(6.4)	(68.1)%
Other revenues	-	-	-	2.0	(2.0)	nm
<b>Total operating revenues</b>	<b>20.3</b>	<b>55.0</b>	<b>75.3</b>	<b>442.4</b>	<b>(367.1)</b>	<b>(83.0)%</b>
<b>Operating expenses:</b>						
Vessel and rig operating expenses	71.4	63.0	134.4	206.0	(71.6)	(34.8)%
Depreciation	6.3	11.8	18.1	176.4	(158.3)	(89.7)%
Amortization of favorable contracts	-	-	-	33.9	(33.9)	nm
Reimbursable expenses	1.3	1.7	3.0	8.7	(5.7)	(65.5)%
Selling, general and administrative expenses	6.4	7.4	13.8	26.7	(12.9)	(48.3)%
<b>Total operating expenses</b>	<b>85.4</b>	<b>83.9</b>	<b>169.3</b>	<b>451.7</b>	<b>(282.4)</b>	<b>(62.5)%</b>
<b>Other operating items:</b>						
Impairment of long-lived assets	-	-	-	(922.9)	922.9	nm
<b>Total other operating items</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(922.9)</b>	<b>922.9</b>	<b>nm</b>
<b>Operating loss</b>	<b>(65.1)</b>	<b>(28.9)</b>	<b>(94.0)</b>	<b>(932.2)</b>	<b>838.2</b>	<b>(89.9)%</b>
<b>Financial and other items:</b>						
Interest income	0.1	-	0.1	5.4	(5.3)	(98.1)%
Interest expense	-	-	-	(180.4)	180.4	nm
Loss on derivative financial instruments	-	-	-	(13.8)	13.8	nm
Foreign currency exchange loss	(0.3)	(0.7)	(1.0)	(2.6)	1.6	(61.5)%
Gain on reorganization items, net	-	2,090.3	2,090.3	-	2,090.3	nm
Restructuring and other expenses	(3.8)	-	(3.8)	-	(3.8)	nm
Other financial items	(1.6)	(0.8)	(2.4)	(0.3)	(2.1)	700.0%
<b>Total financial items, net</b>	<b>(5.6)</b>	<b>2,088.8</b>	<b>2,083.2</b>	<b>(191.7)</b>	<b>2,274.9</b>	<b>nm</b>
<b>(Loss)/income before income taxes</b>	<b>(70.7)</b>	<b>2,059.9</b>	<b>1,989.2</b>	<b>(1,123.9)</b>	<b>3,113.1</b>	<b>nm</b>
Income tax expense	(2.8)	(4.7)	(7.5)	(33.9)	26.4	(77.9)%
<b>Net (loss)/income</b>	<b>\$ (73.5)</b>	<b>\$ 2,055.2</b>	<b>\$ 1,981.7</b>	<b>\$ (1,157.8)</b>	<b>\$ 3,139.5</b>	<b>nm</b>

"nm" means not meaningful.

## Operating Revenues

### Contract revenues

Contract revenues decreased \$358.7 million or 83.2% for the combined Successor and Predecessor results for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020 primarily due to the following: approximately \$225.4 million resulting from the *Auriga* (\$159.5 million), *Aquarius* (\$36.1 million), and the *Polaris* (\$29.8 million) being warm stacked or idle in 2021 but on contract in 2020, (b) approximately \$53.9 million resulting from a reduced dayrate from December 2020 related to the BP contract for the *Vela*, (c) approximately \$78.9 million resulting from the *Vela* being on contract for fewer days in 2021, (d) approximately \$10.5 million resulting from lower integrated services on the *Vela* (\$5.6 million) and the *Aquarius* (\$4.9 million), (e) approximately \$3.9 million resulting from lower add on sales for the *Auriga* (\$2.8 million) and the *Vela* (\$1.1 million), (f) approximately \$3.8 million resulting from deferred revenue that was amortized during the nine months ended September 30, 2020 on the *Polaris* (\$2.7 million) and the *Auriga* and *Aquarius* (\$1.1 million), (g) approximately \$1.9 million resulting from lower demobilization revenues for the *Capella*, and (h) approximately \$0.2 million in other contract revenue decreases. These decreases were partially offset by the following increases: (a) approximately \$3.5 million resulting from higher demobilization revenues for the *Vela*, and (b) \$16.3 million resulting from the *Capella* being on contract at a higher dayrate in 2021 compared to 2020

