VANTAGE DRILLING INTERNATIONAL

QUARTERLY REPORT FOR THE QUARTER ENDED SEPTEMBER 30, 2023

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SAFE HARBOR STATEMENT

This Quarterly Report (this "Quarterly Report") contains forward-looking statements within the meaning of Section 27A of the Securities Act and Section 21E of the Exchange Act. These forward-looking statements are included throughout this Quarterly Report, including under "*Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations*" When used, statements which are not historical in nature, including those containing words such as "anticipate," "assume," "believe," "budget," "continue," "could," "estimate," "expect," "intend," "may," "plan," "potential," "predict," "project," "should," "would," "will," "future" and similar expressions are intended to identify forward-looking statements in this Quarterly Report.

These forward-looking statements reflect our current views with respect to future events and are based on assumptions and subject to risks and uncertainties. You should not place undue reliance on these forward-looking statements. Our actual results could differ materially from those anticipated in these forward-looking statements.

Among the factors that could cause actual results to differ materially are the risks and uncertainties described under "Item 1A. Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2022, which was filed with the SEC on March 31, 2023, "*Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations*" of this Quarterly Report, and the following:

- reduced expenditures by oil and gas exploration and production companies;
- general economic conditions and conditions in the oil and gas industry, including the worldwide supply and demand for oil and gas, and expectations regarding future prices of oil and gas;
- excess supply of drilling units worldwide;
- competition within our industry;
- growing focus on climate change, including regulatory, social and market efforts to address climate change, and its overall impact on the level of investments being directed to fossil fuel exploration and production companies and the associated products or services;
- our current level of indebtedness and the ability to incur additional indebtedness in the near- and long-term;
- epidemics, pandemics, global health crises, or other public health events and concerns, including any future resurgence of COVID-19, and the effectiveness of associated vaccinations and treatments;
- governmental, tax and environmental regulations and related actions and legal matters, including the actions taken by governments in response to any global health events and crises, as well as the results and effects of legal proceedings and governmental audits, assessments, orders and investigations;
- volatility in the price of commodities due to actions taken by members of OPEC, OPEC+ and other, oil-exploring countries, with respect to oil production levels and announcements of potential changes in such levels, including the ability of members of OPEC+ to agree on and comply with announced supply limitations;
- the potential for increased production from U.S. shale producers and non-OPEC countries driven by current oil prices, including the effect of such production rates on the overall global oil and gas supply, demand balance and commodity prices;
- termination or renegotiation of our management, customer and vendor contracts, and the invoking of force majeure clauses;
- termination or renegotiation of our management and marketing agreements, including any terminations arising directly or indirectly from the consummation of the Aquadrill Merger (as defined below);
- losses on impairment of long-lived assets;
- any non-compliance with the U.S. Foreign Corrupt Practices Act, as amended, and any other anti-corruption laws;
- the sufficiency of our internal controls, including exposure arising from the failure to (i) establish and maintain effective internal control over financial reporting in accordance with applicable regulatory requirements, and (ii) fully remediate any material weaknesses identified with respect to such internal controls;
- operating hazards in the offshore drilling industry;
- operations in international markets, including geopolitical, global, regional or local economic and financial market risks and challenges, applicability of foreign laws, including foreign labor and employment laws, foreign tax and customs regimes, and foreign currency exchange rate risk;
- political disturbances, geopolitical instability and tensions, or terrorist attacks, and associated changes in global trade policies and economic sanctions, including, but not limited to, (i) Russia's invasion of Ukraine in February 2022 and the

Russo-Ukrainian War and (ii) any impact, effect, damage, destruction and/or bodily harm directly or indirectly relating to the ongoing hostilities in the Middle East;

- adequacy of, or gaps in, insurance coverage upon the occurrence of a catastrophic or other material adverse event;
- effects of new products and new technology on the market;
- the occurrence (or recurrence) of cybersecurity incidents, attacks, intrusions or other breaches to our information technology systems, and our ability to effectively and expeditiously remediate any such matters;
- our small number of customers, related concentration and/or the loss of any customers;
- consolidation of our competitors and suppliers;
- changes in the status of pending, or the initiation of new litigation, claims or proceedings, including our ability to prevail in the defense of any appeal or counterclaim;
- changes in legislation removing or increasing current applicable limitations of liability;
- limited mobility of our drilling units between geographic regions;
- the small size of our fleet and associated vulnerabilities in the case of prolonged downtime of any of our drilling rigs;
- levels of operating, maintenance costs, and capital expenditures that may be contractually or otherwise required to be allocated to any of our drilling rigs;
- our dependence on key personnel;
- availability of workers and the related labor costs;
- increased costs resulting from supply chain constraints, delays and impediments, including, but not limited to, increases in (i) the costs of obtaining supplies, (ii) labor costs, and (iii) freight, transportation and input costs, among others;
- changes in tax laws, treaties or regulations;
- credit risks of our key customers and other third parties we engage commercially;
- compliance with restrictions and covenants in our debt agreements;
- our recent lack of overall profitability and whether we will generate material revenues or profits in the near- and long-term;
- adverse macroeconomic conditions, including (i) inflationary pressures and potential recessionary conditions, as well as actions taken by central banks and regulators across the world in an attempt to reduce, curtail and address such pressures and conditions, and (ii) the effects of adverse developments at financial institutions, including bank failures, that impact general sentiment regarding the stability and liquidity of banks, and the resulting impact on the stability of the global financial markets at large;
- our incorporation under the laws of the Cayman Islands and the limited rights to relief that may be available compared to U.S. law;
- compliance with the Economic Substance Act 2021 (as amended) and the Economic Substance Act 2018 (as amended), among other legislation enacted in the Cayman Islands and Bermuda;
- the impact of any actual or contemplated redemptions of our 9.50% First Lien Notes, including any resulting impact on liquidity and cash flows available for capital expenditures, working capital, growth opportunities and other general corporate purposes;
- the impact of the Company's decision to voluntarily deregister under the Exchange Act; and
- our ability to identify and complete strategic and/or transformational transactions, including acquisitions, dispositions, joint ventures and mergers, as well as the impact that such transactions may have on our operations and financial condition.

Many of these factors are beyond our ability to control or predict. Any, or a combination of these factors, could materially affect our future financial condition or results of operations and the ultimate accuracy of the forward-looking statements. These forward-looking statements are not guarantees of our future performance, and our actual results and future developments may differ materially from those projected in the forward-looking statements. Management cautions against putting undue reliance on forward-looking statements or projecting any future results based on such statements or present or prior earnings levels.

In addition, each forward-looking statement speaks only as of the date of the particular statement, and we undertake no obligation to publicly update or revise any forward-looking statements. We may not update these forward-looking statements, even if our situation changes in the future. All forward-looking statements attributable to us are expressly qualified by these cautionary statements. Additional information concerning factors that could cause actual results to differ materially from those in the forward-looking statements is contained from time to time in reports or filings we may post on our website or otherwise make available to our investors or creditors, which may be obtained by contacting us. These reports and filings are also available through our website at www.vantagedrilling.com. The contents of our website are not part of this Quarterly Report.

Unless the context indicates otherwise, all references to the “Company,” “Vantage Drilling International,” “we,” “our” or “us” refer to Vantage Drilling International and its consolidated subsidiaries. References to “VDI” refer to Vantage Drilling International, a Cayman Islands exempted company and the group parent company.

GLOSSARY OF TERMS

The following terms used in this Quarterly Report have the following meanings, unless specified elsewhere in this Quarterly Report:

Abbreviation/Acronym	Definition
2016 Amended MIP	The Company's Amended and Restated 2016 Management Incentive Plan
9.25% First Lien Indenture	First Lien Indenture, dated as of November 30, 2018, by and between Vantage Drilling International and U.S. Bank National Association
9.25% First Lien Notes	The Company's 9.25% Senior Secured First Lien Notes due November 15, 2023
9.50% First Lien Indenture	First Lien Indenture, dated as of March 1, 2023, by and between VDI, the guarantors party thereto, and U.S. Bank Trust Company, National Association, as trustee and first lien collateral agent
9.50% First Lien Notes	The Company's 9.50% Senior Secured First Lien Notes due February 15, 2028
ADES	ADES International Holding Ltd, an offshore and onshore provider of oil and gas drilling and production services in the Middle East, India and Africa
ADVantage	ADVantage Drilling Services SAE, a joint venture owned 51% by the Company and 49% by ADES
ASC	Accounting Standards Codification
Board of Directors	The Company's board of directors
Comparable Period	The nine months ended September 30, 2022
Comparable Quarter	The three months ended September 30, 2022
Convertible Notes	The Company's 1%/12% Step-Up Senior Secured Third Lien Convertible Notes due 2030
COVID-19	Coronavirus disease 2019, a strain of coronavirus caused by SARS-CoV-2
Current Period	The nine months ended September 30, 2023
Current Quarter	The three months ended September 30, 2023
DOJ	U.S. Department of Justice
EDC	Emerald Driller Company, which owns the *Emerald Driller*, *Sapphire Driller* and *Aquamarine Driller*
EDC Sale	The sale by VHI of all of the issued and outstanding equity of EDC to ADES Arabia Holding, pursuant to the terms of that certain Share Purchase Agreement, dated as of December 6, 2021, by and between VHI and to sell to ADES Arabia Holding, as amended, which closed on May 27, 2022
Effective Date	February 10, 2016, the date the Company emerged from bankruptcy
EPS	Earnings per share
Exchange Act	Securities Exchange Act of 1934, as amended
IRS	U.S. Internal Revenue Service
OPEC	The Organization of the Petroleum Exporting Countries
OPEC+	The Organization of the Petroleum Exporting Countries plus 10 non-OPEC nations
Ordinary Shares	The Company's ordinary shares, par value $0.001 per share
PBGs	Performance-based restricted stock units
QLE	A qualified liquidity event as defined in the 2016 Amended MIP
ROU	Right-of-use
Russo-Ukrainian War	The ongoing war resulting from Russia's invasion of Ukraine in February 2022
SEC	Securities and Exchange Commission
Securities Act	Securities Act of 1933, as amended
Tax Election	Tax election filed with the IRS on January 22, 2020, to allow VDI to be treated as a partnership, rather than a corporation, for U.S. federal income tax purposes, with an effective date retroactive to December 9, 2019
TBGs	Time-based restricted stock units
TEV	Total enterprise value
U.S.	United States of America
U.S. GAAP	Accounting principles generally accepted in the United States of America
U.S. Holder	A beneficial owner of the Ordinary Shares that is, for U.S. federal income tax purposes, (i) a citizen or individual resident of the United States, (ii) a corporation (or other entity treated as a corporation for U.S. federal income tax purposes) that was organized under the laws of the United States, any state thereof, or the District of Columbia, (iii) an estate, the income of which is subject to U.S. federal income tax regardless of its source or (iv) a trust, if a U.S. court can exercise primary supervision over the administration of the trust and one or more U.S. persons have the authority to control all substantial decisions of the trust, or such trust has a valid election in effect under applicable treasury regulations to be treated as a U.S. person for U.S. federal income tax purposes
USD or $	U.S. Dollar
VDC	Vantage Drilling Company, the Company's former parent company
VDI	Vantage Drilling International
VHI	Vantage Holdings International, a subsidiary of VDI
VIE	Variable interest entity

PART I—FINANCIAL INFORMATION

Item 1. Financial Statements

Vantage Drilling International
Consolidated Balance Sheets
(In thousands, except share and par value information)
(Unaudited)

	September 30, 2023	December 31, 2022
ASSETS		
Current assets		
Cash and cash equivalents	$ 70,000	$ 74,026
Restricted cash	639	16,450
Trade receivables, net of allowance for credit losses of $3,850 and $4,962, respectively	87,313	62,776
Materials and supplies	47,973	41,250
Prepaid expenses and other current assets	41,788	25,621
Total current assets	247,713	220,123
Property and equipment		
Property and equipment	653,488	647,909
Accumulated depreciation	(341,357)	(309,453)
Property and equipment, net	312,131	338,456
Operating lease ROU assets	1,300	1,648
Other assets	16,348	18,334
Total assets	$ 577,492	$ 578,561
LIABILITIES AND SHAREHOLDERS' EQUITY		
Current liabilities		
Accounts payable	$ 63,191	$ 57,775
Other current liabilities	56,879	66,179
Total current liabilities	120,070	123,954
Long–term debt, net of discount and financing costs of $10,487 and $773, respectively	189,513	179,227
Other long-term liabilities	7,204	12,881
Commitments and contingencies (see Note 8)		
Shareholders' equity		
Ordinary shares, $0.001 par value, 50 million shares authorized; 13,229,280 and 13,115,026 shares issued and outstanding, each period	13	13
Additional paid-in capital	633,625	633,863
Accumulated deficit	(373,967)	(373,147)
Controlling interest shareholders' equity	259,671	260,729
Noncontrolling interests	1,034	1,770
Total equity	260,705	262,499
Total liabilities and shareholders' equity	$ 577,492	$ 578,561

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Vantage Drilling International
Consolidated Statement of Operations
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended September 30,		Nine Months Ended September 30,	
	2023	2022	2023	2022
Revenue				
Contract drilling services	$ 76,190	$ 34,092	$ 191,780	$ 121,749
Management fees	6,086	4,442	13,775	8,385
Reimbursables and other	21,426	32,424	83,059	72,393
Total revenue	103,702	70,958	288,614	202,527
Operating costs and expenses				
Operating costs	73,988	66,429	214,926	169,767
General and administrative	5,561	4,253	15,553	17,745
Depreciation	11,065	11,022	33,159	33,404
(Gain) loss on EDC Sale	—	(632)	3	(61,413)
Total operating costs and expenses	90,614	81,072	263,641	159,503
Income (loss) from operations	13,088	(10,114)	24,973	43,024
Other (expense) income				
Interest income	251	17	441	28
Interest expense and other financing charges	(5,343)	(8,504)	(16,247)	(25,511)
Other, net	115	(363)	(20)	(2,149)
Total other expense	(4,977)	(8,850)	(15,826)	(27,632)
Income (loss) before income taxes	8,111	(18,964)	9,147	15,392
Income tax provision	8,097	1,566	10,703	1,783
Net income (loss)	14	(20,530)	(1,556)	13,609
Net income (loss) attributable to noncontrolling interests	10	(332)	(736)	606
Net income (loss) attributable to shareholders	$ 4	$ (20,198)	$ (820)	$ 13,003
Earnings (loss) per share				
Basic	$ 0.00	$ (1.54)	$ (0.06)	$ 0.99
Diluted	$ 0.00	$ (1.54)	$ (0.06)	$ 0.98

