Paragon Offshore Limited

Quarterly Report

For the period ended: September 30, 2017

The financial information contained in this report includes disclosures or adjustments in accordance with U. S. Generally Accepted Accounting Principles regarding material events that have occurred subsequent to September 30, 2017, and through the date of this report. The financial statements in this report are presented on an unaudited basis and remain subject to future adjustments.

Report date: December 8, 2017

PARAGON OFFSHORE LIMITED
For the Quarter Ended September 30, 2017

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GLOSSARY OF CERTAIN DEFINED TERMS

Term	Definition
Adjusted EBITDA	Net income (loss) before taxes plus interest expense, depreciation and amortization, losses on impairments, foreign currency losses, reorganization items, and other non-operating expenses less gains on the sale of assets, interest income and foreign currency gains
AOCL	Accumulated Other Comprehensive Loss
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Bankruptcy Code	United States Bankruptcy Code
Bankruptcy Court	United States Bankruptcy Court for the District of Delaware
Consensual Plan	Fifth amended plan of reorganization for the Debtors as filed with the Bankruptcy Court on May 2, 2017 which was confirmed on June 7, 2017 and which became effective on July 18, 2017 (as amended and supplemented)
Debt Facilities	The Predecessor's Revolving Credit Facility, Term Loan Facility and Senior Notes, collectively
Debtors	The Former Parent Company and the following subsidiaries: Paragon Offshore Finance Company, Paragon International Finance Company, Paragon Offshore Holdings US Inc., Paragon Offshore Drilling LLC, Paragon FDR Holdings Ltd., Paragon Duchess Ltd., Paragon Offshore (Luxembourg) S.à r.l., PGN Offshore Drilling (Malaysia) Sdn. Bhd., Paragon Offshore (Labuan) Pte. Ltd., Paragon Holding SCS 2 Ltd., Paragon Asset Company Ltd., Paragon Holding SCS 1 Ltd., Paragon Offshore Leasing (Luxembourg) S.à r.l., Paragon Drilling Services 7 LLC, Paragon Offshore Leasing (Switzerland) GmbH, Paragon Offshore do Brasil Ltda., Paragon Asset (ME) Ltd., Paragon Asset (UK) Ltd., Paragon Offshore International Ltd., Paragon Offshore (North Sea) Ltd., Paragon (Middle East) Limited, Paragon Holding NCS 2 S.à.r.l., Paragon Leonard Jones LLC, Paragon Offshore (Nederland) B.V., and Paragon Offshore Contracting GmbH
Distribution	The August 1, 2014 pro rata distribution by Noble to its shareholders of all the Predecessor's issued and outstanding ordinary shares. Noble shareholders received one ordinary share of the Predecessor for every three shares of Noble owned
Effective Date	July 18, 2017 and the date on which the Consensual Plan became effective and the Debtors emerged from the Paragon Bankruptcy cases
Exchange Act	United States Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
Former Parent Company	Paragon Offshore plc (in administration)
Joint Administrators	Two partners of Deloitte, LLP who, on May 23, 2017 were appointed by the English Court, pursuant to paragraph 13 of Schedule B1 to the Insolvency Act 1986 and following the May 17, 2017 filing of an administration application by the board of directors of the Predecessor, to be the joint administrators of the Former Parent Company.
Lessors	Subsidiaries of SinoEnergy Capital Management Ltd. who are parties to the Sale-Leaseback Transaction

LIBOR	London Interbank Offered Rate
New Term Loan Facility	The Successor's $85 million new senior first lien debt entered into on July 18, 2017 under the Amended and Restated Senior Secured Term Loan Agreement with the Secured Lenders with a maturity date on July 18, 2022
Noble	Noble Corporation plc
OPEC	Organization of Petroleum Exporting Countries
Paragon Bankruptcy cases	The chapter 11 cases commenced by the Debtors filing voluntary petitions for relief under chapter 11 of the Bankruptcy Code in the Bankruptcy Court on February 14, 2016
Petrobras	Petróleo Brasileiro S.A.
Predecessor	The Former Parent Company, together with its subsidiaries, prior to the Effective Date and predecessor of Paragon Offshore Limited and its subsidiaries
Prospector Bankruptcy cases	The chapter 11 cases commenced by the Prospector Debtors filing voluntary petitions for relief under chapter 11 of the Bankruptcy Code in the Bankruptcy Court on July 20, 2017
Prospector Debtors	The Former Parent Company, Prospector Offshore, Prospector Rig 1 Contracting Company S.à.r.l, and Prospector Rig 5 Contracting Company S.à.r.l
Prospector Group	Prospector Offshore and its direct and indirect subsidiaries
Prospector Offshore	Prospector Offshore Drilling S.à.r.l.
Revolving Credit Facility	The Predecessor's commitments in the amount of $800 million provided by a group of lenders on June 17, 2014 under a senior secured revolving credit agreement
Sale-Leaseback Transaction	Sale-leaseback agreements with subsidiaries of SinoEnergy Capital Management Ltd. for two high specification jackup units, *Prospector 1* and *Prospector 5,* entered into on July 24, 2015
SEC	United States Securities and Exchange Commission
Senior Notes	The Predecessor's 6.75% senior notes due in 2022 and 7.25% senior notes due in 2024, collectively
Spin-Off	The Predecessor's separation from Noble on August 1, 2014
Successor	Paragon Offshore Limited, together with its subsidiaries, on and subsequent to the Effective Date and successor of the Former Parent Company and its subsidiaries
Tax Sharing Agreement	Agreement entered into with Noble at Spin-Off which governs the parties' respective rights, responsibilities and obligations with respect to tax liabilities and benefits, tax attributes, the preparation and filing of tax returns, the control of audits and other tax proceedings and certain other matters regarding taxes following the Distribution
Term Loan Facility	The Predecessor's $650 million term loan debt entered into on June 18, 2014 under the senior secured term loan agreement
Total S.A.	Total E&P U.K. Limited and Elf Exploration U.K. Limited
U.K.	United Kingdom

U.S. GAAP	Accounting principles generally accepted in the United States
VIE	Variable interest entity

PART I. FINANCIAL INFORMATION

ITEM 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PARAGON OFFSHORE LIMITED
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Successor	Predecessor	
	July 18, 2017 to September 30, 2017	July 1, 2017 to July 18, 2017	Three Months Ended September 30, 2016
Operating revenues			
Contract drilling services	$ 29,130	$ 11,600	$ 116,674
Labor contract drilling services	—	—	4,517
Reimbursables and other	819	282	3,887
	29,949	11,882	125,078
Operating costs and expenses			
Contract drilling services	41,876	5,215	85,109
Labor contract drilling services	—	49	4,966
Reimbursables	556	180	2,778
Depreciation and amortization	10,523	5,793	50,270
General and administrative	6,017	1,471	11,464
	58,972	12,708	154,587
Operating loss before interest, reorganization items, income taxes and other	(29,023)	(826)	(29,509)
Interest expense, net	(1,366)	(3,688)	(18,446)
Other, net	210	731	2,804
Reorganization items, net	—	935,184	(17,211)
Other non-operating expenses	(3,072)	—	—
Earnings from equity method affiliate	2,605	—	—
Income (loss) before income taxes	(30,646)	931,401	(62,362)
Income tax benefit (provision)	(618)	4,442	(1,256)
Net income (loss)	$ (31,264)	$ 935,843	$ (63,618)
Earnings (loss) per share			
Basic and diluted	$ (6.25)	$ 10.43	$ (0.72)
Weighted-average shares outstanding			
Basic and diluted	5,000	89,011	87,876

See accompanying notes to the unaudited condensed consolidated financial statements.

PARAGON OFFSHORE LIMTED
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Successor	Predecessor	
	July 18, 2017 to September 30, 2017	January 1, 2017 to July 18, 2017	Nine Months Ended September 30, 2016
Operating revenues			
Contract drilling services	$ 29,130	$ 124,663	$ 516,182
Labor contract drilling services	—	—	16,750
Reimbursables and other	819	4,760	42,201
	29,949	129,423	575,133
Operating costs and expenses			
Contract drilling services	41,876	96,853	289,446
Labor contract drilling services	—	(566)	14,218
Reimbursables	556	3,296	35,870
Depreciation and amortization	10,523	66,860	181,732
General and administrative	6,017	17,312	33,459
Loss on impairments	—	391	—
(Gain) on sale of assets, net	—	(1,383)	—
	58,972	182,763	554,725
Operating income (loss) before interest, reorganization items, income taxes and other	(29,023)	(53,340)	20,408
Interest expense, net	(1,366)	(39,610)	(58,299)
Other, net	210	3,452	1,512
Reorganization items, net	—	895,931	(56,602)
Other non-operating expenses	(3,072)	—	—
Earnings from equity method affiliate	2,605	—	—
Income (loss) before income taxes	(30,646)	806,433	(92,981)
Income tax benefit (provision)	(618)	2,078	(956)
Net income (loss)	$ (31,264)	$ 808,511	$ (93,937)
Earnings (loss) per share			
Basic and diluted	$ (6.25)	$ 8.94	$ (1.08)
Weighted-average shares outstanding			
Basic and diluted	5,000	88,892	87,360

See accompanying notes to the unaudited condensed consolidated financial statements.

PARAGON OFFSHORE LIMITED
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)
(Unaudited)

	Successor	Predecessor	
	July 18, 2017 to September 30, 2017	July 1, 2017 to July 18, 2017	Three Months Ended September 30, 2016
Net income (loss)	$ (31,264)	$ 935,843	$ (63,618)
Other comprehensive income (loss), net of tax			
Foreign currency translation adjustments	—	1,169	(8,919)
Adjustments to pension plans	—	4	69
Total other comprehensive loss, net	—	1,173	(8,850)
Total comprehensive income (loss)	$ (31,264)	$ 937,016	$ (72,468)

	Successor	Predecessor	
	July 18, 2017 to September 30, 2017	January 1, 2017 to July 18, 2017	Nine Months Ended September 30, 2016
Net income (loss)	$ (31,264)	$ 808,511	$ (93,937)
Other comprehensive income (loss), net of tax			
Foreign currency translation adjustments	—	2,977	(768)
Adjustments to pension plans	—	(82)	455
Total other comprehensive loss, net	—	2,895	(313)
Total comprehensive income (loss)	$ (31,264)	$ 811,406	$ (94,250)

See accompanying notes to the unaudited condensed consolidated financial statements.

PARAGON OFFSHORE LIMITED
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands)

	Successor	Predecessor
	September 30, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 152,431	$ 883,794
Restricted cash	27,809	8,707
Accounts receivable, net of allowance for doubtful accounts (Note 3)	43,238	65,644
Due from Former Parent Company and Liquidating Subsidiaries	9,626	—
Prepaid and other current assets	28,658	69,380
Total current assets	261,762	1,027,525
Property and equipment, at cost	292,574	2,336,504
Accumulated depreciation	(10,355)	(1,523,732)
Property and equipment, net	282,219	812,772
Investment in equity method affiliate	152,626	—
Restricted cash	—	37,880
Other long-term assets	655	25,554
Total assets	$ 697,262	$ 1,903,731
LIABILITIES AND EQUITY		
Current liabilities		
Current maturities of long-term debt	$ —	$ 29,737
Accounts payable and accrued expenses	45,305	61,853
Accrued payroll and related costs	28,643	43,683
Taxes payable	6,373	33,248
Interest payable	1,380	497
Other current liabilities	4,845	21,548
Total current liabilities	86,546	190,566
Long-term debt	85,000	165,963
Deferred income taxes	—	6,282
Other liabilities	12,253	29,114
Liabilities subject to compromise	—	2,344,563
Total liabilities	183,799	2,736,488
Commitments and contingencies (Note 17)		
Equity		
Predecessor Ordinary shares, $0.01 par value, 186,457,393 shares authorized; with 88,438,804 issued and outstanding as of December 31, 2016	—	884
Predecessor additional paid-in capital	—	1,438,265
Successor Ordinary Shares, $0.001 par value, 15,000,000 share authorized; with 5,000,000 issued and outstanding as of September 30, 2017	5	—
Successor additional paid-in capital	544,722	—
Accumulated deficit	(31,264)	(2,233,248)
Accumulated other comprehensive loss	—	(38,658)
Total shareholders' equity (deficit)	513,463	(832,757)
Total liabilities and equity	$ 697,262	$ 1,903,731

See accompanying notes to the unaudited condensed consolidated financial statements.