### Reimbursable revenues

Reimbursable revenues decreased \$6.4 million or 68.1% for the combined Successor and Predecessor results for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020, primarily due to the following: (a) approximately \$2.6 million related to the *Auriga* as the rig was warm stacked in 2021 following the end of the BP contract in October 2020, (b) approximately \$2.8 million related to the *Aquarius* as the rig was idle in 2021 following the end of the ExxonMobil contract in May 2020, (c) approximately \$1.7 million in lower reimbursables incurred on contract by the *Vela* and (d) approximately \$0.6 million in fewer purchases of supplies, equipment, personnel services and other services made on behalf of customers under the reimbursable arrangements in our drilling contracts. These decreases were partially offset by approximately \$1.3 million in higher reimbursables incurred on contract by the *Capella*.

### Other revenues

During the nine months ended September 30, 2020, we recognized \$2.0 million of other revenues primarily related to related party revenues for onshore support and offshore personnel provided to Seadrill Limited, a previous related party. There were no other revenues recognized during the combined Successor and Predecessor results for the nine months ended September 30, 2021.

## **Operating Expenses**

### ***Vessel and rig operating expenses***

Vessel and rig operating expenses decreased \$71.6 million or 34.8% for the combined Successor and Predecessor results for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020, primarily due to the following: (a) approximately \$65.5 million resulting from the *Aquarius* (\$29.1 million), *Polaris* (\$26.4 million) and the *Auriga* (\$10.0 million) being warm stacked or idle in 2021 but on contract in 2020, (b) approximately \$13.7 million resulting from the *Vela* being on contract for fewer days in 2021 and (c) approximately \$19.6 million resulting from the *Capricorn* being idle in 2021 but warm stacked in 2020. These decreases were partially offset by approximately \$27.2 million in increases in other vessel and rig operating expenses.

### ***Depreciation***

Depreciation expense decreased \$158.3 million or 89.7% for the combined Successor and Predecessor results for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020, primarily due to the impairment charges to our drilling units recognized in 2020 which reduced the depreciable carrying value of drilling units for the 2021 Predecessor period.

We also reduced the carrying value of drilling units and equipment balances when we applied fresh start accounting on the Effective Date. Therefore, the depreciation expense for the Successor period is based on lower carrying values of drilling units and equipment and is not comparable to the level of depreciation expense recorded in the Predecessor periods.

### ***Amortization of favorable contracts***

During the nine months ended September 30, 2020, we recognized \$33.9 million of amortization expense related to favorable contracts with BP acquired for the *Auriga* and the *Vela* from Seadrill Limited. There was no amortization expense recognized related to the favorable contracts during the combined Successor and Predecessor results for the nine months ended September 30, 2021 as these contracts were fully amortized in October 2020 and November 2020, respectively.

### ***Reimbursable expenses***

Reimbursable expenses decreased \$5.7 million or 65.5% for the combined Successor and Predecessor results for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020 which was approximately in line with the reduction in reimbursable revenue.

### ***Selling, general and administrative expenses***

Selling, general and administrative expenses decreased \$12.9 million or 48.3% for the combined Successor and Predecessor results for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020, primarily due to (a) \$11.8 million in lower management fee billings from Seadrill Limited and (b) approximately \$4.9 million in other selling, general and administrative expense decreases. These decreases were partially offset by the following increases: (a) approximately \$2.0 million in higher insurance costs related to the director and officer insurance premium and (b) approximately \$1.8 million in higher professional fees.

## **Other Operating Items**

### ***Impairment of long lived assets***

During the nine months ended September 30, 2020, as a result of the deteriorating market due to COVID-19 and oil price declines, there was an impairment triggering event and we recognized an impairment of \$922.9 million against the *Leo*, *Sirius* and *Vencedor*. There were no impairments recognized during the combined Successor and Predecessor results for the nine months ended September 30, 2021.

## **Financial items**

### ***Interest income***

Interest income decreased \$5.3 million or 98.1% for the combined Successor and Predecessor results for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020, primarily due to the following: (a) interest income on surplus cash invested being recorded as a reorganization item, net during the Predecessor period of January 1, 2021 thru the Effective Date and (b) a decrease in cash balances.

### ***Interest expense***

During the nine months ended September 30, 2020, we recognized \$180.4 million of interest expense on our debt instruments. There was no interest expense recognized for the period from January 1, 2021 through the Effective Date as the Company discontinued the recognition of interest expense on the under-secured debt facilities on the Petition Date due to the Bankruptcy Court's stay order. There was no interest expense recognized by the Successor for the period from May 25, 2021 through September 30, 2021 as the Company no longer has any outstanding debt.