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Vantage Drilling International
Consolidated Statement of Shareholders' Equity
(In thousands)
(Unaudited)

	Nine-Month Period Ended September 30, 2022					
	Ordinary Shares					
	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Non-Controlling Interests	Total Equity
Balance January 1, 2022	13,115	$ 13	$ 633,847	$ (369,792)	$ 1,783	$ 265,851
Share-based compensation	—	—	26	—	—	26
Share-based compensation - dividend equivalents	—	—	(63)	—	—	(63)
Net (loss) income	—	—	—	(14,898)	706	(14,192)
Balance March 31, 2022	13,115	$ 13	$ 633,810	$ (384,690)	$ 2,489	$ 251,622
Share-based compensation	—	—	18	—	—	18
Net income	—	—	—	48,099	232	48,331
Balance June 30, 2022	13,115	$ 13	$ 633,828	$ (336,591)	$ 2,721	$ 299,971
Share-based compensation	—	—	17	—	—	17
Net loss	—	—	—	(20,198)	(332)	(20,530)
Balance September 30, 2022	13,115	$ 13	$ 633,845	$ (356,789)	$ 2,389	$ 279,458

	Nine-Month Period Ended September 30, 2023					
	Ordinary Shares					
	Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Non-Controlling Interests	Total Equity
Balance January 1, 2023	13,115	$ 13	$ 633,863	$ (373,147)	$ 1,770	$ 262,499
Share-based compensation issuance of shares	114	—	—	—	—	—
Shares repurchased to settle withholding taxes	—	—	(246)	—	—	(246)
Share-based compensation	—	—	11	—	—	11
Share-based compensation - dividend equivalents	—	—	(37)	—	—	(37)
Net loss	—	—	—	(2,286)	(289)	(2,575)
Balance March 31, 2023	13,229	$ 13	$ 633,591	$ (375,433)	$ 1,481	$ 259,652
Share-based compensation	—	—	14	—	—	14
Net income (loss)	—	—	—	1,462	(457)	1,005
Balance June 30, 2023	13,229	$ 13	$ 633,605	$ (373,971)	$ 1,024	$ 260,671
Share-based compensation	—	—	20	—	—	20
Net income	—	—	—	4	10	14
Balance September 30, 2023	13,229	$ 13	$ 633,625	$ (373,967)	$ 1,034	$ 260,705

The accompanying notes are an integral part of these unaudited consolidated financial statements.

Vantage Drilling International
Consolidated Statement of Cash Flows
(In thousands)
(Unaudited)

	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
CASH FLOWS FROM OPERATING ACTIVITIES		
Net (loss) income	$ (1,556)	$ 13,609
Adjustments to reconcile net (loss) income to net cash used in operating activities		
Depreciation expense	33,159	33,404
Amortization of debt financing costs	1,455	1,229
Share-based compensation expense	45	61
Loss on debt extinguishment	703	—
Deferred income tax expense	994	301
Gain on disposal of assets	—	(1,600)
Loss (gain) on EDC Sale	3	(61,413)
Changes in operating assets and liabilities:		
Trade receivables, net	(24,537)	(50,289)
Materials and supplies	(6,723)	(2,218)
Prepaid expenses and other current assets	(9,377)	2,680
Other assets	4,810	(23,222)
Accounts payable	5,416	31,873
Other current liabilities and other long-term liabilities	(15,822)	33,624
Net cash used in operating activities	(11,430)	(21,961)
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to property and equipment	(6,833)	(8,154)
Net proceeds from EDC Sale	—	198,700
Net proceeds from sale of assets	—	3,100
Net cash (used in) provided by investing activities	(6,833)	193,646
CASH FLOWS FROM FINANCING ACTIVITIES		
Proceeds from 9.50% First Lien Notes	194,000	—
Repayment of long-term debt	(180,000)	—
Shares repurchased for tax withholdings on settlement of RSUs	(246)	—
Payments of dividend equivalents	(5,278)	—
Debt issuance costs	(5,850)	—
Net cash provided by financing activities	2,626	—
Net (decrease) increase in unrestricted and restricted cash and cash equivalents	(15,637)	171,685
Unrestricted and restricted cash and cash equivalents—beginning of period	93,257	90,608
Unrestricted and restricted cash and cash equivalents—end of period	$ 77,620	$ 262,293
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for:		
Interest	$ 13,837	16,229
Income taxes (net of refunds)	10,540	2,481
Non-cash investing and financing transactions:		
Accrued debt issuance costs	22	—

The accompanying notes are an integral part of these unaudited consolidated financial statements.

VANTAGE DRILLING INTERNATIONAL

NOTES TO UNAUDITED CONSOLIDATED FINANCIAL STATEMENTS

1. Organization and Recent Events

Vantage Drilling International, a Cayman Islands exempted company, together with its consolidated subsidiaries (collectively the "Company"), is an international offshore drilling company focused on operating a fleet of modern, high specification drilling units. Our principal business is to contract drilling units, related equipment and work crews, primarily on a dayrate basis to drill oil and gas wells for our customers. Through our fleet of drilling units, we are a provider of offshore contract drilling services to major, national and independent oil and gas companies, focused on international markets. Additionally, for third party owned drilling units, we provide operations and marketing services for operating and stacked rigs, construction supervision services for rigs that are under construction, and preservation management services for rigs that are stacked.

Deregistration Under the Exchange Act

On September 29, 2023, the Company filed a Form 15 with the SEC to suspend its public reporting filing responsibilities under the Exchange Act. As a result, the Company will cease to file Annual Reports on Form 10-K, Quarterly Reports on Form 10-Q and Current Reports on Form 8-K pursuant to Section 13(a) or 15(d) of the Exchange Act with the SEC. The Company will make available on its website copies of its annual reports, quarterly reports, and current reports as required pursuant to the Company's indebtedness documents and shareholders agreement.

Redemption of the 9.25% First Lien Notes

On February 3, 2023, the Company issued a notice of full conditional redemption to the then existing recordholders (the "Notice of Full Conditional Redemption") of the remaining portion of the 9.25% First Lien Notes then outstanding after the partial redemption consummated in December 2022. The balance of the 9.25% First Lien Notes was redeemed in full on March 6, 2023 with proceeds derived from the issuance of the 9.50% First Lien Notes (as discussed immediately below). See "*Note 5. Debt*" of these "Notes to Unaudited Consolidated Financial Statements" for further information regarding the Notice of Full Conditional Redemption.

9.50% First Lien Notes Offering

On February 14, 2023, the Company priced an offering of $200.0 million in aggregate principal amount of the 9.50% First Lien Notes and entered into a purchase agreement with several investors pursuant to which the Company agreed to sell the 9.50% First Lien Notes (the "9.50% First Lien Notes Offering") to the purchasers in reliance on an exemption from registration provided by Section 4(a)(2), Rule 144A and/or Regulation S of the Securities Act. On March 1, 2023, the Company closed on the sale of the 9.50% First Lien Notes. See "*Note 5. Debt*" of these "Notes to Unaudited Consolidated Financial Statements" for further information regarding the 9.50% First Lien Notes Offering.

The Aquadrill Merger and the Termination of Certain Agreements

VHI previously entered into a framework agreement with Aquadrill LLC ("Aquadrill") on February 9, 2021 (the "Framework Agreement"), and, certain subsidiaries of VHI (the "VHI Entities") subsequently entered into a series of related management and marketing agreements (collectively, the "Marketing and Management Agreements" and together with the Framework Agreement, the "Framework, Management and Marketing Agreements") with certain subsidiaries of Aquadrill (collectively, the "Aquadrill Entities"). Pursuant to the Framework, Management and Marketing agreements, the VHI Entities agreed to provide certain marketing and operational management services with respect to the *Capella*, *Polaris* and *Aquarius floaters*. As of November 1, 2023, the *Capella* and the *Polaris* were performing drilling services for clients under their respective drilling contracts, while the *Aquarius* is currently in Norway and is no longer under the Company's management.

Pursuant to the terms of the Framework, Management and Marketing Agreements, the Company is eligible to receive the following fees associated with the management and marketing of the Aquadrill rigs: (i) first, the Company is to be paid a fixed management fee of $2,000, $4,000, $6,000 and $10,000 per day to manage a cold stacked rig, warm stacked rig, reactivating rig or operating rig, respectively (provided that, certain discounts are to be provided on the management fee associated with cold stacked rigs to the extent there are more than one such rigs managed by the Company for Aquadrill); (ii) second, there are certain bonus/malus amounts that are applied to the fixed management fee that are contingent on whether the actual expenditures for a particular rig that is stacked, mobilizing, being reactivated or preparing for a contract exceed or come in under budget; (iii) third, the Company is eligible to receive a marketing fee of 1.5% of the effective day rate of a drilling contract secured for the benefit of Aquadrill; (iv) fourth, the Company is eligible to earn a variable fee equal to 13% of the gross margin associated with managing an operating rig for Aquadrill; and (v) lastly, all costs incurred by the Company are reimbursed by Aquadrill (other than incremental overhead costs incurred by Vantage). In accordance with the terms of the Framework, Marketing and Management Agreements, Aquadrill may also terminate such agreements upon 90 days' notice (the "Notice Termination Period"), subject to certain conditions set forth in such agreements.

On December 23, 2022, Seadrill Ltd. announced that it had entered into a merger agreement with Aquadrill, pursuant to which Aquadrill would become a wholly owned subsidiary of Seadrill Ltd. (the "Aquadrill Merger"), and on April 3, 2023, Seadrill Ltd.

announced that it had closed the Aquadrill Merger. Subsequent to the Aquadrill Merger, Aquadrill was renamed to Seadrill LLC (”Seadrill”). On April 10, 2023, we received a notice of termination (the “Termination Notice”) of the management agreement (the “*Aquarius* Management Agreement”) and marketing agreement with respect to the *Aquarius* (the “*Aquarius* Marketing Agreement,” and together with the *Aquarius* Management Agreement, the “*Aquarius* Agreements”), and the marketing agreements with respect to the *Capella* and *Polaris* (the “*Capella* and *Polaris* Marketing Agreements”), in each case as a result of the Aquadrill Merger. Given that the Notice Termination Period has now lapsed, we are therefore no longer managing or marketing the *Aquarius* nor eligible to earn management fees under the *Aquarius* Management Agreement as of July 9, 2023. Notwithstanding the termination of the *Aquarius* Agreements and the *Capella* and *Polaris* Marketing Agreements, certain provisions survived such termination and, therefore, to the extent that a drilling contract(s) is secured and executed in respect of outstanding bids or tenders for the *Aquarius*, *Polaris* and/or *Capella*, we will still be eligible to earn the marketing fee in respect of such secured and executed contracts, as well as in respect of existing drilling contracts. On September 22, 2023, we received a notice of termination of the management agreement with respect to the *Polaris* (the "*Polaris* Management Agreement") as its work is expected to conclude in November 2023. The termination of the Polaris Management Agreement will be effective as of December 21, 2023, unless extended by the mutual agreement of the parties to such agreement. As the management agreements with respect to the *Capella* and *Polaris* each remain in effect as of the date hereof, we continue to manage and operate the rigs for Seadrill Ltd. (and for the oil and gas client under the respective drilling contract) and therefore, remain eligible to receive the management and variable fee described immediately above. Nevertheless, as exhibited by the impending termination of the *Polaris* Management Agreement, there is no guarantee that the management agreement in respect of the *Capella* will remain in place in the near- and long-term and any future termination of such arrangement could have a material impact on our financial condition and future results of operations.

2. Basis of Presentation and Significant Accounting Policies

Basis of Consolidation: The accompanying interim consolidated financial information as of September 30, 2023, and for the three and nine months ended September 30, 2023 and 2022, has been prepared without audit, and includes our accounts and those of our majority owned subsidiaries and VIEs (as discussed below). All significant intercompany transactions and accounts have been eliminated. They reflect all adjustments which are, in the opinion of management, necessary for a fair statement of the financial position and results of operations for the interim periods, on a basis consistent with the annual audited financial statements. Certain information and footnote disclosures normally included in financial statements prepared in accordance with U.S. GAAP have been condensed or omitted, although we believe that the disclosures made are adequate to provide for fair statement. Our Consolidated Balance Sheet at December 31, 2022 is derived from our audited consolidated financial statements for the year ended December 31, 2022. These interim consolidated financial statements should be read in conjunction with the consolidated financial statements and the notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2022, which was filed with the SEC on March 31, 2023. The results of operations for the interim periods are not necessarily indicative of the operating results for the full fiscal year or any future periods. Certain previously reported amounts have been reclassified to conform to the current period presentation.

In addition to the consolidation of our majority owned subsidiaries, we also consolidate VIEs when we are determined to be the primary beneficiary of a VIE. Determination of the primary beneficiary of a VIE is based on whether an entity has (1) the power to direct activities that most significantly impact the economic performance of the VIE and (2) the obligation to absorb losses or the right to receive benefits of the VIE that could potentially be significant to the VIE. Our determination of the primary beneficiary of a VIE considers all relationships between us and the VIE.

ADVantage is a joint venture company formed to operate deepwater drilling rigs in Egypt. We determined that ADVantage met the criteria of a VIE for accounting purposes because its equity at risk was insufficient to permit it to carry on its activities without additional subordinated financial support from us. We also determined that we are the primary beneficiary for accounting purposes since we are entitled to use ADVantage for deepwater drilling contract opportunities rejected by ADES, and have the (a) power to direct the operating activities associated with the deepwater drilling rigs, which are the activities that most significantly impact the entity’s economic performance, and (b) obligation to absorb losses or the right to receive a majority of the benefits that could be potentially significant to the VIE. As a result, we consolidate ADVantage in our consolidated financial statements, we eliminate intercompany transactions and we present the interests that are not owned by us as “Noncontrolling interests” in our Consolidated Balance Sheets. The carrying amount associated with ADVantage was as follows:

(unaudited, in thousands)	**September 30, 2023**	**December 31, 2022**
Current assets	$ 2,718	$ 11,383
Non-current assets	183	1,590
Current liabilities	483	4,749
Non-current liabilities	333	4,637
Net carrying amount	$ 2,085	$ 3,587

As ADVantage is a majority owned subsidiary of the Company, it serves as a guarantor under the 9.50% First Lien Indenture. The 9.50% First Lien Notes are secured by a first priority lien on all of the assets of ADVantage, subject to certain exceptions. Creditors' recourse against ADVantage for liabilities of ADVantage is limited to the assets of ADVantage.