PARAGON OFFSHORE LIMITED
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)
(In thousands)
(Unaudited)

		Ordinary Shares					
		Shares	Amount	Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Equity (Deficit)
Predecessor	**Balance as of December 31, 2015**	86,026	$ 860	$ 1,429,456	$ (1,894,892)	$ (42,014)	$ (506,590)
	Net loss	—	—	—	(93,937)	—	(93,937)
	Employee related equity activity:						
	Amortization of share-based compensation	—	—	7,066	—	—	7,066
	Vesting of restricted stock unit awards	1,869	19	(149)	—	—	(130)
	Other comprehensive income, net	—	—	—	—	(313)	(313)
Predecessor	**Balance as of September 30, 2016**	87,895	$ 879	$ 1,436,373	$ (1,988,829)	$ (42,327)	$ (593,904)
Predecessor	**Balance as of December 31, 2016**	88,439	$ 884	$ 1,438,265	$ (2,233,248)	$ (38,658)	$ (832,757)
	Net income	—	—	—	808,511	—	808,511
	Employee related equity activity:						
	Amortization of share-based compensation	—	—	2,981	—	—	2,981
	Vesting of restricted stock unit awards	572	6	(31)	—	—	(25)
	Other comprehensive income, net	—	—	—	—	2,895	2,895
	Elimination of Predecessor equity	(89,011)	$ (890)	(1,441,215)	1,424,737	35,763	18,395
Predecessor	**Balance as of July 18, 2017**	—	$ —	$ —	$ —	$ —	$ —
Successor	**Balance as of July 18, 2017**	—	$ —	$ —	$ —	$ —	$ —
	Issuance of Successor equity	5,000	5	544,722	—	—	544,727
	Net loss	—	—	—	(31,264)	—	(31,264)
Successor	**Balance as of September 30, 2017**	5,000	$ 5	$ 544,722	$ (31,264)	$ —	$ 513,463

See accompanying notes to the unaudited condensed consolidated financial statements.

PARAGON OFFSHORE LIMITED
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Successor	Predecessor	
	July 18, 2017 to September 30, 2017	January 1, 2017 to July 18, 2017	Nine Months Ended September 30, 2016
Cash flows from operating activities			
Net income (loss)	$ (31,264)	$ 808,511	$ (93,937)
Adjustments to reconcile net income (loss) to net cash from operating activities:			
Depreciation and amortization	10,523	66,860	181,732
Earnings from equity method affiliate	(2,605)	—	—
Loss on impairments	—	391	—
Deferred income taxes	—	(6,385)	5,208
Share-based compensation	—	1,348	7,973
Recoveries of doubtful accounts	—	—	(5,878)
Reorganization items and fresh start related adjustments, net	—	(895,931)	56,602
Gain on sale of assets, net	—	(1,383)	—
Other, net	—	1,231	1,255
Net change in other assets and liabilities (Note 18)	(4,541)	(65,713)	91,681
Net cash provided by (used in) operating activities	(27,887)	(91,071)	244,636
Cash flows from investing activities			
Capital expenditures	(4,759)	(5,413)	(36,201)
Change in accrued capital expenditures	(494)	(313)	(8,612)
Proceeds from sale of assets	2,425	2,800	—
Cash outflow related to deconsolidation of equity method affiliate	(22,294)	—	—
Cash outflow related to legal separation of Former Parent Company and its Liquidating Subsidiaries	—	(6,876)	—
Change in restricted cash	11,602	(41,595)	(34,266)
Net cash used in investing activities	(13,520)	(51,397)	(79,079)
Cash flows from financing activities			
Repayments on Sale-Leaseback Financing	—	(32,463)	(59,165)
Payment of Secured Lender claims	—	(410,000)	—
Payment of Bondholders' claims	—	(105,000)	—
Tax withholding on restricted stock units	—	(25)	—
Net cash used in financing activities	—	(547,488)	(59,165)
Net change in cash and cash equivalents	(41,407)	(689,956)	106,392
Cash and cash equivalents, beginning of period	193,838	883,794	773,571
Cash and cash equivalents, end of period	$ 152,431	$ 193,838	$ 879,963

Supplemental information for non-cash activities (Note 18)

See accompanying notes to the unaudited condensed consolidated financial statements.

NOTE 1—ORGANIZATION, CURRENT EVENTS, AND BASIS OF PRESENTATION

Paragon Offshore plc (in administration), (the "Former Parent Company"), (together with its subsidiaries) is the "Predecessor" of Paragon Offshore Limited (together with its subsidiaries, the "Successor"), a leading provider of standard specification offshore drilling services. Reference to "we," "us" or "our" throughout the document is intended to mean the contract drilling operations and business conducted by both the Predecessor and Successor companies.

The Predecessor is a public limited company registered under the Companies Act 2006 of England. In July 2014, Noble Corporation plc ("Noble") transferred to the Predecessor the assets and liabilities (the "Separation") constituting most of Noble's standard specification drilling units and related assets, liabilities and business. On August 1, 2014, Noble made a pro rata distribution to its shareholders of all of the Predecessor's issued and outstanding ordinary shares (the "Distribution" and, collectively with the Separation, the "Spin-Off").

The Successor is an exempted company limited by shares incorporated under the laws of the Cayman Islands.

On July 18, 2017 (the "Effective Date"), the Successor acquired substantially all of the Predecessor's assets pursuant to the Consensual Plan which became effective and was confirmed by the Bankruptcy Court on June 7, 2017 (as defined and described below). In connection with the Paragon Bankruptcy cases and the Consensual Plan, on and prior to the Effective Date, the Predecessor and certain of its subsidiaries effectuated certain restructuring transactions, pursuant to which the Predecessor formed Paragon Offshore Limited, as a wholly-owned subsidiary of the Predecessor. On the Effective Date, the Predecessor transferred to Paragon Offshore Limited certain direct and indirect subsidiaries and certain other assets of the Predecessor (excluding Prospector Offshore Drilling S.à r.l. ("Prospector Offshore") and its direct and indirect subsidiaries (collectively, the "Prospector Group")). In accordance with the Consensual Plan, the Former Parent Company and certain remaining subsidiaries (excluding the Prospector Group) (the "Liquidating Subsidiaries") will, in due course, be wound down and dissolved by the Joint Administrators in accordance with applicable law. The Successor will constitute the ongoing operational business after the Effective Date.

On July 20, 2017, the Former Parent Company, Prospector Offshore, Prospector Rig 1 Contracting Company S.à r.l., and Prospector Rig 5 Contracting Company S.à r.l. (collectively, the "Prospector Debtors") commenced their chapter 11 cases (the "Prospector Bankruptcy cases") by filing voluntary petitions for relief under chapter 11 of the Bankruptcy Code in the Bankruptcy Court. As described below and in Note 6, the Prospector Group is recorded as an equity method affiliate of the Successor subsequent to the Prospector Debtors' voluntarily filing for reorganization on July 20, 2017.

Our primary business is contracting our rigs, related equipment and work crews to conduct oil and gas drilling and workover operations for exploration and production customers on a dayrate basis around the world. We currently operate in significant hydrocarbon-producing geographies throughout the world, including the North Sea, the Middle East and India. Our fleet includes 31 jackups and one semisubmersible. This includes the Prospector Group's two high specification heavy duty/harsh environment jackups. As of September 30, 2017, our contract backlog was $186 million and includes contracts with national, international and independent oil and gas companies. Our contract backlog as of September 30, 2017 includes the Prospector Group's backlog of $27 million.

Paragon Offshore plc (in administration) Chapter 11 Filing

On February 14, 2016 (the "Petition date"), Paragon Offshore plc (in administration) and its Debtors commenced their chapter 11 cases (the "Paragon Bankruptcy cases") by filing voluntary petitions for relief under chapter 11 of the Bankruptcy Code in the Bankruptcy Court. During the bankruptcy proceedings, the Debtors operated their business as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court.

On May 2, 2017, as a result of a successful court-ordered mediation process with representatives of the lenders under the Revolving Credit Facility and the Term Loan Facility (collectively, the "Secured Lenders") and the holders of the Senior Notes (the "Bondholders"), the Predecessor filed its' fifth amended plan of reorganization for the Debtors (the "Consensual Plan") with the Bankruptcy Court.

On May 17, 2017, the board of directors of the Predecessor filed an administration application with the High Court of Justice, Chancery Division, Companies Court of England and Wales (the "English Court") for the appointment of two partners

of Deloitte LLP, as joint administrators of the Former Parent Company, and on May 23, 2017, the English Court granted an order, pursuant to paragraph 13 of Schedule B1 to the Insolvency Act 1986 appointing these partners as joint administrators (the "Joint Administrators") of the Former Parent Company. The power to manage the affairs, business and property of the Former Parent Company and the Liquidating Subsidiaries is vested in the Joint Administrators. The appointment of the Joint Administrators was a necessary component of the Consensual Plan.

On June 7, 2017, the Bankruptcy Court entered an order (the "Confirmation Order") confirming the Consensual Plan.

On July 18, 2017 (the Effective Date), the Consensual Plan became effective pursuant to its terms and the Debtors emerged from the Bankruptcy Cases.

On the Effective Date, the following events occurred in connection with the effectiveness of the Consensual Plan:

- All outstanding obligations under the Senior Notes and the indenture governing such obligations were cancelled and discharged, and the Predecessor and certain of its subsidiaries were released from their respective obligations under the Revolving Credit Facility and the Term Loan Facility.

- The Predecessor, Successor, certain of the reorganized Debtors and the Joint Administrators entered into a Litigation Trust Agreement (the "Litigation Trust Agreement") with Drivetrain, LLC, as Litigation Trust Management, and certain members of a litigation trust committee, pursuant to which a trust (the "Litigation Trust") was established for the benefit of certain holders of allowed claims under the Consensual Plan. Pursuant to the Consensual Plan and the Confirmation Order, the Predecessor and the reorganized Debtors transferred to the Litigation Trust certain claims against Noble relating to the Predecessor's separation from Noble (the "Noble Claims"). In addition, Noble may assert damages against the Predecessor for indemnification amounts that would have been owed to Noble pursuant to the Noble Separation Agreements (as defined in Note 17, *"Commitments and Contingencies"*). Pursuant to the terms of the Litigation Trust Agreement, a subsidiary of the Successor agreed to provide the Litigation Trust with an interest-free delayed draw term loan of up to $10 million in cash to fund the reasonable costs and expenses associated with the administration of the Litigation Trust (the "Litigation Trust Term Loan"). The Litigation Trust may prosecute the Noble Claims and conduct such other action as described in and authorized by the Consensual Plan, make timely and appropriate distributions to the beneficiaries of the Litigation Trust and otherwise carry out the provisions of the Litigation Trust Agreement. None of the Predecessor, Successor or any of the reorganized Debtors is a beneficiary to the Litigation Trust.

- The Predecessor issued a distribution, pro rata, to each of the Secured Lenders (the "Secured Lender Distribution") and to each of the Bondholders (the "Bondholder Distribution"). The Secured Lender Distribution consisted of: (i) approximately $410 million in cash, (ii) allocation of new senior first lien debt in the original aggregate principal amount of $85 million maturing in 2022, (iii) 50% of the equity of the Successor, (iv) 50% of certain Class A interests in the Litigation Trust, which are entitled to a preferential right of recovery from the first $10 million of assets of the Litigation Trust (after giving effect to the repayment of the Litigation Trust Loan) (the "Class A Litigation Trust Interests") and (v) 25% of certain Class B interests in the Litigation Trust, which are entitled to distribution of the remaining assets of the Litigation Trust (the "Class B Litigation Trust Interests"). The Bondholder Distribution consisted of: (i) approximately $105 million in cash, (ii) 50% of the equity of the Successor, (iii) 50% of the Class A Litigation Trust Interests, (iv) 75% of the Class B Litigation Trust Interests, (v) payment of certain Bondholders' professionals' fees and expenses and (vi) payment of up to $850,000 of reasonable and documented fees and expenses of the indentured trustee for the Bondholders.

- The Prospector Group was not transferred from the Predecessor to the Successor on the Effective Date; however, it will not be wound down and dissolved by the Joint Administrators. As such, the Prospector Group is intended to constitute our ongoing operational business after the Effective Date. Therefore, on the Effective Date, the Successor, Predecessor, and the Joint Administrators entered into a management agreement (the "Management Agreement"), pursuant to which the Successor has the economic benefit of and operational control over the Prospector Group subject to certain restrictions on the existing share pledges over Prospector Offshore. In addition, the Successor agreed to continue to procure the provision of management services to the Prospector Group while the Prospector Group remains held by the Predecessor. Further, pursuant to the Management Agreement, the Predecessor undertook to transfer the Prospector Group to the Successor at such time as the Successor obtains the consents required by the Sale-Leaseback Transaction to such transfer or such consent is no longer required (as described below). Because the Management Agreement grants the Successor control over the Prospector Group, under the variable interest entity ("VIE") accounting guidance, the Successor continued to consolidate the Prospector Group in its consolidated financial statements on the Effective Date.

- The Predecessor deregistered under the Exchange Act and suspended its SEC reporting obligations. The Predecessor's shares were not cancelled on the Effective Date. These shares do not represent the equity of the Successor nor any right to receive any equity or other interest in (or property of) the Successor as the Predecessor and Successor are two separate and distinct entities. As of the date of this report, the shares of the Successor are not traded on any market.

