

# Financial Reporting Package

For the quarter ended June 30, 2022



**AQUADRILL LLC**

4<sup>th</sup> Floor Reading Bridge House

George Street, Reading UK RG18LS

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**AQUADRILL LLC**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
for the three months ended June 30, 2022 and 2021  
*(In \$ millions, except per unit data)*  
(Uunaudited)

	<b>Successor</b>		<b>Predecessor</b>
	<b>Three months ended June 30, 2022</b>	<b>Period from May 25, 2021 through June 30, 2021</b>	<b>Period from April 1, 2021 through May 24, 2021</b>
<b>Operating revenues</b>			
Contract revenues	\$ 16.9	\$ 0.5	\$ 19.1
Reimbursable revenues	3.3	0.1	1.2
<b>Total operating revenues</b>	<b>20.2</b>	<b>0.6</b>	<b>20.3</b>
<b>Operating expenses</b>			
Vessel and rig operating expenses	30.8	16.7	13.1
Depreciation	3.1	1.3	2.9
Reimbursable expenses	2.9	0.4	1.1
Selling, general and administrative expenses	3.6	1.8	4.7
<b>Total operating expenses</b>	<b>40.4</b>	<b>20.2</b>	<b>21.8</b>
<b>Other operating items</b>			
Gain on sale of assets	—	—	—
<b>Operating loss</b>	<b>(20.2)</b>	<b>(19.6)</b>	<b>(1.5)</b>
<b>Financial and other items</b>			
Interest income	—	0.1	—
Foreign currency exchange loss	(0.1)	—	(0.1)
Gain on Reorganization items, net	—	—	2,115.3
Restructuring and other expenses	0.3	(0.1)	—
Other financial items	(0.3)	1.3	(3.7)
<b>Total financial items, net</b>	<b>(0.1)</b>	<b>1.3</b>	<b>2,111.5</b>
<b>(Loss)/income before income taxes</b>	<b>(20.3)</b>	<b>(18.3)</b>	<b>2,110.0</b>
Income tax benefit/(expense)	(2.8)	(1.1)	(3.4)
<b>Net (loss)/income</b>	<b>\$ (23.1)</b>	<b>\$ (19.4)</b>	<b>\$ 2,106.6</b>

A Statement of Other Comprehensive Income has not been presented as there are no items recognized in other comprehensive income.

**AQUADRILL LLC**  
**CONSOLIDATED STATEMENTS OF OPERATIONS**  
for six months ended June 30, 2022 and 2021  
*(In \$ millions, except per unit data)*  
(Uaudited)

	<b>Successor</b>		<b>Predecessor</b>
	<b>Six months ended June 30, 2022</b>	<b>Period from May 25, 2021 through June 30, 2021</b>	<b>Period from January 1, 2021 through May 24, 2021</b>
<b>Operating revenues</b>			
Contract revenues	\$ 57.5	\$ 0.5	\$ 53.0
Reimbursable revenues	4.0	0.1	1.9
<b>Total operating revenues</b>	<b>61.5</b>	<b>0.6</b>	<b>54.9</b>
<b>Operating expenses</b>			
Vessel and rig operating expenses	92.9	16.7	51.0
Depreciation	5.6	1.3	8.6
Reimbursable expenses	3.5	0.4	1.7
Selling, general and administrative expenses	5.8	1.8	13.2
<b>Total operating expenses</b>	<b>107.8</b>	<b>20.2</b>	<b>74.5</b>
<b>Other operating items</b>			
Gain on sale of assets	6.0	—	—
<b>Total other operating items</b>	<b>6.0</b>	<b>—</b>	<b>—</b>
<b>Operating loss</b>	<b>(40.3)</b>	<b>(19.6)</b>	<b>(19.6)</b>
<b>Financial and other items</b>			
Interest income	—	0.1	—
Foreign currency exchange loss	(0.4)	—	(0.7)
Gain on Reorganization items, net	—	—	2,096.9
Restructuring and other expenses	—	(0.1)	—
Other financial items	(0.4)	1.3	(3.8)
<b>Total financial items, net</b>	<b>(0.8)</b>	<b>1.3</b>	<b>2,092.4</b>
<b>(Loss)/income before income taxes</b>	<b>(41.1)</b>	<b>(18.3)</b>	<b>2,072.8</b>
Income tax expense	(6.3)	(1.1)	(7.6)
<b>Net (loss)/income</b>	<b>\$ (47.4)</b>	<b>\$ (19.4)</b>	<b>\$ 2,065.2</b>

A Statement of Other Comprehensive Income has not been presented as there are no items recognized in other comprehensive income.

**AQUADRILL LLC**  
**CONSOLIDATED BALANCE SHEETS**  
as of June 30, 2022 and December 31, 2021  
*(In \$ millions)*  
(Uaudited)

	<b>June 30, 2022</b>	<b>December 31, 2021</b>
<b>ASSETS</b>		
Cash and cash equivalents	\$ 139.0	\$ 203.2
Restricted cash	13.0	24.7
Accounts receivable, net	21.6	35.0
Prepaid expenses	49.8	25.1
Income taxes receivable	17.5	18.3
Assets held for sale	18.7	8.0
Other current assets	21.8	4.4
<b>Total current assets</b>	<b>281.4</b>	<b>318.7</b>
<b>Non-current assets</b>		
Drilling units, net	299.0	290.2
Deferred tax assets	7.8	7.8
Other non-current assets	5.9	6.3
<b>Total non-current assets</b>	<b>312.7</b>	<b>304.3</b>
<b>Total assets</b>	<b>594.1</b>	<b>623.0</b>
<b>LIABILITIES AND MEMBERS' CAPITAL</b>		
Trade accounts payable and accruals	26.8	21.9
Accrued expenses	27.4	13.0
Taxes payable	26.2	26.0
Other current liabilities	7.8	9.4
<b>Total current liabilities</b>	<b>88.2</b>	<b>70.3</b>
Deferred tax liability	1.3	1.3
Other non-current liabilities	48.5	48.5
<b>Total long-term liabilities</b>	<b>49.8</b>	<b>49.8</b>
<b>Commitments and contingencies</b>		
<b>Members' Capital</b>		
Accumulated Deficit	(109.6)	(62.2)
Common unitholders (20,000,000 units at June 30, 2022)	565.7	565.1
<b>Total members' capital</b>	<b>456.1</b>	<b>502.9</b>
<b>Total liabilities and equity</b>	<b>\$ 594.1</b>	<b>\$ 623.0</b>

**AQUADRILL LLC**  
**CONSOLIDATED STATEMENTS OF CASH FLOWS**  
for the six months ended June 30, 2022  
*(In \$ millions)*  
(Uaudited)

	<b>Six Months Ended June 30, 2022</b>
<b>Cash Flows from Operating Activities</b>	
Net loss	\$ (47.4)
<i>Adjustments to reconcile net loss to net cash (used in)/provided by operating activities:</i>	
Depreciation	5.6
Payment for long term maintenance	(3.6)
Deferred and other taxes	(0.1)
Share based compensation	0.6
Gain on sale of assets	(6.0)
<i>Changes in operating assets and liabilities</i>	
Trade accounts receivable	13.4
Prepaid expenses and accrued income	(24.7)
Trade accounts payable	4.9
Other assets	(16.2)
Other liabilities	15.6
Changes in deferred revenue	(2.5)
<b>Net cash used in operating activities</b>	<b>(60.4)</b>
<b>Cash Flows from Investing Activities</b>	
Additions to drilling units	(29.5)
Sale of rigs and equipment	14.0
<b>Net cash provided by investing activities</b>	<b>(15.5)</b>
<b>Cash Flows from Financing Activities</b>	
Net cash used in financing activities	—
<b>Net decrease in cash and cash equivalents</b>	<b>(75.9)</b>
Cash and cash equivalents at beginning of the period	227.9
<b>Cash and cash equivalents, including restricted cash, at the end of period</b>	<b>\$ 152.0</b>