### ***Loss on derivative financial instruments***

During the nine months ended September 30, 2020, we recognized \$13.8 million of losses related to derivative financial instruments which included a realized loss of \$20.1 million and an unrealized mark to market gain of \$6.3 million, inclusive of credit risk adjustments. There were no gains or losses on the derivative financial instruments during the Predecessor period from January 1, 2021 through the Effective Date as the interest rate swaps were terminated under the ISDA on December 1, 2020. The Successor does not have any derivative financial instruments.

### ***Foreign currency exchange loss***

Foreign currency exchange loss decreased \$1.6 million or 61.5% for the combined Successor and Predecessor results for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020, primarily due to a one-off clean up exercise that was carried out in the Nigerian and Mexican entities during 2020 which was not repeated in 2021.

### ***Reorganization items, net***

During the period from January 1, 2021 through the Effective Date, the Predecessor recognized a gain of \$2,090.3 million in reorganization items, net primarily due to the following: (a) approximately \$2,300.6 million resulting from gains on liabilities subject to compromise and (b) approximately \$0.2 million resulting from interest income generated from surplus cash invested. The gain was partially offset by the following

items: (a) approximately \$145.7 million resulting from fresh start valuation adjustments primarily related to the write down in the value of the drilling units, (b) approximately \$48.8 million resulting from advisory and professional fees for services provided during the bankruptcy proceedings, (c) approximately \$9.8 million resulting from success fees incurred upon emergence, (d) approximately \$5.9 million resulting from the write off of prepaid insurance related to the Predecessor's directors' and officers' insurance policy and (e) approximately \$0.1 million resulting from the elimination of the Predecessor accumulated other comprehensive income. As reorganization items, net relates to gains, losses and expenses directly related to the bankruptcy proceedings, no reorganization items, net were recognized during the nine months ended September 30, 2020 or during the Successor period from May 25, 2021 through September 30, 2021.

#### Restructuring and other expenses

During the period from May 25, 2021 through September 30, 2021 we recognized \$3.8 million in restructuring and other expenses, primarily related to advisory and professional fees associated with our restructuring that were incurred after the Effective Date. There were no restructuring and other expenses recognized during the period from January 1, 2021 through the Effective Date as the expenses related to our restructuring that were incurred during the bankruptcy proceedings were recognized in "Reorganization Items, net". There were no restructuring and other expenses recognized during the nine months ended September 30, 2020 as advisory and professional fees associated with our restructuring that were incurred before the Petition Date were recognized in "Other financial items".

#### Other financial items

During the combined Successor and Predecessor results for the nine months ended September 30, 2021 we recognized \$2.4 million of expense related to other financial items. During the nine months ended September 30, 2020 we recognized \$0.3 million of expense related to other financial items.

#### Income tax expense

Income tax expense decreased \$26.4 million or 77.9% for the combined Successor and Predecessor results for the nine months ended September 30, 2021, compared to the nine months ended September 30, 2020, primarily due to a decrease in taxable profits in the United States attributable to the *Vela* and *Auriga*. In the periods from May 25, 2021 to September 30, 2021 (Successor), January 1, 2021 to May 24, 2021 (Predecessor), and nine months ended September 30, 2020, our effective tax rate, excluding discrete items, was (4.0)%, 0.2% and (3.0)%, respectively, based on income/loss before income tax expense. We recorded income tax expense in periods where we generated a net loss on income before taxes due to the fact that taxes on income earned in higher tax rate jurisdictions were not completely offset by benefits in lower tax rate jurisdictions.

### LIQUIDITY AND CAPITAL RESOURCES

#### Sources and uses of cash

Cash flows from operating activities (in millions)	Successor		Predecessor	
	Period from May 25, 2021 through September 30, 2021		Period from January 1, 2021 through May 24, 2021	Nine months ended September 30, 2020
Net (loss)/income	\$	(73.5)	\$ 2,055.2	\$ (1,157.8)
Non-cash items, net		7.1	(2,130.7)	1,141.8
Changes in operating assets and liabilities, net		13.2	28.4	121.3
<b>Net cash (used in)/provided by operating activities</b>	<b>\$</b>	<b>(53.2)</b>	<b>\$ (47.1)</b>	<b>\$ 105.3</b>

Net cash provided by operating activities decreased primarily due to (a) reduced cash interest payments and (b) payments to providers of professional fees in connection with the bankruptcy.