Following the Effective Date, the Predecessor holds approximately $11 million of cash on trust to discharge the fees, expenses and disbursements of the administration of the Predecessor, including the fees and expenses of the Joint Administrators, and the wind down of the Former Parent Company and its Liquidating Subsidiaries, excluding the Prospector Group.

Prospector Chapter 11 Filing

The Prospector Group has an interest in two high specification jackup units, *Prospector 1* and *Prospector 5* (collectively, the "Prospector Rigs") pursuant to two sale-leaseback agreements executed with subsidiaries of SinoEnergy Capital Management Ltd. (the "Lessors"). In connection with the sale-leaseback agreements, the Predecessor's shares in Prospector Offshore (the "Prospector Shares") are pledged in favor of the Lessors. In order to transfer the Prospector Group to the Successor as contemplated by the Consensual Plan, the Successor must obtain a consent to the transfer from the Lessors. We have been in negotiations with the Lessors since May 2017 with respect to the transfer, but have not yet been able to reach a mutually agreeable solution.

On July 20, 2017, the Prospector Debtors commenced the Prospector Bankruptcy cases by filing voluntary petitions for relief under chapter 11 of the Bankruptcy Code in the Bankruptcy Court in order to implement a restructuring plan to effectuate the transfer of the Prospector Group to the Successor.

During these proceedings, the Prospector Rigs have continued to be operated by the Successor under the Management Agreement without any impact to customers, suppliers, or employees. The Prospector Debtors will continue to operate their business as "debtors-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provisions of the Bankruptcy Code. In accordance with U.S. GAAP and as described in Note 6, the Prospector Group is recorded as an equity method affiliate of the Successor subsequent to the Prospector Debtors' voluntarily filing for reorganization on July 20, 2017.

The Prospector Debtors and the Lessors have continued to engage in extensive, arms-length negotiations regarding consent to the transfer and a permanent waiver of any associated events of default under the sale-leaseback agreements. Currently, the Prospector Debtors are pursuing financing options in order to fund the Prospector Debtors' obligations under the sale-leaseback agreements and they continue to seek a consensual settlement with the Lessors. However, no consensual settlement has been reached as of November 30, 2017.

Going Concern

The accompanying consolidated financial statements have been prepared assuming that we will continue as a going concern and contemplate the realization of assets and the satisfaction of liabilities in the normal course of business. Given the importance of the Prospector Debtors to our on-going business, the chapter 11 proceedings by the Prospector Debtors represent a material uncertainty related to events and conditions that raises substantial doubt on our ability to continue as a going concern. The outcome of the Prospector chapter 11 proceedings could materially change the amounts and classifications of assets and liabilities reported in the consolidated financial statements. The accompanying consolidated financial statements do not include any adjustments related to the recoverability and classification of assets or the amounts and classification of liabilities or any other adjustments that might be necessary should we be unable to continue as a going concern.

NOTE 2—NEW ACCOUNTING PRONOUNCEMENTS

In May 2014, the FASB issued ASU No. 2014-09 ("ASU 2014-09"), which creates ASC Topic 606, *Revenue from Contracts with Customers* and supersedes the revenue recognition requirements in Topic 605 and industry-specific standards that currently exist under U.S. GAAP. The amendments in this ASU are intended to provide a more robust framework for addressing revenue issues, improve comparability of revenue recognition practices and improve disclosure requirements. This ASU can be adopted either retrospectively or as a cumulative-effect adjustment as of the date of adoption. In March, April, May and November 2016, the FASB issued ASU No. 2016-08, *Revenue from Contracts with Customers (Topic 606): Principal versus Agent Considerations (Reporting Revenue Gross versus Net)*, ASU No. 2016-10, *Revenue from Contracts with Customers (Topic 606): Identifying Performance Obligations and Licensing*, ASU No. 2016-12, *Revenue from Contracts with Customers (Topic 606): Narrow Scope Improvements and Practical Expedients,* and ASU 2016-20, *Technical Corrections and Improvements to Topic 606, Revenue from Contracts with Customers*, respectively. These updates clarify important aspects of the guidance and improve its operability and implementation. ASC Topic 606 is effective for private company financial statements issued for annual reporting periods beginning after December 15, 2018, and interim periods within annual reporting periods beginning after December 15, 2019. We are evaluating the provisions of ASU 2014-09, concurrently with the provisions of ASU 2016-02 (defined below) since we have determined that our drilling contracts contain a lease component, and our adoption of ASU 2016-02, therefore, will require that we separately recognize revenues associated with lease and nonlease components. Nonlease components or the provision of contract drilling services will be accounted for under ASU 2014-09. We are in the process of reviewing our revenue streams under these ASUs and have identified a subset of contracts that we believe are representative of our operations and have initiated an analysis of the related performance obligations and pricing arrangements in such contracts. We are still evaluating methods of adoption and what impact the adoption of this guidance will have on our financial condition, results of operations, cash flows or financial disclosures which will be based on contract-specific facts and circumstances that could introduce variability to the timing of our revenue recognition relative to current accounting standards.

In February 2016, the FASB issued ASU No. 2016-02, which creates ASC Topic 842, *Leases (*"ASU 2016-02"). This ASU requires an entity to separate lease components from nonlease components in a contract. The lease components would be accounted for under ASU 2016-02, which requires lessees to recognize a right-of-use asset and a lease liability for capital and operating leases with lease terms greater than twelve months. Lessors must align certain requirements with the updates to lessee accounting standards and potentially derecognize a leased asset and recognize a net investment in the lease. This ASU also requires key qualitative and quantitative disclosures by lessees and lessors to help users of financial statements better understand the amount, timing and uncertainty of cash flows arising from leases. This update is effective for private company financial statements issued for annual reporting periods beginning after December 15, 2019, and interim reporting periods within fiscal years beginning after December 15, 2020. A modified retrospective approach is required. Under this ASU, we have determined that our drilling contracts contain a lease component, and our adoption, therefore, will require that we separately recognize revenues associated with the lease and service components. We are evaluating the provisions of ASU 2016-02, concurrently with the provisions of ASU 2014-09 and expect to adopt both updates concurrently in 2019. We are still evaluating what impact the adoption of this guidance will have on our financial condition, results of operations, cash flows or financial disclosures.

In June 2016, the FASB issued ASU No. 2016-13, which creates ASC Topic 326, *Financial Instruments - Credit Losses*. The new guidance introduces new accounting models for expected credit losses on financial instruments and applies to: (1) loans, accounts receivable, trade receivables and other financial assets measured at amortized cost, (2) loan commitments and certain other off-balance sheet credit exposures, (3) debt securities and other financial assets measured at fair value through other comprehensive income, and (4) beneficial interests in securitized financial assets. The scope of the new guidance is broad and is designed to improve the current accounting models for the impairment of financial assets. The guidance is effective for private company financial statements issued for annual reporting periods beginning after December 15, 2020, and interim periods within that reporting period. Early adoption is permitted for annual reporting periods beginning after December 15, 2018, and interim periods within that reporting period. A modified retrospective approach is required. We are evaluating what impact the adoption of this guidance will have on our financial condition, results of operations, cash flows or financial disclosures.

In August 2016 the FASB issued ASU No. 2016-15, *Statement of Cash Flows (Topic 230): Classification of Certain Cash Receipts and Cash Payments*, a consensus of the FASB's Emerging Issues Task Force. The new guidance is intended to reduce diversity in practice in how certain transactions are classified in the statement of cash flows. The ASU addresses how the following cash transactions are presented: (1) debt prepayment or debt extinguishment costs; (2) settlement of zero-coupon debt instruments; (3) contingent consideration payments made after a business combination; (4) proceeds from the settlement of insurance claims; (5) proceeds from the settlement of corporate-owned life insurance policies; (6) distributions received from equity method investments; and (7) beneficial interests in securitization transactions. The ASU also addresses how to present cash receipts and cash payments that have aspects of multiple cash flow classifications. The guidance is effective for private company financial statements issued for annual reporting periods beginning after December 15, 2018, and interim periods within

annual periods beginning after December 15, 2019. Early adoption is permitted provided that all of the amendments are adopted in the same period. The guidance requires application using a retrospective transition method. We do not expect that our adoption will have a material impact on our cash flows or financial disclosures.

In October 2016 the FASB issued ASU No. 2016-16, *Income Taxes (Topic 740): Intra-Entity Transfers of Assets Other Than Inventory*. This ASU requires an entity to recognize the income tax consequences of an intra-entity transfer of an asset other than inventory when the transfer occurs. Consequently, the amendments in this ASU eliminate the exception for an intra-entity transfer of an asset other than inventory. The guidance is effective for private company financial statements issued for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted for all entities as of the beginning of an annual reporting period for which financial statements (interim or annual) have not been made available for issuance. This ASU should be applied on a modified retrospective basis through a cumulative-effect adjustment directly to retained earnings as of the beginning of the period of adoption. The Predecessor early adopted this guidance on a modified retrospective basis for the quarter ended March 31, 2017, and it had no impact on prior periods as reported in our financial statements.

In November 2016, the FASB issued ASU No. 2016-18, *Statement of Cash Flows (Topic 230): Restricted Cash*. This ASU requires that a statement of cash flows explain the change during the period in the total of cash, cash equivalents, and restricted cash. The new guidance is intended to reduce diversity in practice on the presentation of restricted cash in the statement of cash flows. The guidance is effective for private company financial statements issued for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. Early adoption is permitted, including adoption in an interim period. This ASU should be applied using a retrospective transition method to each period presented. We are evaluating what impact the adoption of this guidance will have on our financial condition, results of operations, cash flows or financial disclosures.

In January 2017 the FASB issued ASU No. 2017-01, *Business Combinations (Topic 805): Clarifying the Definition of a Business*. The amendments in this update provide a more robust framework to use in determining when a set of assets and activities is a business. The objective of this ASU is to add guidance that will assist entities in evaluating whether transactions should be accounted for as acquisitions (or disposals) of assets or businesses and may affect many areas of accounting including acquisitions, disposals, goodwill and consolidations. The guidance is effective for private company financial statements issued for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The amendments in this update should be applied prospectively on or after the effective date. No disclosures are required at transition. We do not expect that our adoption will have a material impact on our financial condition, results of operations, cash flows or financial disclosures and the impact will be based on whether it is necessary for us to determine if we have acquired or sold a business in any period after the effective date.

In February 2017, the FASB issued ASU No. 2017-05, O*ther Income - Gains and Losses from the Derecognition of Nonfinancial Assets (Subtopic 610-20): Clarifying the Scope of Asset Derecognition Guidance and Accounting for Partial Sales of Nonfinancial Assets* which will be effective at the same time as ASC Topic 606. ASU No. 2017-05 clarifies the scope, definition and accounting of a financial asset that meets the definition of an "in-substance nonfinancial asset" and adds guidance for partial sales of nonfinancial assets. We are evaluating what impact the adoption of this guidance will have on our financial condition, results of operations, cash flows or financial disclosures.

In March 2017 the FASB issued ASU No. 2017-07, *Compensation - Retirement Benefits (Topic 715): Improving the Presentation of Net Periodic Pension Cost and Net Periodic Postretirement Benefit Cost*. The amendments in this update require that an employer disaggregate the service cost component from the other components of net benefit cost and provide guidance on how to present the service cost component and the other components of net benefit cost in the income statement. The guidance is effective for private company financial statements issued for annual reporting periods beginning after December 15, 2018, and interim periods within annual periods beginning after December 15, 2019. The amendment for the service cost component and the other components of net periodic pension cost and net periodic postretirement benefit cost should be applied retrospectively. We do not expect that our adoption will have a material impact on our financial condition, results of operations, cash flows or financial disclosures.

NOTE 3— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Consolidation and Unaudited Interim Information

We consolidate entities in which we have a majority voting interest and entities that meet the criteria for variable interest entities for which we are deemed to be the primary beneficiary for accounting purposes, except for certain subsidiaries that were deconsolidated on July 20, 2017 as a result of their voluntary filing for relief under chapter 11 of the Bankruptcy Code in the Bankruptcy Court. Accordingly, we apply the equity method of accounting for an investment in an entity if we have the ability to exercise significant influence over an entity that meets the variable interest entity criteria, but for which we are not deemed to be the primary beneficiary. A primary beneficiary requires both the power to direct the activities of a VIE that most significantly impact the VIE's economic performance and the obligation to absorb losses and the right to receive benefits from the VIE that potentially could be significant to the VIE. In accordance with U.S. GAAP, when a subsidiary whose financial statements were previously consolidated becomes subject to the control of a government, court, administrator or regulator (including filing for protection under the Bankruptcy Code), whether solvent or insolvent, deconsolidation of that subsidiary is generally required.

We eliminate intercompany transactions and accounts in consolidation, except for certain subsidiaries that were deconsolidated on July 20, 2017 as they are considered affiliates.