See "*Note 9. Supplemental Financial Information*" of these "Notes to Unaudited Consolidated Financial Statements" for additional information regarding related party transactions associated with this joint venture.

Use of Estimates: The preparation of financial statements in accordance with U.S. GAAP requires our management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. On an ongoing basis, we evaluate our estimates, including those related to property and equipment, income taxes, insurance, employee benefits and contingent liabilities. Actual results could differ from these estimates.

Cash and Cash Equivalents: Includes deposits with financial institutions and compliant financial instruments with maturities of three months or less when purchased.

Materials and Supplies: Consists of materials, spare parts, consumables and related supplies for our drilling rigs. We record these materials and supplies at their average cost.

Property and Equipment: Consists of our drilling rigs, furniture and fixtures, computer equipment and capitalized costs for computer software. Drilling rigs are depreciated on a component basis over estimated useful lives ranging from five to 35 years on a straight-line basis as of the date placed in service. Other assets are depreciated upon placement in service over estimated useful lives ranging from three to seven years on a straight-line basis. When assets are sold, retired or otherwise disposed of, the cost and related accumulated depreciation are removed from our Consolidated Balance Sheets and the resulting gain or loss is included in "Operating costs" or "General and administrative" expenses on the Consolidated Statement of Operations, depending on the nature of the asset. For the nine months ended September 30, 2022, we recognized a net gain of approximately $1.6 million related to the sale or retirement of assets. The gain/loss related to the sale or retirement of assets for the three months ended September 30, 2022 and the three and nine months ended September 30, 2023 was immaterial.

We evaluate the realization of property and equipment whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. An impairment loss on our property and equipment exists when estimated undiscounted cash flows expected to result from the use of the asset and its eventual disposition are less than its carrying amount. Any impairment loss recognized would be computed as the excess of the asset's carrying value over the estimated fair value. Estimates of future cash flows require us to make long-term forecasts of our future revenues and operating costs with regard to the assets subject to review. Our business, including the utilization rates and dayrates we receive for our drilling rigs, depends on the level of our customers' expenditures for oil and gas exploration, development and production expenditures. Oil and gas prices and customers' expectations of potential changes in these prices, the general outlook for worldwide economic growth, political and social stability in the major oil and gas producing basins of the world, availability of credit and changes in governmental laws and regulations, among many other factors, significantly affect our customers' levels of expenditures. Sustained declines in or persistent depressed levels of oil and gas prices, worldwide rig counts and utilization, reduced access to credit markets, reduced or depressed sale prices of comparably equipped jackups and drillships and any other significant adverse economic news could require us to evaluate the realization of our drilling rigs. As of September 30, 2023, no triggering event has occurred to indicate that the carrying value of our drilling rigs may not be recoverable.

Interest costs and the amortization of debt financing costs related to the financings of our drilling rigs are capitalized as part of the cost while they are under construction and prior to the commencement of each vessel's first contract. We did not capitalize any interest for the reported periods.

Debt Financing Costs: Costs incurred with financing debt are deferred and amortized over the term of the related financing facility on a straight-line basis, which approximates the effective interest method. Debt issuance costs are presented in the Consolidated Balance Sheets as a direct deduction from the carrying amount of that debt liability.

Rig and Equipment Certifications: We are required to obtain regulatory certifications to operate our drilling rigs and certain specified equipment, and must maintain such certifications through periodic inspections and surveys. These certifications are typically valid for approximately 2.5 to 5 years. The costs associated with these certifications, including drydock costs, are deferred and amortized over the corresponding certification periods.

Revenue Recognition: See "*Note 3. Revenue from Contracts with Customers*" of these "Notes to Unaudited Consolidated Financial Statements" for further information.

Income Taxes: Income taxes are provided for based upon the tax laws and rates in effect in the countries in which our operations are conducted and income is earned. Deferred income tax assets and liabilities are computed for differences between the financial statement basis and tax basis of assets and liabilities that will result in future taxable or tax-deductible amounts and are based on enacted tax laws and rates applicable to the periods in which the differences are expected to affect taxable income. We do not establish deferred tax liabilities for certain of our foreign earnings that we intend to indefinitely reinvest to finance foreign activities. Valuation allowances are established when necessary to reduce deferred income tax assets to the amount expected to be realized. We recognize interest and penalties related to income taxes as a component of income tax expense.

Concentrations of Credit Risk: Financial instruments that potentially subject us to a significant concentration of credit risk consist primarily of cash and cash equivalents, restricted cash and accounts receivable. We maintain deposits in federally insured financial institutions in excess of federally insured limits. We monitor the credit ratings and our concentration of risk with these financial institutions on a continuing basis to safeguard our cash deposits. We have a limited number of key customers, who are primarily large international oil and gas operators, national oil companies and other international oil and gas companies. Our contracts provide for monthly billings as services are performed and we monitor compliance with contract payment terms on an ongoing basis. Payment terms on customer invoices typically range from 30 to 45 days. Outstanding receivables beyond payment terms are promptly investigated and discussed with the specific customer.

Five customers accounted for approximately 30%, 30%, 12%, 11% and 10% of our consolidated trade receivables, net as of September 30, 2023, and four customers accounted for approximately 33%, 21%, 15% and 10% of our consolidated trade receivables, net as of September 30, 2022.

Credit Losses – Accounts Receivable: The allowance for credit losses is based on the Company's assessment of the collectability of customer accounts. Current estimates of expected credit losses consider factors such as the historical experience and credit quality of our customers. The Company considers historical loss information as the most reasonable basis on which to determine expected credit losses unless current or forecasted future conditions for customers (or customer groups) indicate that risk characteristics have changed. We also considered the impact of oil price and market share volatility, as well as other applicable macroeconomic considerations, on our allowance for credit losses.

The following is a summary of the allowance for credit losses:

(unaudited, in thousands)	**September 30, 2023**	**December 31, 2022**
Beginning balance	$ 4,962	$ 4,962
Additions charged to expenses	942	—
Write-offs	(2,054)	—
Ending balance	$ 3,850	$ 4,962

The allowance for credit loss includes an amount that represents a customer's decisions not to pay us for days impacted by what we believe were force majeure and other similar events for which we would still be entitled to receive payment under the applicable contracts. We disagree with the customer's decision and are currently evaluating our remedies, if any, under the applicable contracts. The write-offs in the period represent items where the Company has used reasonable collection efforts and are deemed as uncollectible receivables.

Earnings (loss) per Share: We compute basic and diluted EPS in accordance with the two-class method. We include restricted stock units granted to employees and directors that contain non-forfeitable rights to dividends as such grants are considered participating securities. Basic earnings (loss) per share are based on the weighted average number of Ordinary Shares outstanding during the applicable period. Diluted EPS are computed based on the weighted average number of Ordinary Shares and ordinary share equivalents outstanding in the applicable period, as if all potentially dilutive securities were converted into Ordinary Shares (using the treasury stock method).

The following is a reconciliation of the number of shares used for the basic and diluted EPS computations:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2023	**2022**	**2023**	**2022**
	(unaudited, in thousands)			
Weighted average Ordinary Shares outstanding for basic EPS	13,229	13,115	13,213	13,115
Restricted share equity awards	94	—	—	215
Adjusted weighted average Ordinary Shares outstanding for diluted EPS	13,323	13,115	13,213	13,330

The following sets forth the number of shares excluded from diluted EPS computations due to their antidilutive effect:

	Three Months Ended September 30,		**Nine Months Ended September 30,**	
	2023	**2022**	**2023**	**2022**
	(unaudited, in thousands)			
Restricted share equity awards	—	221	103	—
Future potentially dilutive Ordinary Shares excluded from diluted EPS	—	221	103	—

Functional Currency: We consider USD to be the functional currency for all of our operations since the majority of our revenues and expenditures are denominated in USD, which limits our exposure to currency exchange rate fluctuations. We recognize currency exchange rate gains and losses in "Other, net" in our Consolidated Statement of Operations. Gains/losses related to currency exchange rates for the three and nine months ended September 30, 2023 were immaterial. For the three and nine months ended September 30, 2022, we recognized a net loss of approximately $0.4 million and $2.1 million, respectively, related to currency exchange rates.

Fair Value of Financial Instruments: The financial instruments of the Company consist primarily of cash and cash equivalents, accounts receivable and accounts payable. These items are considered Level 1 due to their short-term nature and their market interest rates and are, therefore, considered a reasonable estimate of fair value. The Company classifies short-term investments within Level 1 in the fair value hierarchy because quoted prices for identical assets in active markets are used to determine fair value. As of September 30, 2023, the fair value of the 9.50% First Lien Notes was approximately $197.7 million based on quoted market prices in a less active market, a Level 2 measurement. See "*Note 5. Debt*" of these "Notes to Unaudited Consolidated Financial Statements" for additional information on the 9.50% First Lien Notes.

Share-based Compensation: TBGs granted under the 2016 Amended MIP vest annually, ratably over four years; however, accelerated vesting is provided for in the event of a QLE. Otherwise, the settlement of any vested TBGs occurs upon the seventh anniversary of the effective date set forth in each individual award letter. PBGs granted under the 2016 Amended MIP contain vesting eligibility provisions tied to the earlier of a QLE or seven years from the Effective Date. Upon the occurrence of a vesting eligibility event, the number of PBGs that vest will be dependent on the achievement of pre-determined TEV targets specified in the grants.

Both the TBGs and PBGs are classified as equity awards. Under the provisions of ASC 718 *Compensation – Stock Compensation* share-based compensation expense is recognized over the requisite service period from the grant date to the fourth-year vest date for TBGs. For PBGs, expense will be recognized when it is probable that the TEV targets will be met. Once it is probable the performance condition will be met, compensation expense based on the fair value of the PBGs at the conversion date of the Convertible Notes will be recognized for the service period completed to the seventh anniversary of the Effective Date for PBGs.

Noncontrolling Interest:

Noncontrolling interests represent the equity investments of the minority owner in ADVantage, a joint venture with ADES that we consolidate in our financial statements.

Recently Adopted Accounting Standards:

No new accounting standards were adopted during the three-month period ended September 30, 2023.

Recently Issued Accounting Standards:

There have been no new accounting pronouncements not yet effective that have significance with respect to our consolidated financial statements.

3. Revenue from Contracts with Customers

The activities that primarily drive the revenue earned in our drilling contracts with customers include (i) providing our drilling rig, work crews, related equipment and services necessary to operate the rig, (ii) delivering the drilling rig by mobilizing to, and demobilizing from, the drill site, and (iii) performing pre-operating activities, including rig preparation activities and/or equipment modifications required for the contract.

The integrated drilling services that we perform under each drilling contract represent a single performance obligation satisfied over time and comprised of a series of distinct time increments, or service periods. We have elected to exclude from the transaction price measurement all taxes assessed by a governmental authority.

Dayrate Drilling Revenue. Our drilling contracts generally provide for payment on a dayrate basis, with higher rates for periods when the drilling unit is operating and lower rates or zero rates for periods when drilling operations are interrupted or restricted. The dayrate billed to the customer is determined based on varying rates applicable to the specific activities performed on an hourly basis. Such dayrate consideration is allocated to the distinct hourly increment it relates to within the contract term and therefore, recognized as we perform the daily drilling services.

For rigs owned by a third party that we manage or support, the contracts generally provide for a fixed fee based on various factors, including the status of the rig or a specific duration. In addition, we may earn a marketing fee based on a percentage of the effective dayrate of a drilling contract secured on behalf of the third party and a variable management fee of the gross margin associated with managing an operating rig. We are considered the principal or agent with respect to certain contractual arrangements and therefore, we record the associated revenue at the gross or net amounts billed to the customers, respectively.

Amortizable Revenue. In connection with certain contracts, we receive lump-sum fees or similar compensation for (i) the mobilization of equipment and personnel prior to the commencement of drilling services, (ii) the demobilization of equipment and personnel upon contract completion or (iii) postponement fees in consideration for the postponement of a contract until a later date. These activities are not considered to be distinct within the context of the contract and therefore, the associated revenue is allocated to the overall single performance obligation.

Mobilization fees received prior to the commencement of drilling operations are recorded as a contract liability and amortized on a straight-line basis over the initial contract period. Demobilization fees expected to be received upon contract completion are estimated at contract inception and recognized on a straight-line basis over the initial contract term, with an offset to an accretive contract asset. In many contracts, demobilization fees are contingent upon the occurrence or non-occurrence of a future event and the estimate for such revenue may therefore be constrained. In such cases, this may result in cumulative-effect adjustments to demobilization revenues upon changes in our estimates of future events during the contract term. Postponement fees received that are contingent upon the occurrence or non-occurrence of a future event are recognized on a straight-line basis over the contract term. Fees received for the mobilization or demobilization of equipment and personnel are included in “Contract drilling services” in our Consolidated Statement of Operations.

Capital Upgrade/Contract Preparation Revenue. In connection with certain contracts, we receive lump-sum fees or similar compensation for requested capital upgrades to our drilling rigs or for other contract preparation work. These activities are not considered to be distinct within the context of the contract and therefore, fees received are recorded as a contract liability and amortized to contract drilling revenues on a straight-line basis over the initial contract term.

Charter Lease Revenue. In relation to certain bareboat charter agreements where we lease our owned rigs to unaffiliated third parties, we receive a fixed fee based on the number of days the rig is drilling. Furthermore, under certain other bareboat charter agreements, we receive a variable fee based on a percentage of gross margin generated on a monthly basis.

Revenues Related to Reimbursable Expenses. We generally receive reimbursements from our customers for the purchase of supplies, equipment, personnel services and other services provided at their request in accordance with a drilling contract or other agreement. We may be considered a principal or an agent in such transactions and therefore, we recognize reimbursable revenues and the corresponding costs either on a gross or net basis, as applicable, as we provide the requested goods and services.