**AQUADRILL LLC**  
**CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' CAPITAL**  
for six months ended June 30, 2022 and 2021  
*(In \$ millions)*  
*(Unaudited)*

	Members' Capital		Total Before Non-controlling interest	Non-controlling interest	Total (Deficit)/Equity
	Common Units	Subordinated Units			
<b>Consolidated balance at December 31, 2020 (Predecessor)</b>	(944.5)	(371.4)	(1,315.9)	(749.3)	(2,065.2)
Net loss	(20.7)	(4.5)	(25.2)	(16.2)	(41.4)
<b>Consolidated balance at March 31, 2021 (Predecessor)</b>	(965.2)	(375.9)	(1,341.1)	(765.5)	(2,106.6)
Net income	941.9	206.9	1,148.8	957.8	2,106.6
Cancellation of Predecessor Equity	23.3	169.0	192.3	(192.3)	-
<b>Consolidated balance at May 24, 2021 (Predecessor)</b>	-	-	-	-	-
	Common Units	Additional Paid-in Capital	Accumulated (Deficit) / Earnings	Total Equity/(Deficit)	
Issuance of Successor members' units	—	564.5	—	564.5	
Amortization of share based awards	—	0.1	—	0.1	
Net loss	—	—	(19.4)	(19.4)	
<b>Consolidated Balance at June 30, 2021 (Successor)</b>	—	564.6	(19.4)	545.2	
	Common Units	Additional Paid-in Capital	Accumulated (Deficit) / Earnings	Total Equity/(Deficit)	
<b>Consolidated Balance at December 31, 2021 (Successor)</b>	—	565.1	(62.2)	502.9	
Amortization of share based awards	—	0.3	—	0.3	
Net loss	—	—	(24.3)	(24.3)	
<b>Consolidated Balance at March 31, 2022 (Successor)</b>	—	565.4	(86.5)	478.9	
Amortization of share based awards	—	0.3	—	0.3	
Net loss	—	—	(23.1)	(23.1)	
<b>Consolidated Balance at June 30, 2022 (Successor)</b>	—	565.7	(109.6)	456.1	

**AQUADRILL LLC**  
**NON-GAAP FINANCIAL MEASURES AND RECONCILIATIONS**  
**EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION**  
For the three months ended June 30, 2022 (Successor), the period from May 25, 2021 to June 30, 2021 (Successor), and the period from April 1, 2021 through May 24, 2021  
(Predecessor)  
*(In \$ millions, except per unit data)*  
(Unaudited)

	<b>Successor</b>		<b>Predecessor</b>
	Three months ended June 30, 2022	Period from May 25, 2021 through June 30, 2021	Period from April 1, 2021 through May 24, 2021
<b>Net (loss)/income</b>	\$ (23.1)	\$ (19.4)	\$ 2,106.6
Interest income	—	(0.1)	—
Income tax (benefit) expense	2.8	1.1	3.4
Depreciation	3.1	1.3	2.9
<b>EBITDA</b>	<b>(17.2)</b>	<b>(17.1)</b>	<b>2,112.9</b>
Foreign currency exchange loss	0.1	—	0.1
(Gain) on Reorganization items, net	—	—	(2,115.3)
Restructuring and other expenses	(0.3)	0.1	—
Other financial items	0.3	(1.3)	3.7
<b>Adjusted EBITDA</b>	<b>\$ (17.1)</b>	<b>\$ (18.3)</b>	<b>\$ 1.4</b>

**AQUADRILL LLC**  
**NON-GAAP FINANCIAL MEASURES AND RECONCILIATIONS**  
**EARNINGS BEFORE INTEREST, TAXES, DEPRECIATION AND AMORTIZATION**

For the six months ended June 30, 2022 (Successor), the period from May 25, 2021 to June 30, 2021 (Successor), and the period from January 1, 2021 through May 24, 2021

(Predecessor)

(In \$ millions, except per unit data)

(Unaudited)

	<b>Successor</b>		<b>Predecessor</b>
	<b>Six months ended June 30, 2022</b>	<b>Period from May 25, 2021 through June 30, 2021</b>	<b>Period from January 1, 2021 through May 24, 2021</b>
<b>Net (loss)/income</b>	\$ (47.4)	\$ (19.4)	\$ 2,065.2
Interest income	—	(0.1)	—
Income tax expense	6.3	1.1	7.6
Depreciation	5.6	1.3	8.6
<b>EBITDA</b>	<b>(35.5)</b>	<b>(17.1)</b>	<b>2,081.4</b>
(Gain) on sale of assets	(6.0)	—	—
Foreign currency exchange loss	0.4	—	0.7
(Gain) on reorganization items, net	—	—	(2,096.9)
Restructuring and other expenses	—	0.1	—
Other financial items	0.4	(1.3)	3.8
<b>Adjusted EBITDA</b>	<b>\$ (40.7)</b>	<b>\$ (18.3)</b>	<b>\$ (11.0)</b>

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

Aquadrill LLC (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 June 30, 2022, and our results of operations for the three and six months ended June 30, 2022 (Successor), the period from April 1 through May 24, 2021 (Predecessor), the period from January 1 through May 24, 2021 (Predecessor), and the period from May 25 through June 30, 2021 (Successor).

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 prior to and including 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

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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;
- 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 and hazards inherent in the drilling industry, including the effects of variations in commodity prices, supply and demand including supply chain and labor shortages resulting from the increase in projected rig reactivations, 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, credit risks, 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 volatility, including but not limited to, potential volatility due to fluctuating exchange rates and currency devaluations due either to the U.S. or other governmental monetary policy and our evaluation or decisions with respect to any strategic alternatives intended to prudently manage our liquidity, and aspects of our capital structure;
- Upgrades, 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 litigation and 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 Master Service Agreement ("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 ("OPEC") 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 Limited to our MSA managers;
- The ability of our MSA managers to transition rigs in a timely manner from Seadrill Limited to the management by the MSA manager;
- Operational performance, including, but not limited to, the effect, impact, or any expectation that we may have with respect to planned shipyard projects and other out-of-service time, sales and maintenance of drilling units, operating hazards and delays, risks associated with international operations, and other factors;
- 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 involving the Middle East, Russia, Myanmar, North Africa, West Africa, other oil or natural gas producing regions or other geographic areas or further acts of terrorism in the United States or elsewhere such as the conflict between Russia and Ukraine, which may result in expropriation, nationalization, repatriation, 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;
- Effects resulting from any future regulations relating to greenhouse gases and climate change;
- Consumer preference for alternative fuels and electric-powered vehicles may lead to reduced demand for contract drilling services;
- Increased focus on climate change, the environmental and social impacts of fossil fuel extraction and use and other environmental, social and governance (“ESG”) matters, including but not limited to, pollution or environmental damage;
- Global energy supply may shift from our industry's basis, hydrocarbons, to non-hydrocarbon sources, including wind, solar, nuclear and hydroelectric, which, in turn, may adversely affect demand for our services;
- 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

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### 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 11.3 years. We currently own and operate a fleet of 8 drilling units, including 4 drillships, 1 semi-submersible rig and 3 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 80 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 80 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 40 or more people.