Cash flows from investing activities (in millions)	Successor		Predecessor	
	Period from May 25, 2021 through September 30, 2021		Period from January 1, 2021 through May 24, 2021	Nine months ended September 30, 2020
Additions to drilling units and equipment	\$	(7.3)	\$ (11.0)	\$ (5.8)
Sale of rigs and equipment		5.7	-	-
<b>Net cash used in investing activities</b>	<b>\$</b>	<b>(1.6)</b>	<b>\$ (11.0)</b>	<b>\$ (5.8)</b>

Net cash used in investing activities increased primarily due to an increase in capital expenditures.

Cash flows from financing activities (in millions)	Successor		Predecessor		
	Period from May 25, 2021 through September 30, 2021		Period from January 1, 2021 through May 24, 2021		Nine months ended September 30, 2020
Repayments of debt	\$	-	\$	-	\$ (306.6)
Contingent consideration paid		-		-	(23.0)
<b>Net cash used in financing activities</b>	<b>\$</b>	<b>-</b>	<b>\$</b>	<b>-</b>	<b>\$ (329.6)</b>

Net cash used in financing activities decreased primarily due to the settlement of debt related to the chapter 11 bankruptcy proceedings.

At September 30, 2021, we had \$234.7 million in unrestricted cash and cash equivalents and \$30.8 million in restricted cash and cash equivalents. In the nine months ended September 30, 2021, our primary sources of cash were our existing cash balances and net cash provided by our operating activities, and our primary uses of cash were funding of rig reactivations, upgrades and contract prep and costs of maintaining idle and stacked rigs.

#### Sources and uses of liquidity

Our primary short-term liquidity requirements relate to funding working capital requirements, paying for capital expenditures on drilling unit upgrades and major maintenance. Our main sources of liquidity include cash deposits and contract and other revenues. As of September 30, 2021, we had cash and cash equivalents, including restricted cash of \$265.5 million, compared to \$297.5, \$329.9 and \$378.4 million as of June 30, 2021, September 30, 2020 and December 31, 2020, respectively. Approximately \$6.0 million of restricted cash was released in early October 2021. We have implemented, and will continue to implement, various measures to preserve liquidity. These primarily include deferrals of capital expenditures and warm stacking or idling drilling units, as well as an increased focus on operating efficiency and reductions in corporate and overhead expenditures.

We expect to use existing unrestricted cash balances, internally generated cash flows and proceeds from the disposal of assets to fulfill anticipated obligations, which may include capital expenditures, working capital and other operational requirements or other payments. We may consider establishing financing arrangements with banks or other capital providers. Subject to market conditions and other factors, we may be required to provide collateral for any future financing arrangements.

The ongoing effect of the COVID-19 pandemic, including the impact of virus variants, and the volatility in oil prices could have significant adverse consequences for general economic, financial and business conditions, as well as for our business and financial position and the business and financial position of our customers and suppliers and may, among other things, impact our ability to generate cash flows from operations. In addition to our potential sources of funding, the effects of such global events may impact our liquidity or need to alter our allocation or sources of capital, implement further cost reduction measures, and change our financial strategy. Although the COVID-19 pandemic and the volatility in oil prices could have a broad range of effects on our sources and uses of liquidity, the ultimate effect thereon, if any, will depend on future developments, which cannot be predicted at this time.

Our internally generated cash flows are directly related to our business and the market sectors in which we operate. However, among other factors, if the drilling market deteriorates, or if we experience poor operating results, or if we incur expenses to, for example, reactivate, stack or otherwise assure the marketability of our fleet, cash flows from operations may be reduced or negative.

#### Drilling fleet

##### Expansion

From time to time, we may consider investments related to reactivation of idle or stacked rigs or major rig upgrades. Our strategy is to only commit to these investments when we have a customer contract or firm commitment from a customer. Any reactivation or upgrade could involve the payment by us of a substantial amount of cash.

During the nine months ended September 30, 2020, we made capital expenditures of \$5.8 million primarily related to additional equipment for our existing drilling units and maintenance. During the combined Successor and Predecessor period for the nine months ended September 30, 2021 we made capital expenditures of \$18.3 million primarily related to normal capital expenditures on operating rigs.