Disaggregation of Revenue

The following tables present our revenue disaggregated by revenue source for the periods indicated:

	Three Months Ended September 30, 2023				Three Months Ended September 30, 2022			
	Jackups	**Deepwater**	**Managed**	**Consolidated**	**Jackups**	**Deepwater**	**Managed**	**Consolidated**
(unaudited, in thousands)								
Dayrate revenue	$ 10,057	$ 33,209	$ 26,364	$ 69,630	$ 6,271	$ 26,833	$ 4,442	$ 37,546
Amortized revenue	2,996	8,561	1,089	12,646	562	806	—	1,368
Charter lease revenue	371	—	—	371	—	—	—	—
Reimbursable revenue	3,512	2,204	15,339	21,055	1,936	5,064	25,044	32,044
Total revenue	$ 16,936	$ 43,974	$ 42,792	$ 103,702	$ 8,769	$ 32,703	$ 29,486	$ 70,958

	Nine Months Ended September 30, 2023				Nine Months Ended September 30, 2022			
	Jackups	**Deepwater**	**Managed**	**Consolidated**	**Jackups**	**Deepwater**	**Managed**	**Consolidated**
(unaudited, in thousands)								
Dayrate revenue	$ 20,155	$ 87,961	$ 73,615	$ 181,731	$ 37,565	$ 77,133	$ 8,385	$ 123,083
Amortized revenue	3,232	16,841	3,751	23,824	2,221	5,210	—	7,431
Charter lease revenue	5,673	—	—	5,673	—	—	—	—
Reimbursable revenue	9,967	4,703	62,716	77,386	6,087	11,215	54,711	72,013
Total revenue	$ 39,027	$109,505	$ 140,082	$ 288,614	$ 45,873	$ 93,558	$ 63,096	$ 202,527

Dayrate revenue and amortized revenue for “Jackups” and “Deepwater” are included within “Contract drilling services” in our Consolidated Statement of Operations. Dayrate revenue for “Managed” is included within “Contract drilling services” and “Management fees” within our Consolidated Statement of Operations. All other revenue is included within “Reimbursables and other” in our Consolidated Statement of Operations.

Accounts Receivable, Contract Liabilities and Contract Costs

Accounts receivable are recognized when the right to consideration becomes unconditional based upon contractual billing schedules. Payment terms on customer invoices typically range from 30 to 45 days.

We recognize contract liabilities, recorded in other “Other current liabilities” and “Other long-term liabilities” within our Consolidated Balance Sheets, for prepayments received from customers and for deferred revenue received for mobilization, contract preparation and capital upgrades.

Certain direct and incremental costs incurred for contract preparation, initial mobilization and modifications of contracted rigs represent contract fulfillment costs as they relate directly to a contract, enhance resources that will be used to satisfy our performance obligations in the future and are expected to be recovered. These costs are deferred as a current or noncurrent asset depending on the length of the initial contract term and are amortized on a straight-line basis to operating costs as services are rendered over the initial term of the related drilling contract. Costs incurred for capital upgrades are capitalized and depreciated over the useful life of the asset.

Costs incurred for the demobilization of rigs at contract completion are recognized as incurred during the demobilization process. Costs incurred to mobilize a rig without a contract are expensed as incurred.

The following table provides information about contract cost assets and contract revenue liabilities from contracts with customers:

(unaudited, in thousands)	Classification in the Consolidated Balance Sheets	September 30, 2023	December 31, 2022
Current contract cost assets	Prepaid expenses and other current assets	$ 5,548	$ 7,324
Noncurrent contract cost assets	Other assets	243	—
Current contract revenue liabilities	Other current liabilities	21,879	35,085

Significant changes in contract cost assets and contract revenue liabilities during the nine months ended September 30, 2023 are as follows:

(unaudited, in thousands)	Contract Cost Assets	Contract Revenues
Balance as of December 31, 2022	$ 7,324	$ 35,085
Increase due to contractual changes	15,821	108,080
Decrease due to recognition of revenue	(17,354)	(121,286)
Balance as of September 30, 2023 (1)	$ 5,791	$ 21,879

(1) We expect to recognize contract revenues of approximately $21.9 million during the remaining three months of 2023 related to unsatisfied performance obligations existing as of September 30, 2023, which includes $13.2 million related to customer prefunding of reimbursables.

We have elected to utilize an optional exemption that permits us to exclude disclosure of the estimated transaction price related to the variable portion of unsatisfied performance obligations at the end of the reporting period, as our transaction price is based on a single performance obligation consisting of a series of distinct hourly increments, the variability of which will be resolved at the time the future services are rendered.

4. Leases

We have operating leases expiring at various dates, principally for office space, onshore storage yards and certain operating equipment. Additionally, we sublease certain office space to third parties. We determine if an arrangement is a lease at inception. Operating leases with an initial term greater than 12 months are included in “Operating lease ROU assets”, “Other current liabilities”, and “Other long-term liabilities” on our Consolidated Balance Sheets. Operating lease ROU assets and operating lease liabilities are recognized based on the present value of the future lease payments over the lease term at commencement date. As most of our leases do not provide an implicit rate, we use our incremental borrowing rate based on the information available at commencement date in determining the present value of future payments. The operating lease ROU asset also includes any lease payments made prior to or at the commencement date and is reduced by lease incentives received and initial direct costs incurred. Our lease terms may include options to extend or terminate the lease when it is reasonably certain that we will exercise that option. Lease expense is recognized on a straight-line basis over the lease term. We have lease agreements with lease and non-lease components, which are generally not accounted for separately. Certain of our leases include provisions for variable payments. These variable payments are not included in the calculation of lease liability and ROU assets.

The components of lease expense for the periods indicated were as follows:

(unaudited, in thousands)	Classification in the Consolidated Statement of Operations	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Operating lease cost(1)	Operating costs	$ 219	$ 327	$ 633	$ 804
Operating lease cost(1)	General and administrative	283	284	851	852
Sublease income	General and administrative	(208)	(228)	(631)	(635)
Total operating lease cost		$ 294	$ 383	$ 853	$ 1,021

(1) Short-term lease costs were approximately $8.3 million and $27.7 million during each of the three and nine months ended September 30, 2023, respectively, which includes bareboat charter expense for a third party owned rig operated by the Company. For the three and nine months ended September 30, 2022, short-term lease costs were approximately $0.2 million and immaterial, respectively. Operating cash flows used for operating leases approximates lease expense.

(unaudited, in thousands)	Classification in the Consolidated Balance Sheets	September 30, 2023	December 31, 2022
Assets:			
Operating lease assets	Operating lease ROU assets	$ 1,300	$ 1,648
Total leased assets		$ 1,300	$ 1,648
Liabilities:			
Current operating	Other current liabilities	$ 699	$ 1,520
Noncurrent operating	Other long-term liabilities	580	222
Total lease liabilities		$ 1,279	$ 1,742

As of September 30, 2023, maturities of lease liabilities were as follows:

(unaudited, in thousands)	Operating Leases
Remaining three months of 2023	$ 289
2024	656
2025	443
Total future lease payments	$ 1,388
Less imputed interest	(109)
Present value of lease obligations	$ 1,279

The weighted average discount rate was 9.43% and 9.25% as of September 30, 2023 and December 31, 2022, respectively. The weighted average remaining lease term for operating leases was 1.79 years and 1.19 years as of September 30, 2023 and December 31, 2022, respectively.

5. Debt

Our debt was composed of the following as of the dates indicated:

(unaudited, in thousands)	September 30, 2023	December 31, 2022
9.25% First Lien Notes, net of financing costs of $0 and $773, respectively	$ —	$ 179,227
9.50% First Lien Notes, net of financing costs of $10,487 and $0, respectively	189,513	—
	189,513	179,227
Less current maturities of long-term debt	—	—
Long-term debt, net	$ 189,513	$ 179,227

9.25% First Lien Notes. On November 30, 2018, the Company issued $350.0 million in aggregate principal amount of 9.25% First Lien Notes in a private placement. The 9.25% First Lien Notes were issued at par and are fully guaranteed on a senior secured basis by the Company's direct and indirect subsidiaries, and were secured by a first priority lien on substantially all of the assets of the Company and its subsidiaries, in each case subject to certain exceptions. The 9.25% First Lien Notes were subject to first payment priority in favor of holders of up to $50.0 million of future super-priority debt and were subject to both mandatory and optional redemption provisions.

The 9.25% First Lien Notes were scheduled to mature on November 15, 2023 and bore interest from the date of their issuance at the rate of 9.25% per year. Interest was computed on the basis of a 360-day year comprised of twelve 30-day months and was payable semi-annually in arrears, commencing on May 15, 2019.

On November 22, 2022, the Company issued a notice of partial redemption (the "Notice of Partial Redemption") of the 9.25% First Lien Notes. Pursuant to the Notice of Partial Redemption, the Company gave the existing recordholders of the 9.25% First Lien Notes notice that it intended to redeem $170.0 million of the outstanding 9.25% First Lien Notes on December 22, 2022 (the "Redemption Date"), at a redemption price equal to 100.0% of the aggregate principal amount of the 9.25% First Lien Notes to be redeemed, plus accrued and unpaid interest and Additional Amounts (as defined in the 9.25% First Lien Indenture), if any, but not including, the date fixed for the redemption of the 9.25% First Lien Notes. On the Redemption Date, the Company made a payment of approximately $171.6 million, an amount which included principal and interest.

On February 3, 2023, the Company issued a notice of full conditional redemption (the "Notice of Full Conditional Redemption") pursuant to the 9.25% First Lien Indenture. Pursuant to the Notice of Full Conditional Redemption, the Company gave existing recordholders of the 9.25% First Lien Notes notice that, upon the satisfaction of the Condition Precedent (as defined below), it intended to redeem all $180.0 million of its outstanding 9.25% First Lien Notes at a redemption price equal to 100.0% of the aggregate principal amount of the 9.25% First Lien Notes to be redeemed, plus accrued and unpaid interest and Additional Amounts (as defined in the 9.25% First Lien Indenture), if any, to, but not including, the date of redemption. The redemption of the 9.25% First Lien Notes was conditioned upon the receipt by the Company of proceeds from a completed debt financing in an amount sufficient, in the Company's opinion, to fund the Redemption Price on the date of redemption pursuant to the terms of the Indenture (the "Condition Precedent"). The 9.25% First Lien Notes were redeemed in full on March 6, 2023 for approximately $185.1 million including principal and interest, using proceeds derived from the issuance of the 9.50% First Lien Notes (as discussed immediately below). Due to the Company's intention and ability to replace the 9.25% First Lien Notes with the 9.50% First Lien Notes, which mature in February 2028, the 9.25% First Lien Notes have been presented as long-term liabilities on our Consolidated Balance Sheets as of December 31, 2022.

9.50% First Lien Notes. On February 14, 2023, the Company priced an offering of $200.0 million in aggregate principal amount of 9.50% First Lien Notes at an issue price of 97% and entered into a purchase agreement with several investors pursuant to which the Company agreed to sell the 9.50% First Lien Notes (the "9.50% First Lien Notes Offering") to the purchasers in reliance on an exemption from registration provided by Section 4(a)(2), Rule 144A and/or Regulation S of the Securities Act. On March 1, 2023, the Company closed the sale of the 9.50% First Lien Notes. The proceeds derived from the 9.50% First Lien Notes Offering were used (i) to redeem all outstanding 9.25% First Lien Notes for approximately $185.1 million, including principal and interest (as discussed immediately above), (ii) to pay fees and expenses related to the 9.50% First Lien Notes Offering and (iii) for general corporate purposes.

The 9.50% First Lien Notes will mature on February 15, 2028. The Company will pay interest on the 9.50% First Lien Notes on February 15 and August 15 of each year, commencing on August 15, 2023. Interest on the 9.50% First Lien Notes will accrue from March 1, 2023, at a rate of 9.50% per annum, and be payable in cash. The 9.50% First Lien Notes will be guaranteed on a joint and several basis by the Company's current and future direct and indirect subsidiaries, subject to certain exceptions (including Vantage Financial Management Co.) and will be secured by a first priority lien on substantially all of the assets of the Company and such subsidiaries, in each case subject to certain exceptions. In connection with the issuance of the 9.50% First Lien Notes, we are permitted to maintain up to $25.0 million in letters of credit outstanding to support our operations.

The 9.50% First Lien Notes are subject to mandatory redemptions upon the occurrence of certain events, including (i) an annual excess cash flow sweep of 50% of excess cash flow and (ii) upon the receipt of net proceeds from specified asset sales, in each case as further described in the 9.50% First Lien Indenture.

The 9.50% First Lien Notes are subject to redemption at the option of the Company, including upon certain change of control events occurring on or after February 15, 2025, and in certain cases upon the occurrence of certain events, as further described in the 9.50% First Lien Indenture. The 9.50% First Lien Indenture contains customary covenants that will limit the Company's ability and, in certain instances, the ability of the Company's subsidiaries, to borrow money, create liens on assets, make distributions and pay dividends on or redeem or repurchase stock, make certain types of investments, enter into agreements that restrict dividends or other payments from subsidiaries, enter into transactions with affiliates, issue guarantees of debt, and sell assets or merge with other companies. These limitations are subject to a number of important exceptions and qualifications which are described in greater detail in the 9.50% First Lien Indenture.

Events of default under the 9.50% First Lien Indenture include, among other events, the following with respect to the 9.50% First Lien Notes: default for 30 days in the payment when due of interest on the 9.50% First Lien Notes; default in payment when due of the principal of, or premium, if any, on the 9.50% First Lien Notes; failure to comply with certain covenants in the 9.50% First Lien Indenture for 30 days (or 60 days in respect of the reporting covenant contained therein) after the receipt of notice from the trustee or holders of 25.0% in aggregate principal amount of the 9.50% First Lien Notes; acceleration or payment default of debt of the Company or a restricted subsidiary in excess of $30.0 million (subject to a cure right within 60 days); certain judgments in excess of $50.0 million subject to certain exceptions; and certain events of bankruptcy or insolvency. In the case of an event of default arising from certain events of bankruptcy or insolvency, all 9.50% First Lien Notes then outstanding will become due and payable immediately without further action or notice. If any other event of default occurs with respect to the 9.50% First Lien Notes, the trustee or holders of 25.0% in aggregate principal amount of the 9.50% First Lien Notes may declare all the 9.50% First Lien Notes to be due and payable immediately.