The interim condensed consolidated financial statements of the Predecessor and the Successor are unaudited. However, they include all adjustments of a normal recurring nature that, in the opinion of management, are necessary for a fair statement of our consolidated financial position as of September 30, 2017 and the results of operations and cash flows for the Successor period from July 18, 2017 to September 30, 2017 and for the Predecessor periods from July 1, 2017 to July 18, 2017, January 1, 2017 to July 18, 2017 and three and nine months ended September 30, 2016. The results of operations and cash flows for the period from January 1, 2017 to July 18, 2017 are attributable to the Predecessor and were recorded in the Predecessor Condensed Consolidated Statements of Operations and Cash Flows.

The 2016 year-end balance sheet data was derived from audited financial statements of the Predecessor. This interim report does not include all disclosures required by U.S. GAAP for annual periods and should be read in conjunction with the Annual Report on Form 10-K of the Predecessor for the year ended December 31, 2016. The interim financial results may not be indicative of the results to be expected for the full year. Certain amounts in prior periods have been reclassified to conform to the current year presentation.

Reorganization and Fresh-Start Accounting

In connection with filing chapter 11 of the Bankruptcy Code on February 14, 2016, we are subject to the requirements of FASB ASC 852, *Reorganizations* ("ASC 852"). ASC 852 is applicable to companies under bankruptcy protection and requires amendments to the presentation of key financial statement line items. ASC 852 generally does not change the manner in which financial statements are prepared. However, it does require that the financial statements for periods subsequent to the filing of the Paragon Bankruptcy cases distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business.

Revenues, expenses, realized gains and losses, and provisions for losses that can be directly associated with the reorganization of the business and bankruptcy proceedings must be reported separately as reorganization items in the consolidated statements of operations. The balance sheets as of the Petition date and just prior to emergence from bankruptcy, must distinguish pre-petition liabilities subject to compromise from both those pre-petition liabilities that are not subject to compromise and from post-petition liabilities. Liabilities subject to compromise are pre-petition obligations that are not fully secured and that have at least a possibility of not being repaid at the full claim amount by the plan of reorganization. Liabilities subject to compromise must be reported at the amounts expected to be allowed by the Bankruptcy Court, even if they may be settled for lesser amounts as a result of the plan of reorganization.

Upon emergence from bankruptcy on the Effective Date, we adopted fresh-start accounting in accordance with ASC 852, which resulted in the Predecessor becoming a new Successor entity for financial reporting purposes. We qualified for fresh-start accounting because (1) the reorganization value of our assets immediately prior to confirmation was less than the post-petition liabilities and allowed claims and (ii) the holders of existing voting shares of the Predecessor received less than 50% of the voting shares of the post-emergence Successor entity.

Upon adoption of fresh-start accounting, our assets and liabilities were recorded at their fair values as of the Effective Date. The Effective Date fair values of our assets and liabilities differed materially from the recorded values of our assets and liabilities as reflected in our historical consolidated balance sheets. The effects of the Consensual Plan and the application of

fresh-start accounting were reflected in our consolidated balance sheet as of the Effective Date and the related adjustments thereto were recorded in the Predecessor's consolidated statements of operations as reorganization items for the period from January 1 to July 18, 2017.

The Successor's consolidated balance sheets and consolidated statement of operations subsequent to July 18, 2017 are not comparable to the Predecessor's consolidated balance sheets and statement of operations prior to the Effective Date. As a result, our consolidated financial statements and related notes are presented with a black line division which delineates the lack of comparability between the amounts presented on or after July 18, 2017 and dates prior. Our financial results for future periods following the application of fresh-start accounting are different from historical trends and differences may be material.

Revenue Recognition

Our typical dayrate drilling contracts require our performance of a variety of services for a specified period of time. We determine progress towards completion of the contract by measuring efforts expended and the cost of services required to perform under a drilling contract, as the basis for our revenue recognition. Revenues generated from our dayrate basis drilling contracts and labor contracts are recognized on a per day basis as services are performed and begin upon the contract commencement, as defined under the specified drilling or labor contract. Dayrate revenues are typically earned, and contract drilling expenses are typically incurred ratably over the term of our drilling contracts. We review and monitor our performance under our drilling contracts to confirm the basis for our revenue recognition. Revenues from bonuses are recognized when earned.

It is typical in our dayrate drilling contracts to receive compensation and incur costs for mobilization, equipment modification, or other activities prior to the commencement of the contract. Any such compensation may be paid through a lump-sum payment or other daily compensation. Pre-contract compensation and costs are deferred until the contract commences. The deferred pre-contract compensation and costs are amortized, using the straight-line method, into income over the term of the initial contract period, regardless of the activity taking place. This approach is consistent with the economics for which the parties have contracted. Once a contract commences, we may conduct various activities, including drilling and well bore related activities, rig maintenance and equipment installation, movement between well locations or other activities.

Deferred revenues from drilling contracts totaled $2.1 million as of December 31, 2016. Such amounts are included in either "Other current liabilities" or "Other liabilities" in our Condensed Consolidated Balance Sheet as of December 31, 2016, based upon the expected time of recognition of such deferred revenues. In connection with our adoption of fresh-start accounting upon emergence from bankruptcy on July 18, 2017, a gain of approximately $1.3 million was recorded to write-off deferred mobilization revenues. Deferred costs associated with deferred revenues from drilling contracts totaled $3 million as of December 31, 2016. Such amounts are included in either "Prepaid and other current assets" or "Other assets" in our Condensed Consolidated Balance Sheets as of December 31, 2016, based upon the expected time of recognition of such deferred costs. In connection with our adoption of fresh-start accounting upon emergence from bankruptcy on July 18, 2017, a loss of approximately $1.5 million was recorded to write-off the balance of deferred mobilization costs.

We record reimbursements from customers for "out-of-pocket" expenses as revenues and the related direct cost as operating expenses.

Cash and Cash Equivalents and Restricted Cash

We consider all highly liquid investments with maturities of three months or less to be cash equivalents. The following table reflects the short-term and long-term restricted cash balances included in our Condensed Consolidated Balance Sheets as of September 30, 2017 and December 31, 2016.

	Successor		Predecessor	
(In thousands)	September 30, 2017		December 31, 2016	
Capital expenditure reserve for Sale-Leaseback Transaction [(1)]	$	—	$	3,003
Operating reserve for Sale-Leaseback Transaction [(1)]		—		5,204
Escrow restricted for the future payment of bankruptcy professional fee claims and general unsecured creditor claims		27,309		—
Other		500		500
Total short-term restricted cash	**$**	**27,809**	**$**	**8,707**
Rental reserve for Sale-Leaseback Transaction [(2)]		—		28,617
Outstanding performance bond		—		9,263
Total long-term restricted cash	**$**	**—**	**$**	**37,880**

(1) Our short-term restricted cash balance as of September 30, 2017 does not include $7 million related to the restricted cash balance of the deconsolidated Prospector Group held to satisfy the capital expenditure and operating reserve requirements of our Sale-Leaseback Transaction. See Note 6 - "Investment in Equity Method Affiliate."

(2) Our long-term restricted cash balance as of September 30, 2017 does not include $33 million related to the restricted cash balance of the deconsolidated Prospector Group held to satisfy the rental reserve requirements of our Sale-Leaseback Transaction. See Note 6 - "Investment in Equity Method Affiliate."

Allowance for Doubtful Accounts

We utilize the specific identification method for establishing and maintaining allowances for doubtful accounts. We review accounts receivable on a quarterly basis to determine the reasonableness of the allowance. We monitor the accounts receivable from our customers for any collectability issues. An allowance for doubtful accounts is established based on reviews of individual customer accounts, recent loss experience, current economic conditions, and other pertinent factors.

In connection with our adoption of fresh-start accounting upon emergence from bankruptcy, the carrying value of our trade receivables was adjusted to fair value, eliminating the Successor's allowance for doubtful accounts as of July 18, 2017. We had no allowance for doubtful accounts as of September 30, 2017. Our allowance for doubtful accounts was $25 million as of December 31, 2016. Our Predecessor and Successor had an immaterial amount of bad debt expense and no recoveries for the combined three and nine months ended September 30, 2017, respectively. Our Predecessor had no recoveries and $6 million of bad debt expense for the three and nine months ended September 30, 2016. Bad debt expense and recoveries are reported as a component of "Contract drilling services operating costs and expenses" in our Condensed Consolidated Statements of Operations.

Long-lived Assets and Impairments

Property and equipment were recorded at fair value upon adoption of fresh-start accounting. Subsequent purchases of major replacements and improvements have been recorded at cost.

When assets are sold, retired or otherwise disposed of, the cost and related accumulated depreciation are eliminated from the accounts and a gain or loss is recognized. Property and equipment are depreciated using the straight-line method over their estimated useful lives as of the date placed in service or date of major refurbishment.

Scheduled maintenance of equipment is performed based on the number of hours operated in accordance with our preventative maintenance program. Routine repair and maintenance costs are charged to expense as incurred.

The estimated useful lives of our property and equipment are as follows:

	Years
Drilling rigs	7 - 30
Drilling machinery and equipment	3 - 5
Other	3 - 10

The amount of depreciation expense we record is dependent upon certain assumptions, including an asset's estimated useful life, rate of consumption and corresponding salvage value. We periodically review these assumptions and may change one or more of these assumptions. Changes in our assumptions may require us to recognize, on a prospective basis, increased or decreased depreciation expense. In connection with the adoption of fresh-start accounting, the useful lives for drilling rigs and equipment were reset based on fair value assumptions and standardization of rig components. The new useful lives of the drilling rig components range between 3 and 30 years.

We evaluate the impairment of long-lived assets whenever events or changes in circumstances indicate that the carrying amount of an asset may not be recoverable. For assets classified as held and used, we determine recoverability by evaluating the estimated undiscounted future net cash flows based on projected dayrates and utilization. An impairment loss on our long-lived assets exists when the estimated undiscounted cash flows expected to result from the use of the asset and its eventual disposition is less than its carrying amount. For property and equipment whose carrying values are determined not to be recoverable, we calculate an impairment loss as a difference between the fair value and carrying amount. We estimate the fair values by applying either an income approach, using projected discounted cash flows, or a market approach. Estimates of discounted future cash flows typically include (i) discrete financial forecasts, which rely on management's estimates of revenue and operating expenses, (ii) long-term growth rates, and (iii) estimates of useful lives of the assets. Such estimates of future discounted cash flows are highly subjective and are based on numerous assumptions about future operations and market conditions. In a market approach, the fair value would be based on unobservable third-party estimated prices that would be received in exchange for the assets in an orderly transaction between market participants.

NOTE 4 — FRESH-START ACCOUNTING

Upon emergence from bankruptcy on the Effective Date, we adopted fresh-start accounting in accordance with ASC 852, which requires the Successor to allocate its reorganization value to the fair value of assets in conformity with the guidance for the acquisition method of accounting for business combinations.

Reorganization Value

Reorganization value represents the fair value of the Successor's total assets and is intended to approximate the amount a willing buyer would pay for the assets immediately before restructuring.

Enterprise value represents the estimated fair value of an entity's interest-bearing debt and shareholders' equity after adjustment for certain cash items. As part of the Consensual Plan and prior to the Effective Date, an independent financial advisor estimated a range of enterprise values of approximately $550 million and $675 million, with a midpoint of $612.5 million. As discussed below, on the Effective Date, using numerous projections and assumptions, we estimated an enterprise value of $555 million which was within the range provided by the independent financial advisor and approved by the Bankruptcy Court.

The following table reconciles the enterprise value to the estimated fair value of the Successor's ordinary shares issued as of the Emergence date.

(In thousands)		
Enterprise value	**$**	**555,360**
Plus: Cash and cash equivalents		193,838
Plus: Prospector Group long-term restricted cash		32,286
Less: Fair value of new senior first lien debt issued to the Secured Lenders		(85,000)
Less: Fair value of Sale-Leaseback Transaction		(151,757)
Fair value of Successor ordinary shares issued upon emergence	**$**	**544,727**

A reconciliation of the reorganization value is provided in the table below. The estimated enterprise value, after adding cash (including long-term restricted cash) plus the estimated fair values of all the Successor's non-debt liabilities, is intended to approximate the reorganization value.

(In thousands)		
Enterprise value	**$**	**555,360**
Plus: Cash and cash equivalents		193,838
Plus: Prospector Group long-term restricted cash		32,286
Plus: Current liabilities		108,918
Plus: Other liabilities		13,022
Reorganization value of Successor assets	**$**	**903,424**

Reorganization value and enterprise value were estimated using numerous projections and assumptions that are inherently subject to significant uncertainties and resolution of contingencies that are beyond our control. Accordingly, those estimates are not necessarily indicative of actual outcomes, and there can be no assurance that the estimates, projections or assumptions will be realized.