See additional information on our fleet below in Outlook, Drilling units.

## SIGNIFICANT EVENTS

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### 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 rig 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 Seadrill Limited MSA (as defined below) to best maximize value. The Conflicts Committee retained Evercore as its independent financial adviser and Sheppard Mullin as its independent legal counsel to assist in this assessment.

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 (as defined in the Disclosure Statement) executed two amendments to the Term Loan B ("TLB") 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 (as defined in the Disclosure Statement) 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 \$24.2 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 (as defined in the Disclosure Statement) 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 of Directors 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 (as defined below), 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 (as defined below).

#### ***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 (as defined in the Plan) and TLB Secured Claims (as defined in the Plan). 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 MSA Agreements (as defined below) 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;
- \$12.7 million of certain General Unsecured Claims (as defined in the Plan) 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 (as defined in the Plan) with the residual continuing unimpaired;

- The holders of Other Secured Claims (as defined in the Plan) and Other Priority Claims (as defined in the Plan) 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 (as defined in the MSA Settlement Order) 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 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; and
- 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 December 31, 2021 and the related adjustments thereto were recorded in the Consolidated Statement of Operations of the Predecessor as "Gain/(loss) on 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, 287 claims totaling approximately \$3.2 billion had been filed with the Bankruptcy Court against the Debtors. Subsequent to this date, approximately 165 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 were either 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 Petition Date, Seadrill Limited, a former 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, through the Seadrill Limited MSA, was responsible for the management, marketing, and operation of our fleet of drilling units. 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 of drillships and semi-submersible 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 Drilling. 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 the amended Vantage Drilling MSA, Vantage Drilling is the Manager of the *Aquarius*, *Polaris*, and *Leo*. and became the Manager of the *Capella* after the conclusion of the contract ending in March 2022 and following the transition from, Seadrill Limited. On February 2, 2022, the sale of the *Leo* closed and Vantage Drilling's role as Manager ceased.

Under the Diamond Offshore MSA, Diamond Offshore is the Manager of the *Auriga* and *Capricorn* and became the Manager of the *Vela* after the conclusion of the contract ending in March 2022 and following the transition from Seadrill Limited. On July 22, 2022, the sale of the *Capricorn* closed and Diamond Offshore's role as Manager ceased.

Under the Odfjell Drilling MSA, Odfjell Drilling agreed to prepare a feasibility assessment for upgrading the *Aquarius* to comply with requirements for the rig to operate in Norway and for reactivation of the rig to operate in Canada. After completion of this study the *Aquarius* transitioned to management by Vantage Drilling.

#### **Seadrill Limited Global Settlement**

On April 16, 2021, the Bankruptcy Court entered the MSA Settlement Order, which among other things, approved the Settlement 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 MSA 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 \$0.7 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. Furthermore, the MSA Settlement Order provided that Seadrill Limited ceased to be obligated to market the SDLP vessels. Note that Seadrill Limited continued to provide services subsequent to June 30, 2021; 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 Managers prior to the 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 Manager 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 Managers.

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.

Expenses incurred under the MSA Settlement Order related to offshore support services were recognized within vessel and rig operating expenses. Expenses incurred under the MSA Settlement Order related to onshore support services were recognized within selling, general and administrative expenses.

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 MSA Settlement Order, SDLP was to not remove cash from the Segregated Account. The \$9.0 million is classified as restricted cash on the balance sheet at June 30, 2022.

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 was managed and operated by Seadrill Limited. Total contract value for the firm portion of the contract was \$55.0 million and the contract commenced in November 2021 and ended in March 2022.

On October 12, 2021, we reached an agreement with a subsidiary of Vantage Drilling to provide the *Capella*, a Managed Pressure Drilling ("MPD") outfitted 6th generation drillship, for a two well contract plus two priced optional wells and five mutually agreed optional wells for operations in Indonesia. The rig will be contracted to Premier Oil Andaman Limited for the first firm well and subcontracted to Repsol Andaman B.V for the second firm well. The total contract value for the firm portion of the contract is expected to be approximately \$41.7 million and work commenced in Q2 2022 following the relocation of the rig from Malaysia to Indonesia and contract preparation. The firm portion of the contract is expected to end in mid Q4 2022 and the priced options were not exercised.

On May 31, 2022, we announced an agreement with a subsidiary of Vantage Drilling to provide the *Polaris*, a 6th generation drillship, for a nine-month contract for operations in India with Oil and Natural Gas Corporation Limited. The total contract value is expected to be approximately \$66.5 million, and work is expected to commence in Q4 2022 following relocation of the rig from Sri Lanka to Malaysia for reactivation, contract preparation and upgrades, including equipping the rig with the piping required for future use of a Managed Pressure Drilling system.

On May 31, 2022, we announced an agreement with a subsidiary of Energy Drilling Management to provide the *T-15*, a tender assisted drilling barge, for a five-month contract plus a three-month priced optional period for operations in Thailand. The total contract value of the firm portion of the contact is expected to be approximately \$11.6 million and work is expected to commence in August 2022 following reactivation and contract preparation. In the event the optional period is exercised, the total additional contract value is expected to be approximately \$5.4 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 and was subject to a limited right to appeal. The Company's appeal was denied by the court which had no material impact on our consolidated financial statements.

## **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 for recycling.

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 \$50,000 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 the closing of the sale of the unit and if 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 obligated 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 became part of the Company's capital spares inventory. Closing of the transaction was subject to customary closing procedures and conditions. On February 2, 2022, the sale of the *Leo* closed, and the Company received all funds.

On April 8, 2022, the Company entered into a memorandum of understanding ("MoU") for the sale of a semi-submersible drilling unit, the *Capricorn*, with all spare parts, inventory and equipment on board or onshore and belonging to the *Capricorn*, with a subsidiary of Petro Rio S.A. ("Petro Rio") for \$40.0 million. Payment by Petro Rio to the Company of a fee of \$1.0 million (the "Exclusivity Fee"), was paid and the Company undertook that it would not during a period of seventy-five days following the execution of the MoU (the "Exclusivity Period") enter into any negotiations or binding agreement with any party other than Petro Rio for the sale of the *Capricorn*. Petro Rio had the option to extend the Exclusivity Period (the "Exclusivity Period Extension Option") by an additional fifteen days (the "Additional Exclusivity Period") subject to payment by Petro Rio to the Company, not later than twenty-five days following the execution of the MoU, of a fee of \$0.5 million (the "Additional Exclusivity Fee"). The option to extend the Exclusivity Period has since lapsed. The sale and purchase of the *Capricorn* was subject to the negotiation and execution of a mutually acceptable sale and purchase agreement (the "SPA") which was completed on May 2, 2022 pursuant to which the Company was bound to sell the *Capricorn* to Petro Rio. Pursuant to the SPA, Petro Rio shall, no later than June 22, 2022, pay to the Company a deposit of \$4.0 million (the "Deposit"). The Exclusivity Fee and Deposit shall be offset against the purchase price. If the Deposit was not paid in accordance with the SPA, the SPA would have automatically terminated. The Exclusivity Fee was non-refundable, except only in the event of total loss of the *Capricorn* before completion of the sale. The Deposit was non-refundable, except as provided for in the SPA. Pursuant to the SPA, the *Capricorn* was to be delivered to Petro Rio as soon as practically possible following execution of the SPA, but no later than August 5, 2022. On July 22, 2022 the sale of the *Capricorn* closed, and the Company received all funds. The Company expects to recognize a gain on sale of the asset in Q3 2022.