Letters of credit to support our bank guarantee and similar needs are provided to us on demand by JPMorgan Chase Bank N.A. As of September 30, 2023, we maintained letters of credit outstanding in the aggregate amount of $12.3 million.

6. Shareholders' Equity

Stock Issuance

VDI has 50,000,000 authorized Ordinary Shares. As of September 30, 2023, 13,229,280 Ordinary Shares were issued and outstanding.

Share-based Compensation

On August 9, 2016, the Company adopted the 2016 Amended MIP to align the interests of participants with those of the Company's shareholders by providing incentive compensation opportunities tied to the performance of the Company's equity securities. Pursuant to the 2016 Amended MIP, the Compensation Committee may grant to employees, directors and consultants stock options, restricted stock, restricted stock units or other awards. During the nine months ended September 30, 2023, 14,286 TBGs were granted to certain directors of the Company. No awards were granted to employees or directors during the nine months ended September 30, 2022. During the nine months ended September 30, 2023, 919 of previously granted TBGs vested and 131,844 previously vested TBGs were issued to current or former employees or directors of the Company, of which 17,590 Ordinary Shares were repurchased to settle withholding taxes. During the nine months ended September 30, 2022, 1,564 previously-granted TBGs vested and none were issued.

Both the TBGs and PBGs are classified as equity awards. For the nine months ended September 30, 2023, share-based compensation expense related to the TBGs was immaterial. As of September 30, 2023, we concluded that it was not probable that the TEV performance condition would be met and therefore, no share-based compensation expense was recognized for PBGs. Pursuant to the terms of the award agreements, all the PBGs granted were forfeited and cancelled for no consideration as they had not met the TEV performance condition as of the seventh anniversary of the Effective Date.

Pursuant to the 2016 Amended MIP and the terms of the applicable unit awards, participants holding restricted stock units are contractually entitled to receive all dividends or other distributions that are paid to VDI's stockholders, provided that any such dividends will be subject to the same vesting requirements of the underlying units. Dividend payments accrue to outstanding awards (both vested and unvested) in the form of "Dividend Equivalents" equal to the dividend per share underlying the applicable award under the 2016 Amended MIP. As a result of a special cash distribution paid to shareholders of record on December 17, 2019, $3.3 million has been recorded in "Other current liabilities" and $0.3 million has been recorded in "Other long-term liabilities" in our Consolidated Balance Sheets at September 30, 2023 to be paid upon settlement of the TBGs. During the nine months ended September 30, 2023, $5.3 million was paid to current or former employees or directors as a result of the settlement of the TBGs (as discussed immediately above).

7. Income Taxes

VDI is a Cayman Islands company operating in multiple countries through its subsidiaries. The Cayman Islands do not impose corporate income taxes. Consequently, we have calculated income taxes based on the laws and tax rates in effect in the countries in which operations are conducted, or in which we and our subsidiaries are considered resident for income tax purposes. Our income taxes are generally dependent upon the results of our operations and when we generate significant revenues in jurisdictions where the income tax liability is based on gross revenues or asset values, there is no correlation to the net operating results and the income tax expense. Furthermore, in some jurisdictions we do not pay taxes, pay taxes at lower rates or receive benefits for certain income and expense items, including interest expense, loss on extinguishment of debt, gains or losses on disposal or transfer of assets, reorganization expenses and write-off of development costs. On January 22, 2020, VDI filed the Tax Election with the IRS to be treated as a partnership, rather than a corporation, for U.S. federal income tax purposes, with an effective date retroactive to December 9, 2019. As a result, U.S. Holders are required to take into account their allocable share of items of income, gain, loss deduction and credit of VDI for each taxable year of VDI ending with or within the U.S. Holder's taxable year, regardless of whether any distribution has been or will be received from VDI. Each item generally will have the same character and source (either U.S. or foreign) as though the U.S. Holder had realized the item directly.

Deferred income tax assets and liabilities are recorded for the expected future tax consequences of events that have been recognized in our financial statements or tax returns. We provide for deferred taxes on temporary differences between the financial statements and tax bases of assets and liabilities using the enacted tax rates which are expected to apply to taxable income when the temporary differences are expected to reverse. Deferred tax assets are also provided for certain tax losses and tax credit carryforwards. A valuation allowance is established to reduce deferred tax assets when it is more likely than not that some portion or all of the deferred tax asset will not be realized. We do not establish deferred tax liabilities for certain of our foreign earnings that we intend to indefinitely reinvest to finance foreign activities.

In certain jurisdictions we are taxed under preferential tax regimes, which may require our compliance with specified requirements to sustain the tax benefits. We believe we are in compliance with the specified requirements and will continue to make all reasonable efforts to comply; however, our ability to meet the requirements of the preferential tax regimes may be affected by changes in laws or administrative practices, our business operations and other factors affecting the Company and industry, many of which are beyond our control.

Our periodic tax returns are subject to examination by taxing authorities in the jurisdictions in which we operate in accordance with the normal statute of limitations in the applicable jurisdiction. These examinations may result in assessments of additional taxes that are resolved with the authorities or through the courts. Resolution of these matters involves uncertainties and there are no assurances as to the outcome. Our tax years from 2013 onward remain open to examination in many of our jurisdictions and we are currently involved in several tax examinations in jurisdictions where we are operating or have previously operated. As information becomes available during the course of these examinations, we may increase or decrease our estimates of tax assessments and accruals.

8. Commitments and Contingencies

We are subject to litigation, claims and disputes in the ordinary course of business, some of which may not be covered by insurance. There is an inherent risk in any litigation or dispute and no assurance can be given as to the outcome of any claims.

Brazil Improbity Action

On April 27, 2018, the Company was added as an additional defendant in a legal proceeding (the "Improbity Action"), initiated by the Brazilian Federal Prosecutor against certain individuals, including an executive of Petrobras and two political lobbyists, in connection with the contracting of the *Titanium Explorer* drillship to Petrobras under the Government Agreement for the Provision of Drilling Services for the Titanium Explorer, dated February 4, 2009, by and between Petrobras Venezuela Investments & Services, BV and Vantage Deepwater Company (and subsequently novated to Petrobras America, Inc. and Vantage Deepwater Drilling, Inc.), with the Brazilian government and Petrobras as plaintiffs. Vantage is alleged to have been involved in and benefited from the purported bribery scheme at Petrobras through Hamylton Padilha, the Brazilian agent our former parent company, VDC, used in the contracting of the *Titanium Explorer* drillship to Petrobras, and Mr. Hsin-Chi Su, a former member of VDC's board of directors and a significant shareholder of VDC. We first became aware of the legal proceeding on July 19, 2018 as it was previously under seal. On March 22, 2019, we were formally served in the United States and on April 12, 2019, we subsequently filed our preliminary statement of defense with the 11th Federal court of the Judicial Branch of Curitiba, State of Parana, Brazil (the "Brazilian Federal Court"). On August 20, 2020, the Brazilian Federal Court dismissed our preliminary statement of defense. On October 5, 2020, we subsequently filed a motion to clarify with the Brazilian Federal Court requesting the reconsideration of certain aspects of the decision dismissing our preliminary statement of defense. Our motion to clarify was denied on December 14, 2020, and on February 10, 2021 we filed an interlocutory appeal with the 4th Circuit of the Federal Court of Appeals in Porto Alegre, State of Rio Grande do Sul, Brazil (the "Brazilian Appellate Court"), the appellate court hearing appeals in the "Car Wash" cases, seeking to reverse the Brazilian Federal Court's denial of our preliminary defense. On April 15, 2021, the Brazilian authorities served us indirectly through the U.S. Department of Justice agreeing to formally send us documents related to the Improbity Action. On May 13, 2021, the Brazilian Appellate Court's reporting judge for our matter granted our request for preliminary relief and ordered an immediate stay of the Improbity Action (as it applies to the Company). A proceeding with regard to the interlocutory appeal commenced on August 30, 2022 (the "August 2022 Proceeding") and on December 6, 2022, the Brazilian Appellate Court ruled in our favor, revoking the asset freeze order, which had already been stayed pending a decision from the court, and immediately dismissed the Improbity Action as to the Company (the "Improbity Decision"). The Improbity Decision is still subject to clarification and appeal by the Brazilian government and Petrobras, and on January 30, 2023 and February 1, 2023, Petrobras and the Brazilian federal government filed respective motions to clarify the Improbity Decision. On March 31, 2023, the Company filed its response to the motions to clarify the Improbity Decision. The Company will be notified as to the timing of the hearing of the motions to clarify the Improbity Decision.

The Company understands that the Improbity Action is a civil action and is part of the Brazilian Federal Prosecutor's larger "Car Wash" investigation into money laundering and corruption allegations in Brazil. Separately, Federal Law no. 14,230/2021 (the "New Administrative Improbity Law") was enacted on October 26, 2021, which substantially amended the existing Brazilian improbity legal framework. While the Company believes that the developments arising from the enactment of the New Administrative Improbity Law render the case against it moot, the Company cannot predict the ultimate outcome of the August 2022 Proceeding and the Company will be obligated to file a statement of defense in the matter if the Improbity Decision is later reversed.

The damages claimed in the proceeding are in the amount of BRL 102.8 million (approximately $21.0 million, changes in the USD amounts result from foreign exchange rate fluctuations), together with a civil fine equal to three times that amount. The Company understands that the Brazilian Federal Court previously issued an order authorizing the seizure and freezing of the assets of the Company and the other three defendants in the legal proceeding, as a precautionary measure, in the amount of approximately $84.1 million. The Company and the other three defendants are jointly and severally liable for this amount. The seizure order has not had an effect on the Company's assets or operations, as the Company does not own any assets in Brazil and does not currently intend to relocate any assets to Brazil. On February 13, 2019, we learned that the Brazilian Federal Prosecutor had previously requested mutual legal assistance from the DOJ pursuant to the United Nations Convention against Corruption of 2003 to obtain a freezing order against the Company's U.S. assets in the amount of approximately $84.1 million.

On April 12, 2019, the Company filed an interlocutory appeal with the Brazilian Appellate Court to stay the seizure and freezing order of the Brazilian Federal Court.

On May 20, 2019, the Company announced that the Brazilian Appellate Court's reporting judge ruled in favor of the Company's appeal to stay the seizure and freezing order of the Brazilian Federal Court. As noted above, the Brazilian Appellate Court ruled in favor of the Company in the Improbity Decision, which, among other things, revoked the asset freeze order. The Improbity Decision is still subject to clarification and appeal by the Brazilian government and Petrobras, and on January 30, 2023 and February 1, 2023, Petrobras and the Brazilian federal government filed respective motions to clarify the Improbity Decision. On March 31, 2023, the Company filed its responses to the motions to clarify the Improbity Decision. The Company will be notified by the Brazilian Appellate Court as to the timing of the hearing of the Brazilian Appellate Court to adjudicate the motions to clarify the Improbity Decision.

The Company previously communicated the Brazilian Appellate Court's ruling to the DOJ and has asked the Brazilian Federal Court to do the same. On July 18, 2019, the Company announced that the Brazilian Government made a filing with the Brazilian Federal Court reporting that the DOJ has advised the Brazilian Ministry of Justice that it would not be possible for the DOJ to comply with the mutual assistance request in respect of the asset freeze order. The Company also announced that it learned from the Brazilian Ministry of Justice that the DOJ's response to the request for mutual assistance stated that no legal grounds existed for implementing the requested asset freeze, and that the DOJ was returning the request without taking action and considers the matter concluded.

The Company has defended, and intends to continue to vigorously defend, against the allegations made in the Improbity Action and oppose and defend against any attempts to reverse the Improbity Decision and/or seize the Company's assets. However, we can neither predict the ultimate outcome of this matter nor that there will not be further developments in the "Car Wash" investigation or in any other ongoing investigation or related proceeding that could adversely affect us. We are not able to determine the likelihood of loss, if any, arising from this matter as of the date of this Quarterly Report.

Cyber Matters

In 2022, we experienced additional e-mail related cybersecurity intrusions (the "2022 Cyber Matters"). We became aware of the 2022 Cyber Matters in the fourth quarter of 2022 that resulted in (i) two unauthorized transfers of cash from a Company-controlled bank account to an outside bank account, (ii) one attempted transfer that was stopped and reversed by a financial institution and (iii) one attempted transfer that was stopped by the Company's internal controls. We have since taken, and continue to take, measures designed to detect, remediate and prevent similar cybersecurity intrusions and threats from recurring. The investigation surrounding the 2022 Cyber Matters has been concluded; however, we can neither predict whether there will be further developments related to the 2022 Cyber Matters investigation that could adversely affect us. Our investigation did not reveal any information that suggests the 2022 Cyber Matters will result in a material loss to the Company. However, we are not able to determine the likelihood of future losses, if any, arising from the 2022 Cyber Matters as of the date of this Quarterly Report. Furthermore, we cannot provide assurance that we will not in the future experience any other actual or attempted breaches of our cybersecurity, or that our security efforts and remedial measures will prevent future security threats from materializing, if at all.

9. Supplemental Financial Information

Prepaid Expenses and Other Current Assets

Prepaid expenses and other current assets consisted of the following as of the dates indicated:

(unaudited, in thousands)	September 30, 2023	December 31, 2022
Sales tax receivable	$ 8,989	$ 5,407
Down payments to vendors	5,744	6,269
Prepaid fuel	2,251	3,200
Income tax receivable	8,276	1,373
Current deferred contract costs	5,548	7,324
Current deposits	7,685	139
Other	3,295	1,909
	$ 41,788	$ 25,621

Property and Equipment, Net

Property and equipment, net, consisted of the following as of the dates indicated:

(unaudited, in thousands)	September 30, 2023	December 31, 2022
Drilling equipment	$ 626,575	$ 624,739
Assets under construction	8,436	4,075
Office and technology equipment	18,385	18,405
Leasehold improvements	92	690
	653,488	647,909
Accumulated depreciation	(341,357)	(309,453)
Property and equipment, net	$ 312,131	$ 338,456

Other Assets

Other assets consisted of the following as of the dates indicated:

(unaudited, in thousands)	September 30, 2023	December 31, 2022
Noncurrent restricted cash	$ 6,981	$ 2,781
Deferred certification costs	4,615	3,308
Noncurrent deferred contract costs	243	—
Deferred income taxes	173	1,897
Noncurrent tax receivable	3,883	4,766
Other noncurrent assets	453	5,582
	$ 16,348	$ 18,334

Other Current Liabilities

Other current liabilities consisted of the following as of the dates indicated:

(unaudited, in thousands)	September 30, 2023	December 31, 2022
Interest	$ 2,427	$ 2,126
Compensation	9,319	8,786
2016 MIP - Dividend equivalent (1)	3,272	5,278
Income taxes payable	8,605	2,662
Current deferred revenue	21,879	35,085
Current portion of operating lease liabilities	699	1,520
Current customer prefunding	10,060	10,049
Other	618	673
	$ 56,879	$ 66,179

(1) "Dividend equivalents" on vested TBGs are payable upon settlement of the applicable award.