The ultimate amount of our capital expenditures is partly dependent upon financial market conditions, our ability to reactivate idle or warm stacked rigs for customer contracts, the actual level of operational and contracting activity, the costs associated with the current regulatory environment and customer requested capital improvements and equipment for which the customer agrees to reimburse us. We intend to fund the cash requirements relating to our capital expenditures by using available cash balances, cash generated from operations and asset sales.

##### Dispositions

From time to time, we may also review the possible disposition of non-strategic drilling assets. Considering market conditions, we have committed to plans to sell certain lower-specification drilling units for scrap value. On September 23, 2021, we completed the sale of one ultra-deepwater semi-submersible, the *Sirius*, and related assets, and we received gross cash proceeds of \$5.7 million.

On October 25, 2021, we entered into an agreement for the sale of a semi-submersible drilling unit, the *Leo*, with a subsidiary of BW Energy for \$14.0 million. See "Sales of Drilling Units" above for further detail on this transaction.

We continue to evaluate the drilling units in our fleet and may identify additional lower-specification drilling units to be sold for scrap value.

## RELATED PARTY TRANSACTIONS

---

As of the Petition Date, Seadrill owned 34.9% of the Predecessor common units, 100% of the Predecessor subordinated units and owned and controlled the Seadrill Member. Certain of the Predecessor's officers and directors are directors and/or officers of Seadrill Limited and its subsidiaries and, as such, they had fiduciary duties to Seadrill Limited. The related party relationship ceased with the Seadrill Limited Global Settlement discussed in the Significant Events section above.

## CONTRACTUAL OBLIGATIONS

---

The management services agreements require the MSA Managers to maintain, market and operate our owned rigs. The Company retains the authority to approve in advance any capital expenditures or commitments by the MSA Manager related to the Company's rigs and to fund operating and capital expenditures in advance. Our MSA Managers enter into the contractual relationships with vendors for any services or work performed on the rigs and we do not have a direct contractual relationship with the actual service providers. Our obligation is to provide approval and advanced funding to the MSA Managers for any major upgrades and for budgeted costs to operate the Company's rigs.

At September 30, 2021, we had the following contractual obligations:

	For the twelve months ending September 30,						Thereafter
	Total	2022	2023	2024	2025		
		(in millions)					
Operating lease obligations	\$ 0.5	\$ 0.3	\$ 0.1	\$ 0.1	\$ -	\$ -	
Total	\$ 0.5	\$ 0.3	\$ 0.1	\$ 0.1	\$ -	\$ -	

## OTHER COMMERCIAL COMMITMENTS

---

We have other commercial commitments that we are contractually obligated to fulfill with cash under certain circumstances. These commercial commitments include performance guarantees under our bank guarantee facility with Danske Bank and performance guarantees under our bank guarantee facility with DNB Bank ASA that guarantee our performance as it relates to our drilling contracts. Such obligations are not normally called, as we typically comply with the underlying performance requirement. As of September 30, 2021 we have not recognized any liabilities for these guarantees, as we do not consider it is probable for the guarantees to be called. At September 30, 2021, the aggregate cash collateral held by banks for the performance guarantees was \$18.3 million.

## OTHER MATTERS

---

### Regulatory matters

We occasionally receive inquiries from governmental regulatory agencies regarding our operations around the world, including inquiries with respect to various tax, environmental, regulatory and compliance matters. To the extent appropriate under the circumstances, we investigate such matters, respond to such inquiries, and cooperate with the regulatory agencies.

### Tax matters

We conduct operations through our various subsidiaries in countries throughout the world. Each country has its own tax regimes with varying nominal rates, deductions, and tax attributes. From time to time, we may identify changes to previously evaluated tax positions that could result in adjustments to our recorded assets and liabilities. Although we are unable to predict the outcome of these changes, we do not expect the effect, if any, resulting from these adjustments to have a material adverse effect on our consolidated financial position, results of operations or cash flows. We file federal and local tax returns in several jurisdictions throughout the world. Tax authorities in certain jurisdictions are examining our tax returns and, in some cases, have issued assessments. We intend to defend our tax positions vigorously, although we can provide no assurance as to the outcome. We do not expect the ultimate liability to have a material adverse effect on our consolidated financial position or results of operations, although it could have a material adverse effect on our consolidated cash flows.

### Internal control over financial reporting

At the Emergence Date, the management of the Company was replaced completely by new officers and directors. Management plans to perform a gap analysis of our key controls to identify areas where new controls may be needed and enhancements to existing controls, policies and procedures may be needed to be made.

There was no change in our internal control over financial reporting during the three months ended September 30, 2021 (Successor) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.