In order to estimate the enterprise value of the Successor, we relied on the net asset value method (the "NAV Method"), a form of cost approach. The NAV Method is a valuation technique commonly used in the valuation of asset intensive businesses and consists of adjusting the book value of the assets and liabilities to fair value. The results of adjusting certain items to fair value is reflected in the column "Fresh-Start Adjustments" in the balance sheets below.

The discounted cash flow method (the "DCF Method") was used to corroborate our concluded enterprise value under the NAV Method. The DCF Method estimates the value of a business by calculating the present value of expected future unlevered after-tax free cash flows to be generated by such business. This analysis is supported through a comparison of indicated values resulting from the use of other valuation techniques including a comparison of financial multiples implied by the estimated enterprise value to a range of multiples of publicly held companies with similar characteristics.

The financial projections used to estimate the expected future unlevered after-tax free cash flows were based on our 5-year forecast. The projections were prepared by management based on a number of estimates including various assumptions regarding the anticipated future performance of the Successor, industry performance, general business and economic conditions and other matters, many of which are beyond our control. The DCF Method also includes assumptions of the weighted average cost of capital (the "Discount Rate"), an estimate of residual growth for both revenues and expenses to reflect the period beyond the 5-year plan, and a terminal value based on a terminal EBITDA multiple. The Discount Rate is calculated by weighting the after-tax required returns on debt and equity by their respective percentages of total capital and resulted in a Discount Rate of 12.0%. Because we are expected to operate into perpetuity, we calculated a terminal value using an EBITDA multiple that we believe represents the enterprise value at the end of a discrete projection period.

Condensed Consolidated Effective Date Balance Sheet

The adjustments set forth in the following condensed consolidated balance sheets:

(i) reflect the effect of the consummation of the transactions contemplated by the Consensual Plan (reflected in the column “Reorganization Adjustments”) which includes the restructuring transactions to wind down and dissolve the Former Parent Company and its Liquidating Subsidiaries by the Joint Administrators in accordance with the applicable law;

(ii) reflect the effect to legally separate the results and financial position of the Former Parent Company and its Liquidating Subsidiaries from the ongoing operational business after the Effective Date. The Former Parent Company and its Liquidating Subsidiaries will, in due course, be wound down and dissolved by the Joint Administrators in accordance with applicable law (reflected in the column “In Administration Restructuring”); and

(iii) reflect the fair value adjustments as a result of the adoption of fresh-start accounting (reflected in the column “Fresh-Start Adjustments”).

The explanatory notes highlight methods used to determine fair values or other amounts of the assets and liabilities as well as significant assumptions or inputs.

(In thousands)	Predecessor July 18, 2017	Reorganization Adjustments	In Administration Restructuring	Fresh-Start Adjustments	Successor July 18, 2017
ASSETS					
Current assets					
Cash and cash equivalents	$ 778,640	$ (577,925) (a)	$ (6,877) (i)	$ —	$ 193,838
Restricted cash	6,819	39,783 (a)	—	—	46,602
Accounts receivable, net	52,253	—	(607) (i)	9,408 (j)	61,054
Due from Former Parent Company and Liquidating Subsidiaries	—	11,439 (b)	—	—	11,439
Prepaid and other current assets	50,084	—	(12,638) (i)	8,647 (k)	46,093
Total current assets	887,796	(526,703)	(20,122)	18,055	359,026
Property and equipment, at cost	2,330,383	—	(54,985) (i)	(1,763,953) (l)	511,445
Accumulated depreciation	(1,578,329)	—	47,880 (i)	1,530,449 (l)	—
Property and equipment, net	752,054	—	(7,105)	(233,504) (l)	511,445
Restricted cash	41,560	(9,274) (b)		—	32,286
Other long-term assets	22,964	—	(7,826) (i)	(14,471) (m)	667
Total assets	$ 1,704,374	$ (535,977)	$ (35,053)	$ (229,920)	$ 903,424
LIABILITIES AND EQUITY					
Current liabilities					
Current maturities of long-term debt	$ 28,344	$ —	$ —	$ —	$ 28,344
Accounts payable and accrued expenses	75,962	(4,537) (c)	(4,715) (i)	—	66,710
Accrued payroll and related costs	35,207	—	(3,001) (i)	—	32,206
Taxes payable	11,251	—	(5,764) (i)	578 (j)	6,065
Interest payable	3,272	(3,261) (d)	—	—	11
Other current liabilities	11,160	—	(6,032) (i)	(1,202) (n)	3,926
Total current liabilities	165,196	(7,798)	(19,512)	(624)	137,262
Long-term debt	135,261	85,000 (e)	—	(11,848) (o)	208,413
Other liabilities	26,528	—	(14,480) (i)	974 (n)	13,022
Liabilities subject to compromise	2,379,355	(2,379,355) (f)	—	—	—
Total liabilities	2,706,340	(2,302,153)	(33,992)	(11,498)	358,697
Predecessor ordinary shares	890	—	(890) (i)	—	—
Successor ordinary shares	—	5 (g)	—	—	5
Predecessor additional paid-in capital	1,441,215	—	(1,441,215) (i)	—	—
Successor additional paid-in capital	—	544,722 (g)	—	—	544,722
Accumulated deficit	(2,408,308)	1,221,449 (h)	1,424,727 (i)	(237,868) (q)	—
Accumulated other comprehensive loss	(35,763)	—	16,317 (i)	19,446 (p)	—
Total shareholders' equity (deficit)	(1,001,966)	1,766,176	(1,061)	(218,422)	544,727
Total liabilities and equity	$ 1,704,374	$ (535,977)	$ (35,053)	$ (229,920)	$ 903,424

(a) Reflects payments and the funding of escrow accounts on the Effective Date from implementation of the Consensual Plan:

(In thousands)		
Payment of Secured Lender claims	$	(410,000)
Payment of Bondholders' claims		(105,000)
Payment of final interest to Secured Lenders		(3,261)
Payment of professional fee claims		(8,984)
Payment to operating and contingency escrow accounts of the Joint Administrators		(10,702)
Payment of lending related fees		(195)
Total payments	**$**	**(538,142)**
Funding of professional fee claims escrow (Restricted cash)		(34,783)
Funding of general unsecured claims escrow (Restricted cash)		(5,000)
Total funding of escrow accounts (Restricted cash)	**$**	**(39,783)**
Total payment and reclassification of Cash and cash equivalents	**$**	**(577,925)**

(b) Pursuant to the Consensual Plan, following the Effective Date, the Successor maintains claims that are receivable in cash from the Former Parent Company and its Liquidating Subsidiaries, in the amount of $11.4 million. Of this amount, $9.3 million was held as restricted cash by the Former Parent Company.

(c) Reflects adjustment to and reclassification of claims accruals associated with liabilities subject to compromise balance on the Effective Date. Unpaid claims accrual amounts relate to general unsecured creditor, administrative expense and rejected contract claims. Also, reflects payment of professional fees incurred during the pendency of the bankruptcy proceedings as indicated in (a).

(d) Reflects payment of final interest to Secured Lenders as indicated in (a).

(e) Reflects the fair value issuance of new senior first lien debt to the Secured Lenders in the original aggregate principal amount of $85 million maturing in 2022 in connection with the Consensual Plan.

(f) Reflects the settlement of Liabilities subject to compromise in accordance with the Consensual Plan as follows:

(In thousands)		
Revolving Credit Facility	$	709,100
Predecessor Term Loan Facility		641,875
Senior Notes due 2022, bearing fixed interest at 6.75% per annum		456,572
Senior Notes due 2024, bearing fixed interest at 7.25% per annum		527,010
Interest payable on Senior Notes		37,168
General unsecured creditor claim		7,630
Liabilities subject to compromise of the Predecessor	**$**	**2,379,355**
Cash payment of Secured Lender claims		(410,000)
Cash payment of Bondholders' claims		(105,000)
Fair value of new senior first lien debt issued to the Secured Lenders		(85,000)
Fair value of new equity issued to the Secured Lenders and Bondholders		(544,727)
Adjustment of general unsecured creditor claim and rejected contract claim accruals		(4,447)
Gain on settlement of Liabilities subject to compromise (debt forgiveness)	**$**	**1,230,181**

(g) Represents the issuance of new equity, 50% of 5,000,000, $0.001 par value shares, to each of the Secured Lenders and the Bondholders, respectively, in connection with the Consensual Plan.

(h) Reflects the cumulative impact of reorganization adjustments discussed above:

(In thousands)		Earnings/(deficit)
Gain on settlement of liabilities subject to compromise (f)	$	1,230,181
Reorganization expense for the payment of lending related fees (a)		(195)
Reorganization expense for the payment to operating and contingency escrow accounts of the Joint Administrators (a)		(10,702)
Reorganization gain for receivable from Former Parent Company and Liquidating Subsidiaries (b)		2,165
Net impact to retained earnings	**$**	**1,221,449**

(i) Reflects the legal separation of the Former Parent Company and its Liquidating Subsidiaries and their related balances as of July 18, 2017. Such balances are removed from the ongoing operational business of the Successor after the Effective Date. The Former Parent Company and its Liquidating Subsidiaries will, in due course, be wound down and dissolved by the Joint Administrators in accordance with applicable law.

(j) Represents adjustment of third party receivable balance and withholding taxes payable to estimated fair value as a result of a signed settlement agreement on outstanding litigation for which collection is considered to be highly probable. Estimated fair value is based on the face amount of the receivable per the settlement agreement due to the short-term nature of the receivable which will be collected in January 2018.

(k) Represents the adjustments of deferred mobilization costs to an estimated zero fair value as well as a fair value adjustment for a favorable contract. A market analysis of all contracts was performed at the Effective Date to determine if we had any off-market contracts. The purchase price adjustment that was recorded on the *Prospector 5* contract as of the date of the Predecessor's acquisition of the Prospector Group was re-evaluated and it was determined that the actual contract dayrate continued to be significantly greater than the current market dayrate as of the Effective Date. The fair value adjustment was determined using the income approach and the estimated Discount Rate. The resulting fair value adjustment will be amortized through Contract Drilling Services Revenue of the Prospector Group on a straight-line basis over the term of the contract through November 2017.

(l) An adjustment of $234 million (after consideration for the separation of the Former Parent Company and Liquidating Subsidiaries' property and equipment, net balance of approximately $7 million) was recorded to decrease the net book value of property and equipment to estimated fair value. In conjunction with the adjustment to fair value, accumulated depreciation was eliminated and depreciable lives were revised downward to reflect the remaining lives of the assets at fair value. The fair value of our fleet was determined utilizing the income approach and market approach depending on the circumstances of each rig. The DCF Method under the income approach estimates the future cash flows that an asset is expected to generate and was used for those rigs forecasted to operate into the future. Future cash flows are converted to a present value equivalent using the estimated Discount Rate. The key assumptions used for the DCF Method were consistent with those used to determine the reorganization value disclosed above. For rigs in the process of being sold for scrap, management's estimated salvage values were used as an indication of fair value. For rigs that are currently stacked, and for which management intends to hold for the indefinite future in the hope of future contracts, but without a specific operating forecast, or rigs with a letter of intent from potential buyers, we relied on the market approach using either broker estimates or purchase prices, respectively, to approximate fair value. Drilling machinery and equipment and other includes our capital spares, leasehold improvements, office and technology equipment. The fair value of drilling machinery and equipment and other was based on management's estimates. The components of property and equipment, net for the Predecessor carrying value as of July 18, 2017 and the Successor fair value at July 18, 2017 are summarized in the following table:

(In thousands)	Successor July 18, 2017	Predecessor July 18, 2017
Drilling rigs	$ 481,530	$ 685,134
Drilling machinery and equipment and other	29,915	66,920
Property and equipment, net	**$ 511,445**	**$ 752,054**

(m) Represents the adjustments of deferred equipment survey and inspection costs, deferred mobilization costs, and the indicated loss recorded on our Sale-Leaseback Transaction to an estimated zero fair value. In addition, amount includes the fair value adjustment for our defined benefit pension plan balance. See (n) below.

(n) Represents the adjustments of deferred mobilization revenue to an estimated zero fair value. In addition, amount includes the fair value adjustment of the liability related to our defined benefit pension plans. See (m) above.

(o) Represents the adjustment of the outstanding capital lease obligation on the Sale-Leaseback Transaction to estimated fair value. The long-term lease agreements were valued by discounting the remaining rental payments based on the rate of return associated with the level of risk of future financing options of the Successor.

(p) Represents the adjustment to AOCL, including deferred pension actuarial losses and cumulative translation adjustment, to reflect as zero upon emergence.