Other Long-term Liabilities

Other Long-term liabilities consisted of the following as of the dates indicated:

(unaudited, in thousands)	September 30, 2023	December 31, 2022
Deferred income taxes	$ —	$ 730
2016 MIP - Dividend equivalent (1)	285	3,520
Noncurrent operating lease liabilities	580	222
Noncurrent customer prefunding	1,979	3,950
Indirect tax contingencies	4,275	4,339
Other non-current liabilities	85	120
	$ 7,204	$ 12,881

(1) "Dividend equivalents" on vested TBGs are payable upon settlement of the applicable award.

Cash, Cash Equivalents and Restricted Cash

The following table provides a reconciliation of cash, cash equivalents and restricted cash reported within the Consolidated Balance Sheets that sum to the total of the same amounts shown in the Consolidated Statement of Cash Flows as of the dates indicated:

(unaudited, in thousands)	September 30, 2023	December 31, 2022
Cash and cash equivalents	$ 70,000	$ 74,026
Restricted cash	639	16,450
Restricted cash included within Other Assets	6,981	2,781
Total cash, cash equivalents and restricted cash shown in the Consolidated Statements of Cash Flows	$ 77,620	$ 93,257

Restricted cash represents cash held by banks as collateralizing letters of credit.

Other Transactions

ADES

In conjunction with the establishment of ADVantage, the Company entered into a series of agreements with ADES, including: (i) a Secondment Agreement; (ii) a Manpower Agreement; and (iii) a Supply Services Agreement. Pursuant to these agreements, the Company, largely through its seconded employees, has agreed to provide various services to ADES and ADES has agreed in turn to provide various services to ADVantage.

On December 6, 2021, we entered into the EDC Purchase Agreement to sell to ADES Arabia all of the issued and outstanding equity of EDC, which owns the *Emerald Driller*, *Sapphire Driller* and *Aquamarine Driller*. The transactions contemplated by the EDC Purchase Agreement closed on the EDC Closing Date. Simultaneously with the EDC Sale, certain subsidiaries of the Company and ADES entered into the EDC Support Services Agreements, pursuant to which a subsidiary of the Company agreed to provide, in exchange for customary fees and reimbursements, support services to EDC with respect to the *Emerald Driller*, *Sapphire Driller* and *Aquamarine Driller* for a three-year term. Fees earned as a result of these agreements are included in "Management fees" and

"Reimbursable and other" in our Consolidated Statement of Operations within the Managed Services segment as reported in "*Note 10. Business Segment and Significant Customer Information*."

On September 22, 2022, three wholly owned subsidiaries of VHI entered into several related agreements with Advanced Energy Services, S.A.E., a subsidiary of ADES ("ADES SAE" and together with ADES Arabia, the "ADES Group"), including a: (i) secondment agreement; (ii) services agreement; and (iii) bareboat charter agreement, in each case to support a drilling campaign that utilized the *Topaz Driller* jackup (collectively, the "ADES Ancillary Agreements"). These contracts generally provided for: (a) reimbursement of loaned employee personnel costs plus a service fee; (b) a fixed fee based on days the rig is drilling; (c) a variable fee based on a percentage of gross margin generated on a monthly basis; and (d) reimbursement for purchases of supplies, equipment and personnel services, and other services provided at the request of ADES SAE. Fees earned as a result of these agreements are included in "Reimbursable and other" in our Consolidated Statement of Operations within the Drilling Services segment as reported in "*Note 10. Business Segment and Significant Customer Information*."

For the three and nine months ended September 30, 2023, we recognized revenue of $2.3 million and $14.6 million, respectively, from the ADES Group in connection with the ADES Ancillary Agreements. For the three and nine months ended September 30, 2022, we recognized revenue of $2.5 million and $2.9 million, respectively, from the ADES Group in connection with the ADES Ancillary Agreements.

The Company and ADES also entered into an agreement on December 6, 2021 (the "Collaboration Agreement") to pursue a global strategic alliance in order to leverage both the EDC Support Services Agreements and ADVantage, the parties' existing joint venture in Egypt. Pursuant to the Collaboration Agreement, the parties agreed to collaborate on exploring future commercial and operational opportunities.

Aquadrill Merger; Framework, Management and Marketing Agreements

VHI previously entered into the Framework, Management and Marketing Agreements, pursuant to which certain subsidiaries of VHI agreed to provide operating, management and marketing services to the Aquadrill Entities. Fees earned in connection with these agreements are included in "Management fees" and "Reimbursable and other" in our Consolidated Statement of Operations within the Managed Services segment as reported below in "*Note 10. Business Segment and Significant Customer Information*." For the three and nine months ended September 30, 2023, we recognized revenue of $15.1 million and $58.7 million, respectively, and, for the three and nine months ended September 30, 2022, we recognized revenue of $22.1 million and $52.2 million, respectively.

On December 23, 2022, Seadrill Ltd. announced that it had agreed to consummate the Aquadrill Merger and on April 3, 2023, the Aquadrill Merger closed. On April 10, 2023, we received the Termination Notice from Aquadrill and, given that the Notice Termination Period has lapsed, we are therefore no longer (i) managing or marketing the *Aquarius* nor (ii) marketing the *Capella* and *Polaris*. However, as the management agreements are still in effect with respect to the *Capella* and *Polaris*, we continue to manage and operate those rigs for Seadrill Ltd. (and for the oil and gas clients under their respective drilling contracts). See "*Note 1. Organization and Recent Events*" of these Notes to Unaudited Financial Statements for further information with respect to the termination of the Aquarius Agreements and the *Capella* and *Polaris* Marketing Agreements.

10. Business Segment and Significant Customer Information

Our operations are dependent on the global oil and gas industry, and our rigs are relocated based on demand for our services and customer requirements. Our customers consist primarily of large international oil and gas companies, national or government-controlled oil and gas companies, and other international exploration and production companies. As the result of an increase in activity related to operating, management and marketing services for rigs owned by third parties, the Company has two reportable segments: (1) "Drilling Services," which includes activities related to owned jackup rigs and drillships; and (2) "Managed Services," which consists of activities related to rigs owned by third parties that we manage or support. The chief operating decision maker evaluates the performance of our reportable segments using adjusted operating income (loss), which is a segment performance measure, because this financial measure reflects our ongoing profitability and performance. Adjusted operating income (loss) is defined as segment income (loss) from operations plus depreciation. General and administrative expenses, other (expense) income, and income taxes are not allocated to the operating segments for purposes of measuring segment income (loss) from operations and are included in "Unallocated" in the table below. There are no intersegment revenues. Our segment results for the periods indicated were as follows:

(unaudited, in thousands)	Three Months Ended September 30, 2023 Drilling Services	Managed Services	Unallocated	Consolidated
Revenue				
Contract drilling services	$ 54,823	$ 21,367	$ —	$ 76,190
Management fees	—	6,086	—	6,086
Reimbursables and other	6,087	15,339	—	21,426
Total revenue	60,910	42,792	—	103,702
Operating costs and expenses				
Operating costs	39,673	34,315	—	73,988
General and administrative	—	—	5,561	5,561
Depreciation	10,619	—	446	11,065
Gain on EDC Sale	—	—	—	—
Total operating costs and expenses	50,292	34,315	6,007	90,614
Income (loss) from operations	10,618	8,477	(6,007)	13,088
Other (expense) income				
Interest income	—	—	251	251
Interest expense and financing charges	—	—	(5,343)	(5,343)
Other, net	—	—	115	115
Total other expense	—	—	(4,977)	(4,977)
Income before income taxes	$ 10,618	$ 8,477	$ (10,984)	$ 8,111

Reconciliation of income from operations to segment adjusted operating income:	Drilling Services	Managed Services
Income from operations	$ 10,618	$ 8,477
Depreciation	10,619	—
Segment adjusted operating income	$ 21,237	$ 8,477

(unaudited, in thousands)	Three Months Ended September 30, 2022 Drilling Services	Managed Services	Unallocated	Consolidated
Revenue				
Contract drilling services	$ 34,092	$ —	$ —	$ 34,092
Management fees	—	4,442	—	4,442
Reimbursables and other	7,380	25,044	—	32,424
Total revenue	41,472	29,486	—	70,958
Operating costs and expenses				
Operating costs	40,192	26,236	1	66,429
General and administrative	—	—	4,253	4,253
Depreciation	10,631	—	391	11,022
Gain on EDC Sale	—	—	(632)	(632)
Total operating costs and expenses	50,823	26,236	4,013	81,072
(Loss) income from operations	(9,351)	3,250	(4,013)	(10,114)
Other (expense) income				
Interest income	—	—	17	17
Interest expense and financing charges	—	—	(8,504)	(8,504)
Other, net	—	—	(363)	(363)
Total other expense	—	—	(8,850)	(8,850)
(Loss) income before income taxes	$ (9,351)	$ 3,250	$ (12,863)	$ (18,964)

Reconciliation of (loss) income from operations to segment adjusted operating income:	Drilling Services	Managed Services
(Loss) income from operations	$ (9,351)	$ 3,250
Depreciation	10,631	—
Segment adjusted operating income	$ 1,280	$ 3,250

(unaudited, in thousands)	Nine Months Ended September 30, 2023 Drilling Services	Managed Services	Unallocated	Consolidated
Revenue				
Contract drilling services	$ 128,189	$ 63,591	$ —	$ 191,780
Management fees	—	13,775	—	13,775
Reimbursables and other	20,343	62,716	—	83,059
Total revenue	148,532	140,082	—	288,614
Operating costs and expenses				
Operating costs	100,558	114,368	—	214,926
General and administrative	—	—	15,553	15,553
Depreciation	31,859	—	1,300	33,159
Loss on EDC Sale	—	—	3	3
Total operating costs and expenses	132,417	114,368	16,856	263,641
Income (loss) from operations	16,115	25,714	(16,856)	24,973
Other (expense) income				
Interest income	—	—	441	441
Interest expense and financing charges	—	—	(16,247)	(16,247)
Other, net	—	—	(20)	(20)
Total other expense	—	—	(15,826)	(15,826)
Income (loss) before income taxes	$ 16,115	$ 25,714	$ (32,682)	$ 9,147

Reconciliation of income from operations to segment adjusted operating income:	Drilling Services	Managed Services
Income from operations	$ 16,115	$ 25,714
Depreciation	31,859	—
Segment adjusted operating income	$ 47,974	$ 25,714

(unaudited, in thousands)	Nine Months Ended September 30, 2022 Drilling Services	Managed Services	Unallocated	Consolidated
Revenue				
Contract drilling services	$ 121,749	$ —	$ —	$ 121,749
Management fees	—	8,385	—	8,385
Reimbursables and other	17,682	54,711	—	72,393
Total revenue	139,431	63,096	—	202,527
Operating costs and expenses				
Operating costs	112,794	56,972	1	169,767
General and administrative	—	—	17,745	17,745
Depreciation	32,182	—	1,222	33,404
Gain on EDC Sale	—	—	(61,413)	(61,413)
Total operating costs and expenses	144,976	56,972	(42,445)	159,503
(Loss) income from operations	(5,545)	6,124	42,445	43,024
Other (expense) income				
Interest income	—	—	28	28
Interest expense and financing charges	—	—	(25,511)	(25,511)
Other, net	—	—	(2,149)	(2,149)
Total other expense	—	—	(27,632)	(27,632)
(Loss) income before income taxes	$ (5,545)	$ 6,124	$ 14,813	$ 15,392

Reconciliation of (loss) income from operations to segment adjusted operating income:	Drilling Services	Managed Services
(Loss) income from operations	$ (5,545)	$ 6,124
Depreciation	32,182	—
Segment adjusted operating income	$ 26,637	$ 6,124

For the three and nine months ended September 30, 2023 and 2022, a substantial amount of our revenue was derived from countries outside of the United States. Our revenue by country and segment was as follows for the periods indicated (revenue of less than 10% is included in “Other countries”):

Country	Segment	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
(unaudited, in thousands)					
India	Drilling Services and Managed Services	$ 35,429	$ 13,683	$ 104,252	$ 40,202
UAE	Drilling Services and Managed Services	9,047	21,320	51,958	49,286
Indonesia	Drilling Services and Managed Services	19,602	13,265	41,980	22,071
Namibia	Drilling Services	30,519	—	68,897	—
Egypt	Drilling Services	—	—	—	27,034
Cyprus	Drilling Services	—	18,867	—	26,349
Other countries (1)	Drilling Services and Managed Services	9,105	3,823	21,527	37,585
Total revenues		$ 103,702	$ 70,958	$ 288,614	$ 202,527

(1) “Other countries” represent countries in which we operate that individually had operating revenues representing less than 10% of total revenues earned.

Revenue with customers that contributed 10% or more of revenue for the periods indicated were as follows:

(unaudited)	Segment	Three months ended September 30, 2023	Three months ended September 30, 2022	Nine months ended September 30, 2023	Nine months ended September 30, 2022
Customer 1	Drilling Services and Managed Services	34%	19%	36%	20%
Customer 2	Drilling Services	29%	0%	24%	2%
Customer 3	Managed Services	15%	31%	20%	26%
Customer 4	Drilling Services	0%	0%	0%	13%
Customer 5	Drilling Services	0%	33%	0%	13%

Information related to the Company’s “Total Assets” as reported on the Consolidated Balance Sheets is not available by reportable segment; however, a substantial portion of our assets are mobile drilling units included in the Drilling Services segment. Asset locations at the end of the period are not necessarily indicative of the geographic distribution of the revenues generated by such assets during the periods. Our property and equipment, net by country, was as follows as of the dates indicated (property and equipment of less than 10% are included in “Other countries”):

(unaudited, in thousands)	September 30, 2023	December 31, 2022
Namibia	$ 149,478	$ —
India	70,824	81,309
Indonesia	55,577	58,663
International Waters	—	158,785
Other countries (1)	36,252	39,699
Total property and equipment	$ 312,131	$ 338,456

(1) “Other countries” represent countries in which we individually had property and equipment, net, representing less than 10% of total property and equipment, net.