## **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. Furthermore, 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 commenced in March 2022 following reactivation, upgrade, contract preparation and system integration testing.

In addition, on March 4, 2022, we entered into a charter hire agreement with a subsidiary of Diamond Offshore to provide the *Vela* for a one well drilling contract plus one well priced option for operations in the US Gulf of Mexico. The charter hire agreement will be extended if the optional term is exercised. The terms of the charter hire agreement are consistent with the current MSA in place between the Company and Diamond Offshore. Furthermore, the resulting financial benefits are as if the Company had entered into the drilling contract directly. The total contract value for the firm portion of the drilling contract is expected to be \$30.0 million and commencement is expected in September 2022 following the transition of the rig to the new Manager and contract preparation. The firm well is expected to run until November 2022. The one well priced option has lapsed.

On August 11, 2022, we announced that we extended the charter hire agreement for the *Auriga* with a subsidiary of Diamond Offshore after reaching an agreement on the one year mutually agreed option in the current underlying drilling contract. Under the terms of the extension, the *Auriga* will be provided 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 for the Company are as if the Company had entered into the drilling contract directly. The total contract value for the firm portion of the drilling contract is expected to be \$150.0 million and commencement is expected in March 2023 in direct continuation with the current drilling contract.

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

On September 21, 2021, the Board of Directors 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 Committee designated by the Company's Board of Directors to administer the plan ("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 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 modifications to the award. The previously liability classified RSUs were reclassified to equity as part of the modification.

## **2022 Phantom Equity Plan**

On March 1, 2022, pursuant to the terms of the 2021 LTIP, we adopted and established an unfunded bonus plan for employees and contractors of the Company by offering long term incentives which is known as the Aquadrill LLC 2022 Phantom Equity Plan (the "Phantom Equity Plan"). The Phantom Equity Plan is designed to attract and retain highly qualified employees and contractors by aligning the interests of those employees and contractors with the financial success of the Company. The Phantom Equity Plan involves the payment of cash or consideration in the currency of a future change of control of the Company based on the type of Distribution Event (as defined in the Phantom Equity Plan) and elections made by the Company's common unitholders and is

based on value of the Phantom Equity of the Company as of the applicable Distribution Event. Total awards granted under the Phantom Equity Plan were 675,700 and the awards vest over a period of five years or upon a change in control of the Company and are payable on the Payment Date (as defined in the Phantom Equity Plan).

## **2022 Restricted Stock Unit Grant**

On May 25, 2022, pursuant to the terms of the 2021 LTIP, our Board of Directors approved the issuance of 3,167 RSUs to each of the four directors with a third of the awards vesting on the first anniversary and two thirds of the awards vesting on the second anniversary. The RSUs are valid for one common unit of the Company.

## **OUTLOOK**

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### **Drilling market**

We have observed a sustained improvement in the outlook for the global economy and for oil and natural gas fundamentals and pricing throughout the second half of 2021 and continuing through the first half of 2022. This improved outlook is supported by the delivery of effective vaccines and therapeutics for COVID-19 and the improving economic activities associated with a more confident stance on controlling the pandemic, the deployment of economic stimulus packages, reduced global inventories of oil and natural gas, and the conflict between Russia and Ukraine resulting in various economic sanctions on Russia. These factors have resulted in a tightening of the hydrocarbon supply and demand balance and increases in oil and natural gas prices. We remain optimistic about the continuing recovery of the global economy, even in the context of additional COVID-19 variants, sustained inflationary pressure and rate increases by central banks, continuing global supply chain issues and uncertainty associated with the ongoing conflict in Ukraine, and can see the path to pre-pandemic levels of economic activity. We believe the recent increases in demand for hydrocarbons supports the return to or potential to exceed pre-pandemic levels this year or next year as oil and gas remains a significant contributor to the world's energy mix even when considering the increased risk of a recession. This, coupled with restrained growth in supply and supply shortages in Europe, has led to a rebalancing of supply and demand and normalized inventory levels. We expect that the return to pre-pandemic hydrocarbon demand and improving commodity prices coupled with the past attrition of rigs in the global offshore drilling fleet will further support improved market conditions for our services. In addition, we are also seeing an improvement in activity in Southeast Asia for our tender assist drilling rigs.

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 sanctioned and we now see a significant increase in opportunities for work commencing in 2023 and beyond. 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. Particularly, as it relates to our ultra-deepwater fleet, there is an increasing scarcity of the highest specification drilling units, similar to those owned by the Company, as customers look to secure the best equipment for their projects.

Considerable uncertainty remains about the speed of the global economic recovery, potential impacts of elevated global inflation 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 its allies. We believe that the continuing measured pace of production increases by OPEC, challenges in growing OPEC production and similarly constrained growth in production in non-OPEC countries, combined with the lack of investment in exploration and production activities over the past several years and the impacts on global supply resulting from the Russia/Ukraine conflict and related sanctions 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. We believe the increased global interest by industries and governments in reducing carbon impacts on the environment will lead to increased natural gas demand resulting in additional offshore natural gas development as a lower-carbon alternative to coal for electricity generation. Also, the desires expressed by countries in western Europe to reduce their exposure to hydrocarbons supplied by Russia should create additional exploration and production opportunities in Europe, Africa and the Americas. 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 drilling units seen over the past several years should facilitate higher utilization of active assets and more efficient allocation of capital among restructured drilling contractors. While the long-term shift to alternative energy sources continues to be a focus of major industrialized and other economies, we believe this transition will occur over an extended time frame. We continue to monitor how this transition may impact investment decisions by our customers and demand for our drilling units in the short, medium and long term.

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 the second half of 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. 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. 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.

We refer to the availability of our rigs in terms of the uncommitted fleet rate. The uncommitted fleet rate is defined as the number of uncommitted days divided by the total number of rig calendar days in the measurement period, expressed as a percentage. An uncommitted day is defined as a calendar day during which a rig is idle or stacked, is not contracted to a customer or is not committed to a shipyard. The uncommitted fleet rates exclude the effect of priced options. As of July 21, 2022, uncommitted fleet rates for each of the five years in the period ending December 31, 2026, were as follows:

	For the years ending December 31,				
	2022	2023	2024	2025	2026
<b>Uncommitted fleet rate</b>					
Drillships	37%	81%	100%	100%	100%
Semi-submersible rigs	100%	100%	100%	100%	100%
Tender rigs	81%	100%	100%	100%	100%

### Drilling units

The following table, presented as of July 21, 2022, 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	Indonesia
Polaris	6 <sup>th</sup>	(a)(b)(g)	2008	10,000	35,000	India
<b>Semi-submersible (2)</b>						
Capricorn <sup>(1)</sup>	6 <sup>th</sup>	(a)(e)(g)	2011	10,000	35,000	Stacked
Aquarius	6 <sup>th</sup>	(a)(e)(f)	2009	10,000	35,000	Stacked
<b>Tender Rig (3)</b>						
T-15	Barge	(c)(e)(g)	2013	6,500	30,000	Thailand
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 May 2, 2022, the Company entered into an agreement for the sale of a semi-submersible drilling unit, the Capricorn; this sale was completed on July 22, 2022. Please refer to Significant Events - Sales of Drilling Units for further details.

- (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.

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.

#### ***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.

#### ***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.

#### ***Operating Expenses***

Operating expenses consist of (a) vessel and rig operating expenses, (b) depreciation, (c) amortization of favorable contracts incurred in the Predecessor period, (d) reimbursable expenses, and (e) 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 operational 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 was the 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 administrative 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 reorganization 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 reorganization 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 reorganization 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.