(q) Reflects the cumulative impact of fresh-start adjustments, in order of the items discussed above:

(In thousands)	Earnings/(deficit)
Third party receivable balance, net of withholding taxes payable fair value adjustment (j)	$ 8,830
Deferred mobilization expense write-off (k)(m)	(1,534)
Favorable contract fair value adjustment (k)	10,047
Property and equipment fair value adjustment (l)	(233,504)
Deferred equipment survey and inspection cost write-off (l)	(4,443)
Indicated loss on Sale-Leaseback Transaction write-off (m)	(4,385)
Deferred mobilization revenue write-off (n)	1,329
Defined benefit pension plan adjustment (m)(n)	(6,610)
Obligation on Sale-Leaseback Transaction fair value adjustment (o)	11,848
Adjustment to AOCL - pension actuarial loss (p)	(14,410)
Adjustment to AOCL - cumulative translation adjustment (p)	(5,036)
Net impact to retained earnings (deficit)	**$ (237,868)**

NOTE 5—PROPERTY AND EQUIPMENT AND OTHER ASSETS

Property and equipment consists of drilling rigs, drilling machinery and equipment and other property and equipment.

(In thousands)	Successor September 30, 2017	Predecessor December 31, 2016
Drilling rigs	$ 232,521	$ 1,463,199
Drilling rigs under Sale-Leaseback Transaction	—	469,018
Drilling machinery and equipment	30,717	345,172
Other	29,336	59,115
Property and equipment, at cost	292,574	2,336,504
Less: Accumulated depreciation	(10,355)	(1,496,006)
Less: Accumulated amortization under Sale-Leaseback Transaction	—	(27,726)
Property and equipment, net	$ 282,219	$ 812,772

Successor depreciation expense was $11 million for July 18, 2017 to September 30, 2017. Predecessor depreciation expense was $6 million and $67 million for July 1, 2017 to July 18, 2017 and January 1, 2017 to July 18, 2017, respectively, and $50 million and $182 million for the three and nine months ended September 30, 2016, respectively. This includes depreciation expense for underwater inspection in lieu of drydocking costs ("UWILD"). UWILD costs are capitalized in "Other assets" on the Condensed Consolidated Balance Sheet.

As a result of the deconsolidation of the Prospector Group on July 20, 2017, the Prospector Rigs, our leased drilling rigs under the Sale-Leaseback Transaction, are not consolidated in the Successor's "Property and equipment, net." The net book value for the Prospector Rigs, included in "Investment in equity method affiliate" on our Condensed Consolidated Balance Sheet as of September 30, 2017 was $218 million.

Amortization of our leased drilling rigs under the Sale-Leaseback Transaction was recorded in depreciation expense during the Predecessor period. Predecessor amortization of the Prospector Rigs was $1 million and $11 million for July 1, 2017 to July 18, 2017 and January 1, 2017 to July 18, 2017, respectively, and $5 million and $14 million for the three and nine months ended September 30, 2016, respectively. Successor depreciation expense for the Prospector rigs, included in "Earnings from equity method affiliate" on our Condensed Consolidated Statement of Operations for the period from July 20, 2017 to September 30, 2017 was $3 million.

Our capital expenditures totaled $5 million for the Successor period from July 18, 2017 to September 30, 2017 and $5 million and $36 million for the Predecessor periods from January 1, 2017 to July 18, 2017 and nine months ended September 30, 2016, respectively. Included in accounts payable were $1 million and $2 million of capital accruals as of September 30, 2017 and December 31, 2016, respectively.

NOTE 6— INVESTMENT IN EQUITY METHOD AFFILIATE

The Prospector Group was not transferred from the Predecessor to the Successor on the Effective Date; however, it will not be wound down and dissolved by the Joint Administrators. As such, the Prospector Group is intended to constitute our ongoing operational business. On the Effective Date, the Prospector Group remained held by the Predecessor; however, pursuant to the Management Agreement, the Successor has the power to direct the activities that most significantly impact the Prospector Group's economic performance, and the obligation to absorb losses and the right to receive benefits that could potentially be significant to the Prospector Group. As a result, the Prospector Group is a VIE for accounting purposes for which the Successor is the primary beneficiary, and as of the Effective Date, the Successor continued to consolidate the Prospector Group in our consolidated financial statements.

On July 20, 2017, the Prospector Debtors commenced the Prospector Bankruptcy cases by filing voluntary petitions for relief under chapter 11 of the Bankruptcy Code in the Bankruptcy Court in order to implement a restructuring plan to effectuate the transfer of the Prospector Group to the Successor. In accordance with U.S. GAAP, when a subsidiary whose financial statements were previously consolidated (as the Prospector Group's were with ours) becomes subject to the control of a government, court, administrator or regulator (including filing for protection under the Bankruptcy Code), whether solvent or insolvent, deconsolidation of that subsidiary is generally required. Accordingly, the Prospector Group is no longer fully

consolidated with the Successor subsequent to the Prospector Debtors' voluntarily filing for reorganization on July 20, 2017. Our investment in the Prospector Group is recorded under the equity method of accounting effective July 20, 2017. The equity method requires us to present the net assets of the Prospector Group at July 20, 2017 as an investment and recognize the income or loss from the Prospector Group in our results of operations during the reorganization period. As a result of fresh-start accounting on the Effective Date, we did not record a gain or loss on the deconsolidation of the Prospector Group since the Prospector Group's net assets approximated fair value on July 20, 2017. When the Prospector Group emerges from the jurisdiction of the Bankruptcy Court, the subsequent accounting will be determined based upon the applicable circumstances and facts at such time, including the terms of any plan of reorganization.

The financial statements below represent the condensed combined financial statements of the Prospector Group reported as "Investment in equity method affiliate" on our Condensed Consolidated Balance Sheet as of September 30, 2017 and "Earnings from equity method affiliate" on our Condensed Consolidated Statement of Operations for the period from July 20, 2017 to September 30, 2017.

Intercompany transactions among the Prospector Group have been eliminated in the financial statements contained herein. Intercompany transactions between the Prospector Group and the Successor have not been eliminated in the Prospector Group's financial statements.

PROSPECTOR GROUP'S CONDENSED COMBINED STATEMENT OF OPERATIONS
(DEBTOR-IN-POSSESSION)
(Unaudited)
(In thousands)

	July 20, 2017 to September 30, 2017
Operating revenues	
Contract drilling services	$ 14,675
Reimbursables and other	650
	15,325
Operating costs and expenses	
Contract drilling services	4,561
Reimbursables	383
Depreciation and amortization	3,011
General and administrative	258
	8,213
Operating income before interest, reorganization items and income taxes	7,112
Interest expense, net	(2,606)
Other, net	(125)
Reorganization items, net	(1,613)
Income before income taxes	2,768
Income tax provision	(163)
Net Income	$ 2,605

PROSPECTOR GROUP'S CONDENSED COMBINED BALANCE SHEET
(DEBTOR-IN-POSSESSION)
(Unaudited)
(In thousands)

		September 30, 2017
ASSETS		
Current assets		
Cash and cash equivalents	$	20,359
Restricted cash		7,252
Accounts receivable, net of allowance for doubtful accounts		19,832
Prepaid and other current assets		6,987
Total current assets		54,430
Property and equipment, at cost		220,936
Accumulated depreciation		(2,857)
Property and equipment, net		218,079
Restricted cash		32,663
Other assets		213
Total assets	$	305,385
LIABILITIES AND EQUITY		
Current liabilities		
Current maturities of long-term debt	$	26,952
Accounts payable and accrued expenses		14,795
Accrued payroll and related costs		617
Taxes payable		370
Other current liabilities		96
Total current liabilities		42,830
Long-term debt		109,017
Other liabilities		912
Total liabilities		152,759
Equity		
Total equity		152,626
Total liabilities and equity	$	305,385

NOTE 7—SHARE-BASED COMPENSATION

On the Effective Date, all TVRSU's, CS-TVRSU's and PVRSU's (as defined below) were extinguished and deemed cancelled. The Predecessor recognized all remaining unrecognized share-based compensation expense related to the cancelled awards in "Reorganization items, net" on the Condensed Consolidated Statement of Operations for the period from July 1, 2017 to July 18, 2017. No new awards were granted from July 18, 2017 to September 30, 2017 for the Successor period.

In conjunction with the Spin-Off, the Predecessor adopted new equity incentive plans for our employees and directors, the Paragon Offshore plc 2014 Employee Omnibus Incentive Plan (the "Employee Plan") and the Paragon Offshore plc 2014 Director Omnibus Plan (the "Director Plan"). The Employee Plan and Director Plan include replacement awards of Predecessor time-vested restricted stock units ("TVRSU's") and performance-vested restricted stock units ("PVRSU's"), granted in connection with the Spin-Off. Since Spin-Off , the Predecessor also awarded new TVRSU's and PVRSU's and new cash-settled

awards ("CS-TVRSU's") under the Employee Plan and TVRSU's under the Director Plan. No awards were granted during the Predecessor period from January 1, 2017 to July 18, 2017.

A summary of restricted stock activity for the Predecessor period from January 1, 2017 to July 18, 2017 is as follows:

	TVRSU's Outstanding	TVRSU Weighted Average Grant-Date Fair Value	CS-TVRSU's Outstanding	Share Price	PVRSU's Outstanding	PVRSU Weighted Average Grant-Date Fair Value
Outstanding as of December 31, 2016	1,910,893	$ 5.31	1,292,601		602,219	$ 5.39
Vested	(845,107)	5.20	(530,604)		—	—
Forfeited	(1,065,786)	5.41	(761,997)		(602,219)	5.39
Outstanding as of July 18, 2017	—		—	$ —	—	

NOTE 8—EARNINGS (LOSS) PER SHARE

Weighted average shares outstanding, basic and diluted, have been computed based on the weighted average number of ordinary shares outstanding during the applicable period.

During the Predecessor Period, restricted stock units did not represent ordinary shares outstanding until they were vested and converted into ordinary shares. The diluted earnings per share calculation under the two class method is the same as the basic earnings per share calculation as we currently have no stock options or other potentially dilutive securities outstanding.

The Predecessor's unvested restricted stock units, which contain non-forfeitable rights to dividends, are deemed to be participating securities and are included in the computation of earnings per share pursuant to the "two-class" method. The "two-class" method allocates undistributed earnings between ordinary shares and participating securities; however, in a period of net loss, losses are not allocated to our participating securities. No earnings were allocated to unvested share-based payment awards in the loss per share calculation for the three and nine months ending September 30, 2016 due to net losses in each respective period.

Shareholders of the Predecessor did not receive a recovery under the Consensual Plan.

Successor period loss per share is based on five million shares issued to the Secured Lenders and the Bondholders pursuant to the Consensual Plan.

The following table includes the computation of basic and diluted net income and loss per share:

(In thousands, except per share amounts)	Successor	Predecessor	
	July 18, 2017 to September 30, 2017	July 1, 2017 to July 18, 2017	Three Months Ended September 30, 2016
Allocation of income (loss) - basic and diluted			
Net income (loss)	$ (31,264)	$ 935,843	$ (63,618)
Earnings allocated to unvested share-based payment awards	—	(7,509)	—
Net income (loss) attributable to ordinary shareholders - basic and diluted	$ (31,264)	$ 928,334	$ (63,618)
Weighted average shares outstanding			
Basic and diluted	5,000	89,011	87,876
Weighted average unvested share-based payment awards	—	720	3,929
Income (loss) per share			
Basic and diluted	$ (6.25)	$ 10.43	$ (0.72)

(In thousands, except per share amounts)	Successor	Predecessor	
	July 18, 2017 to September 30, 2017	January 1, 2017 to July 18, 2017	Nine Months Ended September 30, 2016
Allocation of income (loss) - basic and diluted			
Net income (loss)	$ (31,264)	$ 808,511	$ (93,937)
Earnings allocated to unvested share-based payment awards	—	(14,146)	—
Net income (loss) attributable to ordinary shareholders - basic and diluted	$ (31,264)	$ 794,365	$ (93,937)
Weighted average shares outstanding			
Basic and diluted	5,000	88,892	87,360
Weighted average unvested share-based payment awards	—	1,583	4,731
Income (loss) per share			
Basic and diluted	$ (6.25)	$ 8.94	$ (1.08)

NOTE 9—DEBT

A summary of long-term debt as of September 30, 2017 and December 31, 2016 is as follows:

(In thousands)	Successor September 30, 2017	Predecessor December 31, 2016
New Term Loan Facility with Secured Lenders	$ 85,000	$ —
Revolving Credit Facility [1]	—	—
Term Loan Facility [1]	—	—
Senior Notes due 2022, bearing fixed interest at 6.75% per annum[1]	—	—
Senior Notes due 2024, bearing fixed interest at 7.25% per annum[1]	—	—
Sale-Leaseback Transaction [2]	—	196,418
Term Loan Facility with Secured Lenders outstanding interest	—	—
Unamortized debt issuance costs	—	(718)
Total debt	85,000	195,700
Less: Current maturities of long-term debt[2]	—	(29,737)
Long-term debt	$ 85,000	$ 165,963

(1) See Note 10 - *"Liabilities Subject to Compromise"* as related to each of the respective December 31, 2016 balances. See Note 4 - "*Fresh-Start Accounting"* which reflects the settlement of the liabilities subject to compromise balance as of the Effective Date in accordance with the Consensual Plan.