Item 2. Management's Discussion and Analysis of Financial Condition and Results of Operations

The following discussion is intended to assist you in understanding our financial position as of September 30, 2023, and our results of operations for the three and nine months ended September 30, 2023 and 2022. The discussion should be read in conjunction with the financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2022, which was filed with the SEC on March 31, 2023. The results of operations for the interim periods are not necessarily indicative of the operating results for the full fiscal year or any future periods.

Overview

We are an international offshore drilling company focused on operating a fleet of modern, high specification drilling units. Our principal business is to contract drilling units, related equipment and work crews, primarily on a dayrate basis, to drill oil and gas wells for our customers. Through our fleet of drilling units, we provide offshore contract drilling services to major, national and independent oil and gas companies, focused on international markets. Additionally, for third party owned drilling units, we provide operations and marketing services for operating and stacked rigs, construction supervision services for rigs that are under construction and preservation management services for rigs that are stacked.

The following table sets forth certain current information concerning our offshore drilling fleet as of November 1, 2023:

Name	Year Built	Water Depth Rating (feet)	Drilling Depth Capacity (feet)	Location	Status
Owned Rigs:					
Jackups					
Topaz Driller	2009	375	30,000	Morocco	Operating
Soehanah	2007	375	30,000	Indonesia	Operating
Drillships (1)					
Platinum Explorer	2010	12,000	40,000	India	Operating
Tungsten Explorer	2013	12,000	40,000	Namibia	Operating
Third Party Owned Rigs:					
Drillships					
Polaris	2008	10,000	37,500	India	Operating
Capella	2008	10,000	37,500	Indonesia	Operating
Jackups					
Emerald Driller	2008	375	30,000	Qatar	Operating
Sapphire Driller	2009	375	30,000	Qatar	Operating
Aquamarine Driller	2009	375	30,000	Qatar	Operating

(1) The drillships are designed to drill in up to 12,000 feet of water. The *Platinum Explorer* is currently equipped to drill in 10,000 feet of water and the *Tungsten Explorer* is currently equipped to drill in 11,000 feet of water.

Backlog

The following table summarizes our contract backlog coverage of days contracted and related revenue as of September 30, 2023 based on information available as of such date:

	Percentage of Days Contracted			Revenues Contracted (in thousands)		
	2023	2024	Beyond	2023	2024	Beyond
Backlog						
Jackups	75%	58%	40%	$ 28,652	$ 58,608	$ 34,651
Drillships	98%	26%	0%	$ 44,334	$ 45,805	$ —
Third party owned rigs (1)	70%	63%	24%	$ 11,457	$ 6,596	$ 219

(1) These amounts include: (i) a fixed management fee paid to us pursuant to the applicable management agreement; (ii) a marketing fee paid to us pursuant to the applicable marketing agreement; (iii) a fixed management fee paid to us pursuant to the applicable EDC Support Services Agreements; and (iv) contract backlog attributable to rigs owned by third parties for which we enter into contracts directly with customers and lease the rigs through bareboat charters from the rig owners. However, these amounts exclude any variable fee payable to us pursuant to the applicable management agreement. The terms of the bareboat charters are consistent with the management agreements, resulting in the same financial impact to us had the rigs remained under the management agreements.

Results of Operations

Operating results for our contract drilling services are dependent on three primary metrics: available days; rig utilization; and dayrates. The following table sets forth this selected operational information for the periods indicated:

	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Nine Months Ended September 30, 2023	Nine Months Ended September 30, 2022
Jackups				
Rigs available	2	2	2	2
Available days [(1)]	153	184	334	546
Utilization [(2)]	67.2%	51.3%	83.4%	68.1%
Average daily revenues [(3)]	$ 127,028	$ 72,386	$ 83,935	$ 69,372
Deepwater				
Rigs available	2	2	2	2
Available days [(1)]	184	184	546	546
Utilization [(2)]	84.9%	96.7%	81.0%	95.6%
Average daily revenues [(3)]	$ 267,406	$ 155,393	$ 236,842	$ 157,701
Sold Rigs/Held for Sale [(4)]				
Rigs available	—	0	—	3
Available days [(1)]	—	0	—	438
Utilization [(2)]	N/A	N/A	N/A	43.6%
Average daily revenues [(3)]	N/A	N/A	N/A	$ 73,142

(1) Available days are the total number of rig calendar days in the period, excluding rigs under bareboat charter contracts to third parties.

(2) Utilization is calculated as a percentage of the actual number of revenue earning days divided by the available days in the period. A revenue earning day is defined as a day for which a rig earns dayrate after commencement of operations.

(3) Average daily revenues are based on contract drilling revenues divided by revenue earning days. Average daily revenue will differ from average contract dayrate due to billing adjustments for any non-productive time, mobilization fees and demobilization fees.

(4) Each of these rigs were classified as held for sale on our Consolidated Balance Sheet at December 31, 2022, up to the date of the EDC Sale.

For the Three Months Ended September 30, 2023 and 2022

Net income attributable to shareholders for the Current Quarter was immaterial, on operating revenues of $103.7 million, compared to net loss attributable to shareholders for the Comparable Quarter of $20.2 million, or $1.54 per basic share, on operating revenues of $71.0 million.

The following table sets forth our operating results for the three months ended September 30, 2023 and 2022:

(unaudited, in thousands)	Three Months Ended September 30, 2023	Three Months Ended September 30, 2022	Change $	Change %
Consolidated:				
Revenues				
Contract drilling services	$ 76,190	$ 34,092	$ 42,098	123%
Management fees	6,086	4,442	1,644	37%
Reimbursables and other	21,426	32,424	(10,998)	-34%
Total revenues	103,702	70,958	32,744	46%
Operating costs and expenses:				
Operating costs	73,988	66,429	7,559	11%
General and administrative	5,561	4,253	1,308	31%
Depreciation	11,065	11,022	43	0%
Gain on EDC Sale	—	(632)	632	-100%
Total operating costs and expenses	90,614	81,072	9,542	12%
Income (loss) from operations	13,088	(10,114)	23,202	-229%
Other (expense) income				
Interest income	251	17	234	n/m
Interest expense and financing charges	(5,343)	(8,504)	3,161	-37%
Other, net	115	(363)	478	-132%
Total other expense	(4,977)	(8,850)	3,873	-44%
Income (loss) before income taxes	8,111	(18,964)	27,075	-143%
Income tax provision	8,097	1,566	6,531	417%
Net income (loss)	14	(20,530)	20,544	-100%
Net income (loss) attributable to noncontrolling interests	10	(332)	342	-103%
Net income (loss) attributable to shareholders	$ 4	$ (20,198)	$ 20,202	-100%
Drilling Services:				
Revenue				
Contract drilling services	$ 54,823	$ 34,092	$ 20,731	61%
Management fees	—	—	—	n/m
Reimbursables and other	6,087	7,380	(1,293)	-18%
Total revenue	60,910	41,472	19,438	47%
Operating costs and expenses:				
Operating costs	39,673	40,192	(519)	-1%
General and administrative	—	—	—	n/m
Depreciation	10,619	10,631	(12)	0%
Gain on EDC sale	—	—	—	n/m
Total operating costs and expenses	50,292	50,823	(531)	-1%
Income (loss) from operations	10,618	(9,351)	19,969	-214%
Managed Services:				
Revenue				
Contract drilling services	$ 21,367	$ —	$ 21,367	n/m
Management fees	6,086	4,442	1,644	37%
Reimbursables and other	15,339	25,044	(9,705)	-39%
Total revenue	42,792	29,486	13,306	45%
Operating costs and expenses:				
Operating costs	34,315	26,236	8,079	31%
General and administrative	—	—	—	n/m
Depreciation	—	—	—	n/m
Gain on EDC sale	—	—	—	n/m
Total operating costs and expenses	34,315	26,236	8,079	31%
Income from operations	8,477	3,250	5,227	161%

n/m = not meaningful

Consolidated Revenue: Total revenue increased $32.7 million due primarily to an increase in operating activities in the Current Quarter, as discussed below.

Drilling Services Revenue: Contract drilling revenue increased $20.7 million for the Current Quarter as compared to the Comparable Quarter. The increase in our contract drilling revenue was primarily the result of the *Tungsten Explorer, Topaz Driller* and *Soehanah* on contract at a higher dayrate in the Current Quarter, as compared to the Comparable Quarter. Reimbursables and other revenue decreased 18% in the Current Quarter as compared to the Comparable Quarter primarily as a result of lower reimbursables on the *Tungsten Explorer* due to there being fewer operating days in the Current Quarter as compared to the Comparable Quarter.

Managed Services Revenue: Contract drilling revenue increased $21.4 million in the Current Quarter due to the *Polaris*, which is currently operated by the Company. Management fees increased 37% in the Current Quarter as compared to the Comparable Quarter primarily due to the management of the deepwater floaters owned by Seadrill. Reimbursables and other revenue decreased $9.7 million in the Current Quarter as compared to the Comparable Quarter primarily due to lower reimbursables on the *Polaris* and *Aquarius*, which was the result of reactivation activities on these rigs in the Comparable Period, offset by higher reimbursables on the *Capella*.

Consolidated Operating Costs: Total operating costs increased 11% due primarily to an increase in operating activities in the Current Quarter as discussed below.

Drilling Services Operating Costs: Drilling Services operating costs decreased 1% in the Current Quarter as compared to the Comparable Quarter primarily as a result of lower repairs and maintenance as well as taxes and license related to fees incurred on the *Topaz Driller* in the Current Quarter as compared to the Comparable Quarter, which amounts were offset by higher: (i) labor, repairs and maintenance and transportation costs on the *Platinum* in the Current Period as compared to the Comparable Period; and (ii) amortization of mob costs on *Tungsten Explorer* in the Current Period as compared to the Comparable Period.

Managed Services Operating Costs: The increase in Managed Services operating costs in the Current Quarter as compared to the Comparable Quarter is the result of the management of certain deepwater floaters (as discussed in "Managed Services Revenue" above).

General and Administrative Expenses: Increases in general and administrative expenses for the Current Quarter as compared to the Comparable Quarter were primarily due to higher compensation expense as a result of severance costs recorded in the Current Quarter. Non-cash share-based compensation expense included in "General and administrative expenses" was immaterial for each of the Current Quarter and Comparable Quarter.

Depreciation Expense: Depreciation expense is primarily related to rigs owned by us which are included in our Drilling Services segment. The Managed Services segment does not currently own any depreciable assets. Depreciation expense for the Current Quarter is generally consistent with the Comparable Quarter.

Interest Income: Increases in interest income for the Current Quarter as compared to the Comparable Quarter were due primarily to higher cash balances in investment accounts during the Current Quarter.

Interest Expense and Financing Charges: Decreases in interest expense and financing charges for the Current Quarter as compared to the Comparable Quarter were primarily due to lower outstanding debt as a result of the pay down of the 9.25% Notes in Q4 2022 offset by higher interest rates due to the refinancing of the remaining balance with the 9.50% Notes during Q1 2023. Non-cash deferred financing costs included in "Interest expense and financing charges" was approximately $0.6 million and $0.4 million for each of the Current Quarter and Comparable Quarter, respectively.

Other, Net: Our functional currency is USD; however, a portion of the revenues earned and expenses incurred by certain of our subsidiaries are denominated in currencies other than USD. These transactions are re-measured in USD based on a combination of both current and historical exchange rates. Net foreign currency exchange loss of approximately $0.4 million was included in "other, net," for the Comparable Quarter. Net foreign currency exchange gain/loss for the Current Quarter was immaterial.

Income Tax Provision: Our annualized effective tax rate for the Current Quarter is 105.68% based on estimated annualized ordinary profit before income taxes excluding income tax discrete items. Our annualized effective tax rate for the Comparable Quarter was negative 12.04%, based on estimated annualized loss before income taxes excluding income tax discrete items.

Our income taxes are generally dependent upon the results of our operations and the local income taxes in the jurisdictions in which we operate. In some jurisdictions, we do not pay taxes or receive benefits for certain income and expense items, including interest expense and disposal gains or losses. In other jurisdictions, we recognize income taxes on a net income basis or a deemed profit basis.

For the Nine Months Ended September 30, 2023 and 2022

Net loss attributable to shareholders for the Current Period was $0.8 million, or $0.06 per basic share, on operating revenues of $288.6 million, compared to net income attributable to shareholders for the Comparable Period of $13.0 million, or $0.99 per basic share, on operating revenues of $202.5 million.

The following table sets forth our operating results for the nine months ended September 30, 2023 and 2022:

	Nine Months Ended September 30,		Change	
	2023	2022	$	%
(unaudited, in thousands)				
Consolidated:				
Revenues				
Contract drilling services	$ 191,780	$ 121,749	$ 70,031	58%
Management fees	13,775	8,385	5,390	64%
Reimbursables and other	83,059	72,393	10,666	15%
Total revenues	288,614	202,527	86,087	43%
Operating costs and expenses:				
Operating costs	214,926	169,767	45,159	27%
General and administrative	15,553	17,745	(2,192)	-12%
Depreciation	33,159	33,404	(245)	-1%
Loss on EDC Sale	3	(61,413)	61,416	-100%
Total operating costs and expenses	263,641	159,503	104,138	65%
Income from operations	24,973	43,024	(18,051)	-42%
Other (expense) income				
Interest income	441	28	413	n/m
Interest expense and financing charges	(16,247)	(25,511)	9,264	-36%
Other, net	(20)	(2,149)	2,129	-99%
Total other expense	(15,826)	(27,632)	11,806	-43%
Income before income taxes	9,147	15,392	(6,245)	-41%
Income tax provision	10,703	1,783	8,920	500%
Net (loss) income	(1,556)	13,609	(15,165)	-111%
Net (loss) income attributable to noncontrolling interests	(736)	606	(1,342)	-221%
Net (loss) income attributable to shareholders	$ (820)	$ 13,003	$ (13,823)	-106%
Drilling Services:				
Revenue				
Contract drilling services	$ 128,189	$ 121,749	$ 6,440	5%
Management fees	—	—	—	n/m
Reimbursables and other	20,343	17,682	2,661	15%
Total revenue	148,532	139,431	9,101	7%
Operating costs and expenses:				
Operating costs	100,558	112,794	(12,236)	-11%
General and administrative	—	—	—	n/m
Depreciation	31,859	32,182	(323)	-1%
Total operating costs and expenses	132,417	144,976	(12,559)	-9%
Income (loss) from operations	16,115	(5,545)	21,660	-391%
Managed Services:				
Revenue				
Contract drilling services	$ 63,591	$ —	$ 63,591	n/m
Management fees	13,775	8,385	5,390	64%
Reimbursables and other	62,716	54,711	8,005	15%
Total revenue	140,082	63,096	76,986	122%
Operating costs and expenses:				
Operating costs	114,368	56,972	57,396	101%
General and administrative	—	—	—	n/m
Depreciation	—	—	—	n/m
Total operating costs and expenses	114,368	56,972	57,396	101%
Income from operations	25,714	6,124	19,590	320%

n/m = not meaningful

Consolidated Revenue: Total revenue increased $86.1 million due primarily to an increase in operating activities in the Current Period, as discussed below.