#### ***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 and Other Items**

Our financial and other items primarily consist of (a) interest income, (b) interest expense, (c) gain or loss on derivative financial instruments incurred in the Predecessor period, (d) foreign currency exchange gain or loss, (e) reorganization items, net, incurred in the Predecessor period, and (f) restructuring expenses incurred in the Successor period.

- Interest income relates to the interest on cash deposits. In the Predecessor period, interest income also related to the amortization of mobilization revenue.
- 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 June 30, 2022.
- 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. This includes advisory and professional fees directly associated with the Chapter 11 Proceedings, unamortized debt issuance costs written off, interest income on surplus cash, gains on liabilities subject to compromise and fresh start valuation adjustments.
- Restructuring and other expenses primarily relate to advisory and professional fees associated with our restructuring that were incurred after the Effective Date.
- Other financial items include financial costs related to leases and other miscellaneous financial expenses.

### **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 June 30, 2021 (the "2021 Successor period") combined with the 2021 Predecessor period provide more meaningful comparisons to the comparable period in 2022 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 the prior period.

#### **Contract backlog**

Contract backlog includes all firm contracts at the maximum contractual operating dayrate multiplied by the number of days remaining in the firm contract period. Contract backlog excludes revenues for mobilization, demobilization, contract preparation, other incentive provisions or reimbursable revenues. Total contract revenue includes revenues for mobilization, demobilization, contract preparation and add-on services, 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 as of dates of certain recently published fleet status reports:

	<u>July 21, 2022</u>	<u>May 20, 2022</u>	<u>November 11, 2021</u>	<u>December 31, 2020</u>
<u>Contract backlog</u>	<u>(in millions)</u>			
Drillships	\$ 176.4	140.4	206.3	46.8
Semi-submersible rigs	-	-	-	-
Tender rigs	\$ 11.6	-	-	-
<b>Total contract backlog</b>	<b>\$ 188.0</b>	<b>140.4</b>	<b>206.3</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.

Average contractual dayrate relative to our contract backlog is defined as the average maximum contractual operating dayrate to be earned per operating day in the measurement period. An operating day is defined as a day for which a rig is contracted to earn a dayrate during the firm contract period after operations commence.

At July 21, 2022, the contract backlog and average contractual dayrates for our fleet were as follows:

	For the years ending December 31,					
	Total	2022	2023	2024	2025	Thereafter
<b>Contract backlog</b>						
Drillships	\$ 176.4	\$ 109.1	\$ 67.3	\$ -	\$ -	\$ -
Semi-submersible rigs	-	-	-	-	-	-
Tender rigs	\$ 11.6	\$ 11.5	\$ 0.1	-	-	-
Total contract backlog	\$ 188.0	\$ 120.6	\$ 67.4	\$ -	\$ -	\$ -

	For the years ending December 31,					
	Total	2022	2023	2024	2025	Thereafter
<b>Average contractual dayrates</b>						
Drillships	\$ 247,151	\$ 247,557	\$ 246,665	\$ -	\$ -	\$ -
Semi-submersible rigs	-	-	-	-	-	-
Tender rigs	75,840	75,840	75,840	-	-	-
Total fleet average	\$ 212,297	\$ 193,066	\$ 246,039	\$ -	\$ -	\$ -

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 June 30, 2022	Six months ended June 30, 2022	Twelve months ended December 31, 2021
<b>Average daily revenue</b>			
Drillships	\$ 213,000	\$ 249,000	\$ 217,107
Semi-submersible rigs	\$ -	\$ -	\$ -
Tender rigs	\$ -	\$ -	\$ -
Total fleet average daily revenue	\$ 213,000	\$ 249,000	\$ 217,107

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 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 June 30, 2022	Six months ended June 30, 2022	Twelve months ended December 31, 2021
<b>Revenue efficiency</b>			
Drillships	91.8%	92.3%	97.0%
Semi-submersible rigs	-%	-%	-%
Tender rigs	-%	-%	-%
Total fleet average revenue efficiency	91.8%	92.3%	97.0%

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.

### Rig utilization

Rig utilization is defined as the total number of operating days divided by the total number of rig calendar days in the measurement period, expressed as a percentage. The rig utilization rates for our fleet were as follows:

	Three months ended June 30, 2022	Six months ended June 30, 2022	Twelve months ended December 31, 2021
<b>Rig utilization</b>			
Drillships	39.6%	43.0%	35.7%
Semi-submersible rigs	-%	-%	-%
Tender rigs	-%	-%	-%
Total fleet average rig utilization	17.6%	19.1%	12.6%

Our rig utilization rate declines as a result of idle and stacked rigs and during shipyard and mobilization periods to the extent these rigs are not earning revenues. We remove rigs from the calculation upon disposal or classification as held for sale. Accordingly, our rig utilization can increase when idle or stacked units are removed from our drilling fleet.

## OPERATING RESULTS

**Three months ended June 30, 2022 (Successor) compared to the period from April 1 through May 24, 2021 (Predecessor) and the period from May 25 through June 30, 2021 (Successor)**

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)		
	Three months ended June 30, 2022	Period from May 25, 2021 through June 30, 2021	Period from April 1, 2021 through May 24, 2021	Three months ended June 30, 2021	\$ Change	% Change
(in millions, except percentages)						
<b>Operating revenues:</b>						
Contract revenues	\$ 16.9	\$ 0.5	\$ 19.1	\$ 19.6	\$ (2.7)	(13.8)%
Reimbursable revenues	3.3	0.1	1.2	1.3	2.0	153.8%
<b>Total operating revenues</b>	<b>20.2</b>	<b>0.6</b>	<b>20.3</b>	<b>20.9</b>	<b>(0.7)</b>	<b>(3.3)%</b>
<b>Operating expenses:</b>						
Vessel and rig operating expenses	30.8	16.7	13.1	29.8	1.0	3.4%
Depreciation	3.1	1.3	2.9	4.2	(1.1)	(26.2)%
Reimbursable expenses	2.9	0.4	1.1	1.5	1.4	93.3%
Selling, general and administrative expenses	3.6	1.8	4.7	6.5	(2.9)	(44.6)%
<b>Total operating expenses</b>	<b>40.4</b>	<b>20.2</b>	<b>21.8</b>	<b>42.0</b>	<b>(1.6)</b>	<b>(3.8)%</b>
<b>Operating loss</b>	<b>(20.2)</b>	<b>(19.6)</b>	<b>(1.5)</b>	<b>(21.1)</b>	<b>0.9</b>	<b>(4.3)%</b>
<b>Financial and other items:</b>						
Interest income	-	0.1	-	0.1	(0.1)	nm
Foreign currency exchange loss	(0.1)	-	(0.1)	(0.1)	-	nm
Gain on Reorganization items, net	-	-	2,115.3	2,115.3	(2,115.3)	nm
Restructuring and other income/(expense)	0.3	(0.1)	-	(0.1)	0.4	nm
Other financial items	(0.3)	1.3	(3.7)	(2.4)	2.1	(87.5)%
<b>Total financial items, net</b>	<b>(0.1)</b>	<b>1.3</b>	<b>2,111.5</b>	<b>2,112.8</b>	<b>(2,112.9)</b>	<b>nm</b>
<b>(Loss)/income before income taxes</b>	<b>(20.3)</b>	<b>(18.3)</b>	<b>2,110.0</b>	<b>2,091.7</b>	<b>(2,112.0)</b>	<b>nm</b>
Income tax expense	(2.8)	(1.1)	(3.4)	(4.5)	1.7	(37.8)%
<b>Net (loss)/income</b>	<b>\$ (23.1)</b>	<b>\$ (19.4)</b>	<b>\$ 2,106.6</b>	<b>2,087.2</b>	<b>\$ (2,110.3)</b>	<b>nm</b>

"nm" means not meaningful.