(2) As a result of the deconsolidation of the Prospector Group on July 20, 2017, the Sale-Leaseback Transaction obligation is not consolidated in the Successor's "Current maturities of long-term debt" or "Long-term debt" as of September 30, 2017. See Note 6 - *"Investment in Equity Method Affiliate"* for the Prospector Group's Condensed Combined Balance Sheet as of September 30, 2017 and the related long-term debt and current maturities of long-term debt balances.

New Term Loan Facility with Secured Lenders

On the Effective Date, we entered into the Amended and Restated Senior Secured Term Loan Facility with lenders to provide for loans in the aggregate principal amount of $85 million, which are deemed outstanding pursuant to the Consensual Plan (the "New Term Loan Facility"). The maturity date of the New Term Loan Facility is July 18, 2022. Until such maturity date, the New Term Loan Facility shall bear interest at a rate per annum equal to (i) the alternative base rate plus an applicable margin of 5.00% or (ii) adjusted LIBOR plus an applicable margin of 6.00%.

We may elect to prepay any borrowing outstanding under the New Term Loan Facility without premium or penalty (except with respect to any break funding payments which may be payable pursuant to the terms of the New Term Loan Facility).

The New Term Loan Facility contains restrictions on certain merger and consolidation transactions; our ability to sell or transfer certain assets; payment of dividends; making distributions; redemption of stock; incurrence or guarantee of debt; issuance of loans; prepayment; redemption of certain debt; as well as incurrence or assumption of certain liens.

Predecessor Revolving Credit Facility, Term Loan Facility and Senior Notes

On the Effective Date, in connection with the effectiveness of the Consensual Plan, all outstanding obligations of the Predecessor under the Senior Notes and the indenture governing such obligations were cancelled and discharged, and the Predecessor and certain of its subsidiaries were released from their respective obligations under the Revolving Credit Facility and the Term Loan Facility.

On June 17, 2014, the Predecessor entered into the Revolving Credit Facility with lenders that provided commitments in the amount of $800 million. The Revolving Credit Facility, which was secured by substantially all of our rigs, had a term of five years and had a maturity of July 2019. Borrowings under the Revolving Credit Facility bore interest, at the Predecessor's option, at either (i) an adjusted LIBOR, plus an applicable margin ranging between 1.50% to 2.50%, depending on our leverage ratio, or (ii) a base rate plus an applicable margin ranging between 1.50% to 2.50%. As of December 31, 2016, the approximate $703 million balance of the Revolving Credit Facility and unamortized deferred debt issuance costs were classified as liabilities subject

to compromise in the Condensed Consolidated Financial Statements. The Predecessor continued to make interest payments on the Revolving Credit Facility in the ordinary course of business, based on Bankruptcy Court approval up to the Effective Date. Accordingly, interest payable on the Revolving Credit Facility was not classified as liabilities subject to compromise in the Condensed Consolidated Balance Sheet as of December 31, 2016.

On July 18, 2014, the Predecessor issued $1.08 billion of Senior Notes and also borrowed $650 million under the Term Loan Facility. The Term Loan Facility was secured by substantially all of our rigs. The proceeds from the Term Loan Facility and the Senior Notes were used to repay $1.7 billion of intercompany indebtedness to Noble incurred as partial consideration for the Separation.

The Predecessor's Senior Notes consisted of $500 million of 6.75% senior notes and $580 million of 7.25% senior notes, which had a maturity date of July 15, 2022 and August 15, 2024, respectively. The approximate $1 billion balance of the Predecessor's Senior Notes, accrued pre-petition interest, and unamortized deferred debt issuance costs was classified as liabilities subject to compromise in the accompanying Condensed Consolidated Financial Statements as of December 31, 2016. As interest on the Predecessor's unsecured Senior Notes subsequent to February 14, 2016 was not expected to be an allowed claim, the Predecessor's ceased accruing interest on the Senior Notes on this date. Results for the Predecessor periods from July 1, 2017 to July 18, 2017 and January 1, 2017 to July 18, 2017 would have included contractual interest expense of $4 million and $39 million, respectively and for the Predecessor's three and nine months ended September 30, 2016 would have included $18 million and $44 million, respectively. These costs would have been incurred had the unsecured Senior Notes not been classified as subject to compromise.

Borrowings under the Term Loan Facility bore interest at an adjusted LIBOR rate plus 2.75%, subject to a minimum LIBOR rate of 1% or a base rate plus 1.75%, at the Predecessor's option. The Term Loan Facility had a maturity date of July 2021. The loans under the Term Loan Facility were issued with 0.50% original issue discount. As of December 31, 2016, the approximate $635 million balance of the Term Loan Facility, unamortized deferred debt issuance costs and unamortized discount were classified as liabilities subject to compromise in the accompanying Condensed Consolidated Financial Statements. The Predecessor continued to make interest payments on the Term Loan Facility in the ordinary course of business, based on Bankruptcy Court approval up to the Effective Date. Accordingly, interest payable on the Term Loan Facility was not classified as liabilities subject to compromise in the Condensed Consolidated Balance Sheet as of December 31, 2016.

See Note 4 - "*Fresh-Start Accounting"* which reflects the settlement of the liabilities subject to compromise balance comprising the Predecessor Debt Facilities as of the Emergence date and in accordance with the Consensual Plan.

Sale-Leaseback Transaction

On July 24, 2015, the Predecessor executed a combined $300 million Sale-Leaseback Transaction with the Lessors for the Prospector Rigs. The Predecessor sold the Prospector Rigs to the Lessors and immediately leased the Prospector Rigs from the Lessors for a period of five years pursuant to a lease agreement for each Prospector Rig (collectively, the "Lease Agreements"). Net of fees and expenses and certain lease prepayments, the Predecessor received net proceeds of approximately $292 million, including amounts used to fund certain required reserve accounts. The *Prospector 5* is operating under drilling contracts with Total S.A. until December 2017. The *Prospector 1* is operating under drilling contracts with Oranje-Nassau Energie B.V. until June 2018.

The Sale-Leaseback Transaction has been accounted for as a capital lease.

On July 20, 2017, the Prospector Debtors commenced the Prospector Bankruptcy cases. The commencement of the Prospector Bankruptcy cases constituted an event of default that accelerated our obligations under the Sale-Leaseback Transaction and in accordance with U.S. GAAP, resulted in the deconsolidation of the Prospector Group. Any efforts to enforce payments related to these obligations are automatically stayed as a result of the filing of the petitions and are subject to the applicable provisions of the Bankruptcy Code. We continue to make lease payments, including interest, to the Lessors in the ordinary course of business.

The following table includes the total minimum annual rental payments using weighted-average effective interest rates of 5.2% for the *Prospector 1* and 7.5% for the *Prospector 5*. The final payoff amount in 2020 is not reported net of any cash held in reserve accounts required under the Lease Agreements.

(In millions)	2017	2018	2019	2020	Thereafter	Total
Minimum annual rental payments	$ 11	$ 32	$ 31	$ 94	$ —	$ 168

Following the third and fourth anniversaries of the closing dates of the Lease Agreements, we have the option to repurchase each Prospector Rig for an amount as defined in the Lease Agreements. At the end of the lease term, we have an obligation to repurchase each Prospector Rig for a maximum amount of $88 million per rig, less any pre-payments made by us during the term of the Lease Agreements. As of September 30, 2017, our 2020 obligation for the *Prospector 1* is expected to be $71 million and for the *Prospector 5* is expected to be $23 million. These amounts include final rental payments as well as the repurchase amounts of $64 million and $16 million for *Prospector 1* and *Prospector 5*, respectively, after consideration of our prepayments of Excess Cash Amounts pursuant to the Lease Agreement.

The following tables show the rental payments, including interest, that we have made in the ordinary course of business related to the Sale-Leaseback Transaction:

	Successor	Predecessor	
(In thousands)	**July 18, 2017 to September 30, 2017**	**July 1, 2017 to July 18, 2017**	**Three Months Ended September 30, 2016**
Prospector 1 - Rental payments	$ 3,864	$ —	$ 6,532
Prospector 1 - Excess cash sweep payments	120	—	4,181
Prospector 5 - Rental payments	6,532	—	6,532
Prospector 5 - Excess cash sweep payments	8,619	—	7,087
Total payments	$ 19,135	$ —	$ 24,332

	Successor	Predecessor	
(In thousands)	**July 18, 2017 to September 30, 2017**	**January 1, 2017 to July 18, 2017**	**Nine Months Ended September 30, 2016**
Prospector 1 - Rental payments	$ 3,864	$ 7,602	$ 19,454
Prospector 1 - Excess cash sweep payments	120	3,188	10,726
Prospector 5 - Rental payments	6,532	12,851	19,454
Prospector 5 - Excess cash sweep payments	8,619	14,379	21,092
Total payments	$ 19,135	$ 38,020	$ 70,726

The Lease Agreements obligate us to make certain termination payments upon the occurrence of certain events of default, including payment defaults, breaches of representations and warranties, termination of the underlying drilling contract for each rig, covenant defaults, cross-payment defaults, certain events of bankruptcy, material judgments and actual or asserted failure of any credit document to be in force and effect. The Lease Agreements contain certain representations, warranties, obligations, conditions, indemnification provisions and termination provisions customary for sale and leaseback financing transactions. The Lease Agreements contain certain affirmative and negative covenants that, subject to exceptions, limit our ability to, among other things, incur additional indebtedness and guarantee indebtedness, pay inter-company dividends or make other inter-company distributions or repurchase or redeem capital stock, prepay, redeem or repurchase certain debt, make loans and investments, sell, transfer or otherwise dispose of certain assets, create or incur liens, enter into certain types of transactions with affiliates, consolidate, merge or sell all or substantially all of our assets, and enter into new lines of business.

In addition, we are required to maintain a cash reserve of $11.5 million for each Prospector Rig throughout the term of the Lease Agreements. During the term of the current drilling contract for each Prospector Rig, we are also required to pay to the Lessors any excess cash amounts earned under such contract, after payment of bareboat charter fees and operating expenses for such Prospector Rig and maintenance of any mandatory reserve cash amounts (the "Excess Cash Amounts"). These excess cash payments represent prepayment for the remaining rental payments under the applicable Lease Agreement (the "Cash Sweep"). See Note 3 - "*Summary of Significant Accounting Policies*" for a discussion on our restricted cash balances. Following the conclusion of the initial drilling contract for each Rig, the Cash Sweep will be reduced, requiring us to make prepayments to the Lessors of up to 25% of the Excess Cash Amounts. Currently, *Prospector 1* is subject to lower Cash Sweep prepayments up to 25% of the Excess Cash, and *Prospector 5* is subject to 100% of the Cash Sweep prepayments.

NOTE 10—LIABILITIES SUBJECT TO COMPROMISE

See Note 4 - "*Fresh-Start Accounting"* which reflects the settlement of the liabilities subject to compromise balance as of the Effective Date in accordance with the Consensual Plan.

The following table reflects pre-petition liabilities that are subject to compromise included in our Condensed Consolidated Balance Sheet as of December 31, 2016. See Note 9 - *"Debt"* for a specific discussion on the debt instruments and related balances subject to compromise:

	Successor	Predecessor
(In thousands)	September 30, 2017	December 31, 2016
Revolving Credit Facility	$ —	$ 709,100
Term Loan Facility	—	641,875
Senior Notes due 2022, bearing fixed interest at 6.75% per annum	—	456,572
Senior Notes due 2024, bearing fixed interest at 7.25% per annum	—	527,010
Interest payable on Senior Notes	—	37,168
Debt issuance costs on Revolving Credit Facility	—	(5,891)
Discount and debt issuance costs on Term Loan Facility	—	(7,259)
Debt issuance costs on Senior Notes	—	(14,012)
Liabilities subject to compromise	$ —	$ 2,344,563

As a result of the filing of the Paragon Bankruptcy cases on February 14, 2016, the Predecessor classified pre-petition liabilities that were not fully secured and had at least a possibility of not being repaid at the full claim amount by the Consensual Plan as liabilities subject to compromise in the Predecessor's consolidated financial statements. Pre-petition liabilities that are subject to compromise are required to be reported at the amounts expected to be allowed, even if they may be settled for lesser amounts. If there is uncertainty about whether a secured claim is under-secured, or would be impaired under the Consensual Plan, the entire amount of the claim was included in liabilities subject to compromise. As of December 31, 2016, the amounts classified as liabilities subject to compromise represented the Predecessor's estimate of claims expected to be allowed under the Consensual Plan prior to its approval.