Drilling Services Revenue: Contract drilling revenue increased $6.4 million for the Current Period as compared to the Comparable Period. The increase in our contract drilling revenue was primarily the result of higher revenue on the *Tungsten Explorer* on contract at a higher dayrate in the Current Period as compared to the Comparable Period, offset by lower contract drilling revenue as we operated three less jackup rigs (each of which were included in the EDC Sale), and the *Topaz Driller* as the rig is operating under a bareboat charter in the Current Period as compared to operating under a drilling contract in the Comparable Period. Reimbursables and other revenue increased 15% in the Current Period as compared to the Comparable Period primarily as a result of bareboat charter fees earned on the *Topaz Driller*, offset by lower reimbursable revenue as a result of the changes in drilling contracts (as discussed immediately above).

Managed Services Revenue: Contract drilling revenue increased $63.6 million in the Current Period due to the *Polaris*, which is currently operated by the Company. Management fees increased $5.4 million in the Current Period as compared to the Comparable Period primarily due to the management of the rigs included in the EDC Sale as well as deepwater floaters owned by Seadrill. Reimbursables and other revenue increased $8.0 million in the Current Period as compared to the Comparable Period, primarily as a result of the management of the deepwater floaters owned by Seadrill and the rigs included in the EDC Sale.

Consolidated Operating Costs: Total operating costs increased 27% due primarily to an increase in operating activities in the Current Period as discussed below.

Drilling Services Operating Costs: Drilling Services operating costs decreased 11% in the Current Period as compared to the Comparable Period primarily as a result of the Company operating three less jackup rigs (each of which were included in the EDC Sale) and the *Topaz Driller* operating under a bareboat charter in the Current Period as compared to operating under a drilling contract in the Comparable Period (as discussed in "Drilling Services Revenue" above). These decreases were offset by higher, maintenance and fuel costs on the *Tungsten Explorer*. The Comparable Period includes a net gain of approximately $1.9 million related to the sale of various assets.

Managed Services Operating Costs: The increase in Managed Services operating costs in the Current Period as compared to the Comparable Period is the result of the management of certain deepwater floaters (as discussed in "Managed Services Revenue" above).

General and Administrative Expenses: Decreases in general and administrative expenses for the Current Period as compared to the Comparable Period were primarily due to lower compensation expense as a result of bonuses paid in the Comparable Period that did not recur in the Current Period. Non-cash share-based compensation expense included in "General and administrative expenses" was immaterial for each of the Current Period and Comparable Period.

Depreciation Expense: Depreciation expense is primarily related to rigs owned by us which are included in our Drilling Services segment. The Managed Services segment does not currently own any depreciable assets. Depreciation expense for the Current Period is generally consistent with the Comparable Period.

Gain on EDC Sale: During the Comparable Period, we recorded a net gain of approximately $61.4 million related to the EDC Sale.

Interest Income: Increases in interest income for the Current Period as compared to the Comparable Period were due primarily to higher cash balances in investment accounts during the Current Period.

Interest Expense and Financing Charges: Decreases in interest expense and financing charges in the Current Period as compared to the Comparable Period were primarily due to lower outstanding debt as a result of the pay down of the 9.25% Notes in Q4 2022 offset by higher interest rates due to the refinancing of the remaining balance with the 9.50% Notes during Q1 2023. Non-cash deferred financing costs included in "Interest expense and financing charges" was approximately $1.5 million and $1.2 million for each of the Current Period and Comparable Period, respectively.

Other, Net: Our functional currency is USD; however, a portion of the revenues earned and expenses incurred by certain of our subsidiaries are denominated in currencies other than USD. These transactions are re-measured in USD based on a combination of both current and historical exchange rates. Net foreign currency exchange loss of approximately $2.1 million was included in "other, net," for the Comparable Period. Net foreign currency exchange gain/loss for the Current Period was immaterial.

Income Tax Provision: Our annualized effective tax rate for the Current Period is 105.68% based on estimated annualized ordinary profit before income taxes excluding income tax discrete items. Our annualized effective tax rate for the Comparable Period was negative 12.04%, based on estimated annualized loss before income taxes excluding income tax discrete items.

Our income taxes are generally dependent upon the results of our operations and the local income taxes in the jurisdictions in which we operate. In some jurisdictions, we do not pay taxes or receive benefits for certain income and expense items, including interest expense and disposal gains or losses. In other jurisdictions, we recognize income taxes on a net income basis or a deemed profit basis.

Liquidity and Capital Resources

Sources and Uses of Liquidity

Our anticipated cash flow needs, both in the short- and long-term, may include, among others: (i) normal recurring operating expenses; (ii) planned, discretionary or contractually required capital expenditures; (iii) repayments of interest; and (iv) certain contractual cash obligations and commitments. We may, from time to time, redeem, repurchase or otherwise acquire our outstanding 9.50% First Lien Notes through open market purchases, tender offers or pursuant to the terms of such securities.

We currently expect to fund our cash flow needs with cash generated by our operations, cash on hand or proceeds from sales of assets. As of September 30, 2023, we believe we maintain adequate cash reserves and are continuously managing our actual cash flow and cash forecasts. Accordingly, management believes that we have adequate liquidity to fund our operations for the twelve months following the date our Consolidated Financial Statements are issued and therefore, have been prepared under the going concern assumption.

As of September 30, 2023, we had working capital of approximately $127.6 million, including approximately $70.0 million of cash available for general corporate purposes. Scheduled debt service consists of interest payments through September 30, 2024 of approximately $18.4 million. In addition, we may be required to redeem a portion of the outstanding 9.50% First Lien Notes, at par value, in the first half of 2024 as a result of the mandatory excess cash flow provision included in the 9.50% First Lien Notes Indenture. Any such redemption, if and to the extent consummated, could have a material impact on the Company's overall cash flows, which the Company cannot fully predict nor determine at this time.

We anticipate capital expenditures through September 30, 2024 to be between approximately $39.4 million and $48.1 million. As our rigs obtain new contracts, we could incur reactivation and mobilization costs for these rigs, as well as additional customer requested equipment upgrades, some (or all) of which could be significant and may not be fully recoverable from the customer. Based on our anticipated levels of activity, incremental expenditures through September 30, 2024 for special periodic surveys, major repair and maintenance expenditures and equipment re-certifications are anticipated to be between approximately $37.2 million and $45.5 million. As of September 30, 2023, we maintained letters of credit outstanding in the aggregate amount of $12.3 million.

The following table summarizes our cash flow information for the periods indicated:

	Nine Months Ended September 30,	
(unaudited, in thousands)	2023	2022
Cash flows (used in) provided by:		
Operating activities	$ (11,430)	$ (21,961)
Investing activities	(6,833)	193,646
Financing activities	2,626	—

Changes in cash flows from operating activities are driven by changes in net loss during the relevant periods (see the discussion of changes in net loss above in "Results of Operations" of this Part I, Item 2).

Cash flows from investing activities in the Comparable Period include (i) net proceeds of $198.7 million derived from the EDC Sale and (ii) $3.1 million derived from the sale of various assets.

Cash flows from financing activities in the Current Period include (i) net proceeds of $188.4 million derived from the issuance of the 9.50% First Lien Notes, as described in "*Note 5. Debt*" of the "Notes to Unaudited Consolidated Financial Statements" in Part I, Item 1 of this Quarterly Report, (ii) the redemption of the principal balance of the 9.25% First Lien Notes for $180.0 million as described in "*Note 5. Debt*" of the "Notes to Unaudited Consolidated Financial Statements" in Part I, Item 1 of this Quarterly Report, and (iii) the $5.3 million payment of dividend equivalents as described in "*Note 6. Shareholders' Equity*" in the "Notes to Unaudited Consolidated Financial Statements" in Part I, Item 1 of this Quarterly Report.

The significant elements of the 9.50% First Lien Notes are described in "*Note 5. Debt*" of the "Notes to Unaudited Consolidated Financial Statements" in Part I, Item 1 of this Quarterly Report. The information discussed therein is incorporated by reference in its entirety into this Part I, Item 2.

We enter into operating leases in the normal course of business for office space, housing, vehicles and specified operating equipment. Some of these leases contain options that would cause our future cash payments to change if we exercised those options.

Commitments and Contingencies

We are subject to litigation, claims and disputes in the ordinary course of business, some of which may not be covered by insurance. Information regarding our legal proceedings is set forth in "*Note 8. Commitments and Contingencies*" of the "Notes to Unaudited Consolidated Financial Statements" in Part I, Item 1 of this Quarterly Report. The information discussed therein is incorporated by reference in its entirety into this Part I, Item 2.

There is an inherent risk in any litigation, claim or dispute and therefore no assurance can be given as to the outcome of any such litigation, claim or dispute. We do not believe the ultimate resolution of any existing litigation, claims or disputes will have a material adverse effect on our financial position, results of operations or cash flows.

Critical Accounting Policies and Accounting Estimates

The preparation of unaudited financial statements and related disclosures in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Our significant accounting policies are included in *"Note 2. Basis of Presentation and Significant Accounting Policies"* of the "Notes to Unaudited Consolidated Financial Statements" in Part I, Item 1 of this Quarterly Report. These policies, along with our underlying judgments and assumptions made in their application, have a significant impact on our consolidated financial statements. While management believes current estimates are appropriate and reasonable, actual results could materially differ from those estimates. We have discussed the development, selection and disclosure of such policies and estimates with the audit committee of the Board of Directors.

Our critical accounting policies are those related to property and equipment, impairment of long-lived assets and income taxes. For a discussion of the critical accounting policies and estimates that we use in the preparation of our consolidated financial statements, see "Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations - Critical Accounting Estimates" in Part II of our Annual Report on Form 10-K for the year ended December 31, 2022, which was filed with the SEC on March 31, 2023. During the Current Quarter, there were no material changes to the judgments, assumptions or policies upon which our critical accounting estimates are based.

Recent Accounting Pronouncements: See "*Note 2. Basis of Presentation and Significant Accounting Policies*" of the "Notes to Unaudited Consolidated Financial Statements" in Part I, Item 1 of this Quarterly Report for further information. The information discussed therein is incorporated by reference in its entirety into this Part I, Item 2.

Item 4. Controls and Procedures

Disclosure Controls and Procedures

Disclosure controls and procedures are controls and other procedures that are designed to ensure that information required to be disclosed by us in the reports we post to our website or otherwise make available to our investors and creditors is recorded, processed, summarized, and reported within the time periods required by our indebtedness agreements and shareholders agreement.

Disclosure controls and procedures include, without limitation, controls and procedures designed to provide reasonable assurance that information required to be disclosed by us in the reports we post to our website or otherwise make available to our investors and creditors is accumulated and communicated to management, including the Chief Executive Officer and Chief Financial Officer, as appropriate, to allow timely decisions regarding required disclosure.

Management's Report on Internal Control over Financial Reporting

Our management is responsible for establishing and maintaining adequate internal control over financial reporting, as that term is defined in Rules 13a-15(f) and 15d-15(f) of the Exchange Act. Our internal control over financial reporting is a process designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles.

Because of its inherent limitations, internal control over financial reporting may not prevent or detect misstatements. Moreover, projections of any evaluation of effectiveness to future periods are subject to the inherent risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Management carried out an evaluation based on the Internal Control - Integrated Framework issued by the Committee of Sponsoring Organizations of the Treadway Commission, under the supervision and with the participation of our Chief Executive Officer and Chief Financial Officer, of the effectiveness of the design and operation of our internal control over financial reporting as of the end of the period covered by this Quarterly Report. Based on that evaluation, such officers have concluded that the design and operation of these internal control over financial reporting were not effective as of September 30, 2023 (as described below).

As previously reported in our Annual Report on Form 10-K for the year ended December 31, 2022, management identified a material weakness in internal control over financial reporting related to the prevention of unauthorized cash disbursements, which continues to exist as of September 30, 2023. Management has implemented new controls and continues its remediation efforts through designing and implementing additional effective controls and training of employees; however, there can be no assurance that additional material weaknesses will not arise in the future and any failure to remediate the material weakness, or the development of new material weaknesses in our internal control over financial reporting, could result in material misstatements in our financial statements and cause us to fail to meet our reporting and financial obligations in the future.

Changes in Internal Control over Financial Reporting

Except for the foregoing, there were no changes in our internal control over financial reporting during the quarter ended September 30, 2023 that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

PART II – OTHER INFORMATION

Item 1. Legal Proceedings

Information regarding the Company's legal proceedings is set forth in "*Note 8. Commitments and Contingencies*" of the "Notes to Unaudited Consolidated Financial Statements" in Part I, Item 1 of this Quarterly Report. The information discussed therein is incorporated by reference into this Part II, Item 1.

Item 5. Other Information

During the three-month period covered by this Quarterly Report, none of the Company's directors or executive officers adopted or terminated any contract, instruction or written plan for the purchase or sale of Company securities that was intended to satisfy the affirmative defense conditions of Rule 10b5-1(c) or any "non-Rule 10b5-1 trading arrangement" (as such term is defined in Item 408(a) of Regulation S-K).