## **Operating Revenues**

### **Contract revenues**

Contract revenues decreased approximately \$2.7 million or 13.8% for the three months ended June 30, 2022 (Successor), compared to the three months ended June 30, 2021 (combined Predecessor and Successor), primarily due to the following:

- a) \$11.9 million resulting from lower day rate revenue for the: *Vela* (\$10.3 million) and the *Auriga* (\$1.6 million), and
- b) \$1.3 million resulting from lower demobilization revenue on the *Vela*.

These decreases of \$13.2 million were partially offset by the following increases of \$10.5 million:

- a) \$7.5 million resulting from higher integrated services for the *Auriga*,
- b) \$2.6 million resulting from the *Capella* being on contract for more days in 2022, and
- c) \$0.4 million in other revenue increases.

### **Reimbursable revenues**

Reimbursable revenues increased by \$2.0 million or 153.8% for the three months ended June 30, 2022 (Successor), compared to the three months ended June 30, 2021 (combined Predecessor and Successor), primarily due to higher reimbursables incurred on contract by the *Capella*.

## **Operating Expenses**

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

Vessel and rig operating expenses increased approximately \$1.0 million or 3.4% for the three months ended June 30, 2022 (Successor), compared to the three months ended June 30, 2021 (combined Predecessor and Successor), primarily due to the following:

- a) Increase of \$7.3 million in vessel and rig expenses for the following rigs:
  - i. \$3.5 million for the *T-15* reactivation in 2022 while stacked in 2021,
  - ii. \$1.6 million for the *Aquarius* preparing for mobilization in 2022 while stacked in 2021,
  - iii. \$1.0 million in increased vessel and rig expenses on the *T-16*,
  - iv. \$0.6 million for the *Polaris* reactivation in 2022 while idle in 2021, and
  - v. \$0.6 million in increased vessel and rig expenses on the *Vencedor*.
- b) \$6.5 million in increased vessel and rig operating expenses related to management fees.

These increases of approximately \$13.8 million were partially offset by the following decreases of approximately \$12.8 million:

- a) \$5.2 million in decreased vessel and rig expenses on the *Capella*,
- b) \$3.7 million in decreased vessel and rig expenses on the *Auriga*,
- c) \$1.2 million in decreased insurance expenses,
- d) \$0.8 million in decreased vessel and rig expenses on the *Capricorn*,
- e) \$0.7 million in decreased vessel and rig expenses on the *Vela*,
- f) \$0.6 million resulting from a decrease in retention and other bonus expenses,
- g) \$0.3 million in decreased vessel and rig expenses on the *Leo* as the rig was sold in February 2022, and
- h) \$0.3 million in other vessel and rig operating expense decreases.

### **Depreciation**

Depreciation expense decreased \$1.1 million or 26.2% for the three months ended June 30, 2022 (Successor), compared to the three months ended June 30, 2021 (combined Predecessor and Successor), primarily due to the reduced carrying value of drilling units and equipment balances as the result of the application of fresh start accounting on the Effective Date. Therefore, the depreciation expense for the three months ended June 30, 2022 (Successor) is based on lower carrying values of drilling units and equipment and is not comparable to the level of depreciation expense recorded during the three months ended June 30, 2021 (combined Predecessor and Successor).

### **Reimbursable expenses**

Reimbursable expenses increased \$1.4 million or 93.3% for the three months ended June 30, 2022 (Successor), compared to the three months ended June 30, 2021 (combined Predecessor and Successor), which correlates to the increase in reimbursable revenues.

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

Selling, general and administrative expenses decreased \$2.9 million or 44.6% for the three months ended June 30, 2022 (Successor), compared to the three months ended June 30, 2021 (combined Predecessor and Successor), primarily due to \$5.7 million in lower management fee billings. This decrease was partially offset by \$2.8 million in higher professional fees.

## **Other Operating Items**

### **Financial items**

#### **Interest income**

The Company did not recognize any interest income during the three months ended June 30, 2022 (Successor) compared to \$0.1 million in interest income for the three months ended June 30, 2021 (combined Predecessor and Successor).

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

Foreign currency exchange loss remained consistent for the three months ended June 30, 2022 (Successor), compared to the three months ended June 30, 2021 (combined Predecessor and Successor).

#### **Gain on Reorganization items, net**

During the period from April 1, 2021 through the Effective Date, the Predecessor recognized a gain of \$2,115.3 million in reorganization items, net due to the following: (a) approximately \$2,292.1 million resulting from gains on liabilities subject to compromise and (b) approximately \$0.1 million resulting from interest income generated from surplus cash invested.

The gain was partially offset by the following items: (a) approximately \$150.0 million resulting from fresh start valuation adjustments primarily related to the write down in the value of the drilling units, (b) approximately \$17.0 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, and (d) 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 2021 Successor Period from May 25, 2021 through June 30, 2021 or during the three months ended June 30, 2022 (Successor).

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

During the second quarter, we reclassified \$0.3 million of other expenses for the three months ended June 30, 2022 (Successor) to vessel and rig operating expenses.

During the period from May 25, 2021 through June 30, 2021 we recognized \$0.1 million in restructuring and other expenses. The balance primarily relates 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 April 1, 2021 through the Effective Date as the expenses related to our restructuring that were incurred during the bankruptcy proceedings were recognized in "Gain/(loss) on Reorganization items, net" and no other restructuring costs were incurred in this period.

#### **Other financial items**

Other financial items loss decreased \$2.1 million or 87.5% for the three months ended June 30, 2022 (Successor) compared to the three months ended June 30, 2021 (combined Predecessor and Successor).

During the three months ended June 30, 2022 (Successor), we recognized \$0.3 million loss in other financial items which primarily relates to other financial fees and expenses incurred by the Company.

#### **Income tax expense**

During the three months ended June 30, 2022 (Successor), we recognized \$2.8 million in income tax expense. During the three months ended June 30, 2021 (combined Predecessor and Successor), we recognized \$4.5 million in income tax expense. This change is primarily due to the decrease in activities in the U.S. which resulted in a reduction in U.S. Base Erosion Anti-Abuse Tax ("BEAT"). During the three months ended June 30, 2022 (Successor), the period from May 25, 2021 to June 30, 2021 (Successor) and the period from April 1, 2021 to May 24, 2021 (Predecessor), our effective tax rate, excluding discrete items, was (13.8)%, (6.0)% and 0.2%, respectively, based on (loss)/income before income tax expense.

#### **Six months ended June 30, 2022 (Successor) compared to the period from January 1 through May 24, 2021 (Predecessor) and the period from May 25 through June 30, 2021 (Successor)**

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		Period from May 25, 2021 through June 30, 2021	Predecessor	Combined (Non-GAAP)				
				Period from January 1, 2021 through May 24, 2021	Six months ended June 30, 2021	\$ Change		
(in millions, except percentages)								
<b>Operating revenues:</b>								
Contract revenues	\$ 57.5	\$ 0.5	\$ 53.0	\$ 53.5	\$ 4.0	7.5%		
Reimbursable revenues	4.0	0.1	1.9	2.0	2.0	100.0%		
<b>Total operating revenues</b>	<b>61.5</b>	<b>0.6</b>	<b>54.9</b>	<b>55.5</b>	<b>6.0</b>	<b>10.8%</b>		
<b>Operating expenses:</b>								
Vessel and rig operating expenses	92.9	16.7	51.0	67.7	25.2	37.2%		
Depreciation	5.6	1.3	8.6	9.9	(4.3)	(43.4)%		
Reimbursable expenses	3.5	0.4	1.7	2.1	1.4	66.7%		

Selling, general and administrative expenses	5.8	1.8	13.2	15.0	(9.2)	(61.3)%
<b>Total operating expenses</b>	<b>107.8</b>	<b>20.2</b>	<b>74.5</b>	<b>94.7</b>	<b>13.1</b>	<b>13.8%</b>
<b>Other operating items:</b>						
Gain on sale of assets	6.0	-	-	-	6.0	nm
<b>Total other operating items</b>	<b>6.0</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>6.0</b>	<b>nm</b>
<b>Operating loss</b>	<b>(40.3)</b>	<b>(19.6)</b>	<b>(19.6)</b>	<b>(39.2)</b>	<b>(1.1)</b>	<b>2.8%</b>
<b>Financial and other items:</b>						
Interest income	-	0.1	-	0.1	(0.1)	nm
Foreign currency exchange loss	(0.4)	-	(0.7)	(0.7)	0.3	(42.9)%
Gain on Reorganization items, net	-	-	2,096.9	2,096.9	(2,096.9)	nm
Restructuring and other expenses	-	(0.1)	-	(0.1)	0.1	nm
Other financial items	(0.4)	1.3	(3.8)	(2.5)	2.1	(84.0)%
<b>Total financial items, net</b>	<b>(0.8)</b>	<b>1.3</b>	<b>2,092.4</b>	<b>2,093.7</b>	<b>(2,094.5)</b>	<b>nm</b>
<b>(Loss)/income before income taxes</b>	<b>(41.1)</b>	<b>(18.3)</b>	<b>2,072.8</b>	<b>2,054.5</b>	<b>(2,095.6)</b>	<b>nm</b>
Income tax expense	(6.3)	(1.1)	(7.6)	(8.7)	2.4	(27.6)%
<b>Net loss</b>	<b>\$ (47.4)</b>	<b>\$ (19.4)</b>	<b>\$ 2,065.2</b>	<b>\$ 2,045.8</b>	<b>\$ (2,093.2)</b>	<b>nm</b>

"nm" means not meaningful.

## Operating Revenues

### Contract revenues

Contract revenues increased approximately \$4.0 million or 7.5% for the six months ended June 30, 2022 (Successor), compared to the six months ended June 30, 2021 (combined Predecessor and Successor), primarily due to the following:

- a) \$12.0 million resulting from higher integrated services for the *Auriga* (\$7.5 million), the *Vela* (\$2.3 million) and the *Capella* (\$2.2 million),
- b) \$4.0 million resulting from higher demobilization revenue on the *Capella*,
- c) \$2.8 million resulting from higher mobilization revenue on the *Vela*, and
- d) \$1.3 million resulting from the *Capella* being on contract for more days in 2022.

These increases of \$20.1 million were partially offset by decreases of approximately \$16.1 million due to the following:

- a) \$10.4 million resulting from lower day rate revenue for the *Vela*,
- b) \$3.4 million is lower demobilization revenue for the *Vela*,
- c) \$2.1 million resulting from lower add on sales for the *Vela* (\$1.7 million) and other rigs (\$0.4 million) as compared to the prior period, and
- d) \$0.2 million in other contract revenue decreases.

### Reimbursable revenues

Reimbursable revenues increased \$2.0 million or 100.0% for the six months ended June 30, 2022 (Successor), compared to the six months ended June 30, 2021 (combined Predecessor and Successor), primarily due to higher reimbursables incurred on contract by the *Capella*.

## Operating Expenses

### Vessel and rig operating expenses

Vessel and rig operating expenses increased approximately \$25.2 million or 37.2% for the six months ended June 30, 2022 (Successor), compared to the six months ended June 30, 2021 (combined Predecessor and Successor), primarily due to the following:

- a) Increase of \$22.4 million in vessel and rig expenses for the following rigs:
  - i. \$9.1 million for the *Vela*,
  - ii. \$6.5 million for the *Auriga* commencing a contract in 2022 while idle in 2021,
  - iii. \$3.6 million for the *T-15* reactivation in 2022 while idle in 2021
  - iv. \$1.3 million for the *Aquarius* preparing for mobilization in 2022 while stacked in 2021,
  - v. \$0.9 million increase for the *T-16*,
  - vi. \$0.6 million increase for the *Vencedor*, and a
  - vii. \$0.4 million increase for the *Capricorn*.
- b) \$10.9 million in increased vessel and rig operating expenses related to management fees, and
- c) \$2.2 million resulting from increased vessel and rig operating expenses related to salaries.

These increases of approximately \$35.5 million were partially offset by decreases of approximately \$10.3 million:

- a) \$4.6 million decrease in vessel and rig operating expenses for the *Capella*,
- b) \$1.6 million decrease in vessel and rig operating expenses for the *Polaris*,
- c) \$1.3 million in decreased insurance expenses,
- d) \$1.1 million resulting from decreased vessel and rig operating expenses on the *Sirius* as the rig was sold in September 2021,
- e) \$1.1 million resulting from a decrease in retention and other bonus expenses,
- f) \$0.2 million decrease for the *Leo* as the rig was sold in February 2022, and
- g) \$0.4 million in other vessel and rig operating expense decreases.

#### **Depreciation**

Depreciation expense decreased \$4.3 million or 43.4% for the six months ended June 30, 2022 (Successor), compared to the six months ended June 30, 2021 (combined Predecessor and Successor), primarily due to the reduced carrying value of drilling units and equipment balances as the result of the application of fresh start accounting on the Effective Date. Therefore, the depreciation expense for the six months ended June 30, 2022 (Successor) is based on lower carrying values of drilling units and equipment and is not comparable to the level of depreciation expense recorded during the six months ended June 30, 2021 (combined Predecessor and Successor).

#### **Reimbursable expenses**

Reimbursable expenses increased \$1.4 million or 66.7% for the six months ended June 30, 2022 (Successor) compared to the six months ended June 30, 2021 (combined Predecessor and Successor) which correlate to the increase in reimbursable revenues.

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

Selling, general and administrative expenses decreased \$9.2 million or 61.3% for the six months ended June 30, 2022 (Successor), compared to the six months ended June 30, 2021 (combined Predecessor and Successor), primarily due to approximately \$12.4 million in lower management fee billings.

These decreases were partially offset by (a) \$3.0 million in higher professional fees, and (b) \$0.2 million in other selling, general and administrative expense increases, primarily related to expenses under the 2021 LTIP and office related expenses.

#### **Other Operating Items**

##### **Gain on sale of assets**

During the six months ended June 30, 2022 (Successor) we recognized a \$6.0 million gain on sale of assets related to the sale of the *Leo*. The *Leo* had been classified as held for sale as of December 31, 2021, with a carrying value of \$ 8.0 million. On October 25, 2021, the Company entered into a sales agreement with BW Kudu Limited for the *Leo* for \$14.0 million. The sale completed on February 2, 2022, at which point in time the \$6.0 million gain was recognized.

##### **Financial items**

##### **Interest income**

The Company did not recognize any interest income during the six months ended June 30, 2022 (Successor) compared to \$0.1 million in interest income for the six months ended June 30, 2021 (combined Predecessor and Successor).

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

Foreign currency exchange loss decreased \$0.3 million or 42.9% for the six months ended June 30, 2022 (Successor), compared to the six months ended June 30, 2021 (combined Predecessor and Successor), primarily due to the impact of fluctuations in exchange rates on the reported amounts of the Company's revenues and expenses which are denominated in foreign currencies.

##### **Gain on Reorganization items, net**

During the period from January 1, 2021, through the Effective Date, the Predecessor recognized a gain of \$2,096.9 million in reorganization items, net due to the following: (a) approximately \$2,292.1 million resulting from gains on liabilities subject to compromise and (b) approximately \$0.1 million resulting from interest income generated from surplus cash invested.

The gain was partially offset by the following items: (a) approximately \$150.0 million resulting from fresh start valuation adjustments primarily related to the write down in the value of the drilling units, (b) approximately \$35.4 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, and (d) 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 2021 Successor Period from May 25, 2021 through June 30, 2021 or during the six months ended June 30, 2022 (Successor).

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

During the period from May 25, 2021 through June 30, 2021, we recognized \$0.1 million in restructuring and other expenses. The balance primarily relates 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 "Gain on Reorganization items, net" and no other restructuring costs were incurred in this period.

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

Other financial items loss decreased \$2.1 million or 84.0% for the six months ended June 30, 2022 (Successor) compared to the six months ended June 30, 2021 (combined Predecessor and Successor).

During the six months ended June 30, 2022 (Successor), we recognized \$0.4 million loss in other financial items which primarily relates to other financial fees and expenses incurred by the Company.

#### **Income tax expense**

During the six months ended June 30, 2022 (Successor), we recognized \$6.3 million in income tax expense. During the six months ended June 30, 2021 (combined Predecessor and Successor), we recognized \$8.7 million in income tax expense. This change is primarily due to the decrease in activities in the U.S. which resulted in a reduction in U.S. Base Erosion Anti-Abuse Tax ("BEAT"). During the six months ended June 30, 2022 (Successor), the period from May 25, 2021 to June 30, 2021 (Successor) and the period from January 1, 2021 to May 24, 2021 (Predecessor), our effective tax rate, excluding discrete items, was (14.6)%, (6.0)% and 0.4%, respectively, based on income/(loss) before income tax expense.

## **LIQUIDITY AND CAPITAL RESOURCES**

#### **Sources and uses of cash**

At June 30, 2022 (Successor), we had \$139.0 million in unrestricted cash and cash equivalents and \$13.0 million in restricted cash and cash equivalents. During the period from January 1 through June 30, 2022 (Successor), our primary source of cash was cash on hand, cash provided by operating activities, and proceeds from the sale of the *Leo*. Our primary uses of cash were vessel and rig operating expenses, capital expenditures, and payment of accrued liabilities.

<b>Cash flows from operating activities</b>		<b>Successor</b>
		<b>Six months ended June 30, 2022</b>
(in millions)		
Net loss	\$	(47.4)
Non-cash items, net		(3.5)
Changes in operating assets and liabilities, net		(9.5)
<b>Net cash used in operating activities</b>	<b>\$</b>	<b>(60.4)</b>

Market conditions in the offshore drilling industry in recent years have led to materially lower levels of spending for offshore exploration and development. This has negatively affected our revenues, profitability, and operating cash flows.

During the six months ended June 30, 2022 (Successor) our cash flows from operating activities were negative, as cash receipts from customers were insufficient to cover operating costs, payments for long-term maintenance of our rigs, and tax payments. This was primarily due to (a) \$ 22.6 million related to advance funding to the MSA Managers for operating and capital expenditures, (b) \$10.4 million related to increased receivables due to the net bareboat charter arrangement for the *Auriga*, c) \$5.5 million related to increased accrued revenue on the *Capella* (c) \$3.9 million spent on fuel reserves, (d) reactivation, upgrade, certification costs and costs incurred being hot stacked and on contract for the *Auriga* (\$15.6 million in operating expenses during the six months ended June 30, 2022 with \$7.5 million in revenue), (e) reactivation, upgrade, certification and idle costs for the *Polaris* (\$9.9 million in operating expenses during the six months ended June 30, 2022 with no revenue generated), and (f) reactivation, upgrade and certification costs for the *T-15* (\$4.2 million in operating expenses during the six months ended June 30, 2022 with no revenue generated).

<b>Cash flows from investing activities</b>		<b>Successor</b>
		<b>Six months ended June 30, 2022</b>
(in millions)		
Additions to drilling units and equipment	\$	(29.5)
Sale of rigs and equipment		14.0
<b>Net cash used in investing activities</b>	<b>\$</b>	<b>(15.5)</b>

During the six months ended June 30, 2022 (Successor), net cash used in investing activities was \$15.5 million primarily related to capital expenditures on the *Auriga* and *Vela*, partially offset by the sale of the *Leo* for \$14.0 million.

During the period from January 1 through May 24, 2021 (Predecessor), and the period from May 25 through June 30, 2021 (Successor), the Company did not have any cash used in or provided by financing activities.

#### **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, reactivations, and major maintenance. Our main sources of liquidity include cash deposits and contract and other revenues. As of June 30, 2022, we had cash and cash equivalents exclusive of restricted cash of \$139.0 million, compared to \$203.2 million as of December 31, 2021. We have implemented, and will continue to implement, various measures to preserve liquidity. These primarily include deferrals of capital expenditures and idling or stacking of drilling units in between or without contracts, 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, geopolitical events 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**

##### **Reactivations**

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 reactivation investments when we have a customer contract or firm commitment from a customer. We may consider an upgrade or additional maintenance of a stacked rig on speculation where we believe it may significantly increase the market opportunities for that rig. Any reactivation or upgrade could involve the payment by us of a substantial amount of cash.

During the six months ended June 30, 2022 (Successor), we made capital expenditures of \$33.1 million primarily related to reactivation and upgrade costs as well as normal capital expenditures on operating rigs. We financed these capital expenditures through cash on hand, cash generated from operations and proceeds from the sale of the *Leo*.

The ultimate amount of our capital expenditures is partly dependent upon financial market conditions, our ability to reactivate idle or 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 market or scrap value.

On July 22, 2022, we sold a semi-submersible drilling unit, the *Capricorn* to a subsidiary of Petro Rio S.A for \$40.0 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.

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#### **RELATED PARTY TRANSACTIONS**

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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 were directors and/or officers of Seadrill Limited and its subsidiaries and, as such, they had fiduciary duties to Seadrill Limited. This related party relationship ceased on the Effective Date. There were no related party transactions during the 2022 Successor period.

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#### **CONTRACTUAL OBLIGATIONS**

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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 June 30, 2022, we had the following contractual obligations:

	For the twelve months ending December 31,									
	Total		2022		2023		2024		2025	
	(in millions)									
<b>Operating lease obligations</b>	\$	0.6	\$	0.2	\$	0.3	\$	0.1	\$	-
<b>Total</b>	\$	0.6	\$	0.2	\$	0.3	\$	0.1	\$	-

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#### **OTHER COMMERCIAL COMMITMENTS**

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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 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 June 30, 2022, we have not recognized any liabilities for these guarantees, as we do not consider it is probable for the guarantees to be called. At June 30, 2022, the aggregate cash collateral held by banks for the performance guarantees was \$0.9 million.

## OTHER MATTERS

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### **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.

### **Internal control over financial reporting**

On the Effective Date, the management of the Company was replaced substantially by new officers and directors. Management has performed 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 warranted.

There was no change in our internal control over financial reporting during the period from May 25, 2021 through June 30, 2022 (Successor) that has materially affected, or is reasonably likely to materially affect, our internal control over financial reporting.