The Revolving Credit Facility, Senior Notes, and Term Loan Facility were affected by the Consensual Plan. As such, the outstanding balances of these debt instruments and related accrued pre-petition interest (for the Senior Notes only), unamortized discount (for Term Loan Facility only) and unamortized debt issuance costs were classified as liabilities subject to compromise in the Predecessor's Condensed Consolidated Balance Sheets as of December 31, 2016.

Generally, actions to enforce or otherwise effect payment of pre-bankruptcy filing liabilities are stayed. Although payment of pre-petition claims is generally not permitted, the Bankruptcy Court approved the Debtors' "first day" motions allowing, among other things, the payment of obligations related to human capital, supplier relations, customer relations, business operations, tax matters, cash management, utilities, case management and retention of professionals. As a result of this approval, the Predecessor continued to pay certain pre-petition claims in designated categories and subject to certain terms and conditions in the ordinary course of business, and we did not classify these liabilities as subject to compromise in the Condensed Consolidated Balance Sheets as of December 31, 2016. This treatment was designed to preserve the value of our business and assets. With respect to pre-petition claims, the Predecessor notified all known claimants of the deadline to file a proof of claim with the Court.

In addition, the Predecessor paid undisputed post-petition claims in the ordinary course of business during the pendency of the Bankruptcy Cases.

NOTE 11—REORGANIZATION ITEMS

ASC 852 requires that transactions and events directly associated with the reorganization be distinguished from the ongoing operations of the business. We use "Reorganization items, net" on our Condensed Consolidated Statements of Operations to reflect the net revenues, expenses, gains and losses that are the direct result of the reorganization of the business for the Predecessor period. The following table summarizes the components included in "Reorganization items, net":

	Predecessor	
(In thousands)	July 1, 2017 to July 18, 2017	Three Months Ended September 30, 2016
Gain on settlement of liabilities subject to compromise	$ 1,230,181	$ —
Fresh-start adjustments	(237,868)	—
Professional fees and other	(57,129)	17,211
Total Reorganization items, net	$ 935,184	$ 17,211

	Predecessor	
(In thousands)	January 1, 2017 to July 18, 2017	Nine Months Ended September 30, 2016
Gain on settlement of liabilities subject to compromise	$ 1,230,181	$ —
Fresh-start adjustments	(237,868)	—
Professional fees and other	(96,382)	56,602
Total Reorganization items, net	$ 895,931	$ 56,602

Included in "Reorganization items, net" for January 1, 2017 to July 18, 2017, is approximately $44 million of cash paid for professional fees.

Included in "Reorganization items, net" for the nine months ended September 30, 2016 is approximately $31 million of cash paid for professional fees.

Subsequent to the Effective Date, the Successor incurred charges of $3 million that are directly related to the Paragon Bankruptcy cases. These charges were recorded as "Other non-operating expenses" in the Successor's Condensed Consolidated Statements of Operations for the period from July 18, 2017 to September 30, 2017.

NOTE 12 —INCOME TAXES

We operate through various subsidiaries in numerous countries throughout the world. Consequently, income taxes have been based on the laws and rates in effect in the countries in which operations are conducted and in which we and our subsidiaries were incorporated or otherwise considered to have a taxable presence. The change in the effective tax rate from period to period is primarily attributable to changes in the profitability or loss mix of our operations in various jurisdictions. As our operations continually change among numerous jurisdictions, and methods of taxation in these jurisdictions vary greatly, there is little direct correlation between the income tax provision or benefit and income or loss before taxes.

The income tax provision was $1 million for July 18, 2017 to September 30, 2017 for the Successor period. The income tax benefit was $4 million and $2 million for the Predecessor periods from July 1, 2017 to July 18, 2017 and January 1, 2017 to July 18, 2017, respectively. The income tax provision was $1 million and $1 million for the three and nine months ended September 30, 2016, respectively.

At September 30, 2017, the liabilities related to the Successor's unrecognized tax benefits, including estimated accrued interest and penalties, totaled $7 million, and if recognized, would reduce our income tax provision by $7 million. At December 31, 2016, the liabilities related to the Predecessor's unrecognized tax benefits totaled $19 million. It is reasonably possible that the Successor's existing liabilities related to our unrecognized tax benefits may increase or decrease in the next twelve months

primarily due to the progression of open audits or the expiration of statutes of limitation. However, we cannot reasonably estimate a range of potential changes in our existing liabilities for unrecognized tax benefits due to various uncertainties, such as the unresolved nature of various audits.

NOTE 13—RESTRUCTURING CHARGES

During 2016 and 2017, we initiated a workforce reduction program across our offshore crews, onshore bases and corporate office to align the size and composition of our workforce with our expected future operating and capital plans and our strategy to focus on fewer markets and utilize a smaller fleet. The workforce reduction program was in response to the lack of significant improvement in the drilling market coupled with our decision to exit operations in certain markets, such as Mexico, Brazil and Canada.

As related to the workforce reduction, appropriate communications to impacted personnel have been completed. As a result, the Predecessor recorded restructuring expense of $4 million for the period from January 1, 2017 to July 18, 2017 and the Successor recorded restructuring expense of $1 million for the period from July 18, 2017 to September 30, 2017 consisting of employee severance and other termination benefits which were included in "Contract drilling services", "Labor contract drilling services" and "General and administrative" operating costs and expenses on our Condensed Consolidated Statement of Operations. During 2017, the Predecessor paid approximately $10 million and the Successor paid approximately $1 million in restructuring and employee separation related costs.

In 2016, the Predecessor recorded restructuring expense of $12 million consisting of employee severance and other termination benefits. During 2016, the Predecessor paid approximately $7 million in restructuring and employee separation related costs.

We had $4 million and $10 million of accrued restructuring expense consisting of employee severance and other termination benefits in "Accrued payroll and related costs" on our Condensed Consolidated Balance Sheets as of September 30, 2017 (Successor) and December 31, 2016 (Predecessor), respectively.

NOTE 14—EMPLOYEE BENEFIT PLANS

Defined Benefit Plans

The Predecessor sponsored two non-U.S. noncontributory defined benefit pension plans, the Paragon Offshore Enterprise Ltd and the Paragon Offshore Nederland B.V. pension plans, which cover certain Europe-based salaried, non-union employees.

As of January 1, 2017, all active employees under the defined benefit pension plans were transferred to a defined contribution pension plan as related to their future service. The accrued benefits under the defined benefit plan were frozen and all employees of those plans became deferred members. The transfer to a defined contribution pension plan was accounted for as a curtailment during the year ended December 31, 2016. Our defined benefit pension plans were recorded at fair value upon adoption of fresh-start accounting on July 18, 2017.

Pension benefit expense related to our now frozen defined benefit pension plans, based on actuary estimates, is presented in the table below. Pension cost includes the following components:

	Successor	Predecessor	
(In thousands)	July 18, 2017 to September 30, 2017	July 1, 2017 to July 18, 2017	Three Months Ended September 30, 2016
Service cost	$ 426	$ 2	$ 1,163
Interest cost	(419)	57	575
Expected return on plan assets	—	(44)	(460)
Amortization of prior service cost	—	—	(5)
Amortization of net actuarial loss	—	1	193
Net pension expense	$ 7	$ 16	$ 1,466

(In thousands)	Successor July 18, 2017 to September 30, 2017	Predecessor January 1, 2017 to July 18, 2017	Predecessor Nine Months Ended September 30, 2016
Service cost	$ 426	$ 40	$ 3,452
Interest cost	(419)	1,063	1,706
Expected return on plan assets	—	(828)	(1,366)
Amortization of prior service cost	—	—	(14)
Amortization of net actuarial loss	—	23	573
Net pension expense	$ 7	$ 298	$ 4,351

During the Successor period from July 18, 2017 to September 30, 2017 and the Predecessor periods from July 1, 2017 to July 18, 17 and January 1, 2017 to July 18, 2017, we made no contribution to our frozen defined benefit pension plans.

During the three and nine months ended September 30, 2016, we contributed approximately $6 million to our defined benefit pension plans.

Defined Contribution and Other Benefit Plans

We sponsor a 401(k) defined contribution plan and a profit sharing plan. Other post-retirement benefit expense related to these other benefit plans included in the accompanying Condensed Consolidated Statements of Operations was $0.5 million for the Successor period from July 18, 2017 to September 30, 2017, $1.5 million for the Predecessor period from January 1, 2017 to July 18, 2017 and $0.7 million for the nine months ended September 30, 2016 for the Predecessor.

NOTE 15—FAIR VALUE OF FINANCIAL INSTRUMENTS

Our cash and cash equivalents, accounts receivable and accounts payable are by their nature short-term. As a result, the carrying values included in the accompanying Condensed Consolidated Balance Sheets approximate fair value.

Fair Value of Debt

On the Effective Date, in connection with the effectiveness of the Consensual Plan, all outstanding obligations of the Predecessor under the Senior Notes and the indenture governing such obligations were cancelled and discharged, and the Predecessor and certain of its subsidiaries were released from their respective obligations under the Revolving Credit Facility and the Term Loan Facility.

The estimated fair values of the Predecessor's Senior Notes and Term Loan Facility were based on the quoted market prices for similar issues (Level 2 measurement).

The estimated fair value of the Senior Notes due July 15, 2022, excluding debt issuance costs of $6 million for December 31, 2016 and the Senior Notes due August 15, 2024, excluding debt issuance costs of $8 million for December 31, 2016 are as follows:

	Predecessor Subject to Compromise December 31, 2016	
(In thousands)	Carrying Value	Estimated Fair Value
6.75% Senior Notes due July 15, 2022	$ 456,572	$ 83,324
7.25% Senior Notes due August 15, 2024	527,010	93,544
Total senior unsecured notes	$ 983,582	$ 176,868

The estimated fair value of the Predecessor's Term Loan Facility, bearing interest at 5.50%, excluding unamortized discount and debt issuance costs of $7 million for December 31, 2016, is as follows:

	Predecessor	
	Subject to Compromise	
	December 31, 2016	
(In thousands)	Carrying Value	Estimated Fair Value
Term Loan Facility	$ 641,875	$ 244,113

The carrying amount of the Predecessor's variable-rate debt, the Revolving Credit Facility, which was subject to compromise as of December 31, 2016, approximates fair value as such debt bore short-term, market-based interest rates. The carrying amount of the Successor's variable-rate debt, the New Term Loan Facility, approximates fair value as such debt bears short-term, market-based interest rates. The Predecessor and Successor have classified these instruments as Level 2, respectively, as valuation inputs used for purposes of determining the fair value disclosure are readily available published LIBOR rates.

NOTE 16—ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table sets forth the changes in the accumulated balances for each component of "Accumulated other comprehensive loss" ("AOCL") for the Successor period from July 18, 2017 to September 30, 2017 and for the Predecessor periods from January 1, 2017 to July 18, 2017 and the nine months ended September 30, 2016. All amounts within the tables are shown net of tax.

(In thousands)	Defined Benefit Pension Items (1)	Foreign Currency Items	Total
Predecessor			
Balance as of December 31, 2015	$ (20,351)	$ (21,663)	$ (42,014)
Activity during period:			
Other comprehensive loss before reclassification	—	(768)	(768)
Amounts reclassified from AOCL	455	—	455
Net other comprehensive income	455	(768)	(313)
Balance as of September 30, 2016	$ (19,896)	$ (22,431)	$ (42,327)
Balance as of December 31, 2016	$ (14,329)	$ (24,329)	$ (38,658)
Activity during period:			
Other comprehensive income before reclassification	—	2,977	2,977
Amounts reclassified from AOCL	(82)	—	(82)
Net other comprehensive income	(82)	2,977	2,895
Elimination of Predecessor AOCL	14,411	21,352	35,763
Balance as of July 18, 2017	$ —	$ —	$ —
Successor			
Balance as of July 18, 2017	$ —	$ —	$ —
Activity during period:			
Other comprehensive income before reclassification	—	—	—
Amounts reclassified from AOCL	—	—	—
Net other comprehensive income	—	—	—
Balance as of September 30, 2017	$ —	$ —	$ —

(1) Defined benefit pension items relate to actuarial losses, prior service credits, and the amortization of actuarial losses and prior service credits. Reclassifications from AOCL are recognized as expense on our Condensed Consolidated Statements of Operations through either "Contract drilling services" or "General and administrative." See Note 14, *"Employee Benefit Plans"* for additional information.

NOTE 17—COMMITMENTS AND CONTINGENCIES

Litigation

We are a defendant in certain claims and litigation arising out of operations in the ordinary course of business, the resolution of which, in the opinion of management, will not have a material adverse effect on our financial position, results of operations or cash flows. There is inherent risk in any litigation or dispute and no assurance can be given as to the outcome of these claims.

Tax Contingencies

We operate in a number of countries throughout the world and our tax returns filed in those jurisdictions are subject to review and examination by tax authorities within those jurisdictions. As of September 30, 2017, the Successor has tax assessments of approximately $13 million. We have contested, or intend to contest, these assessments, including through litigation if necessary. Tax authorities may issue additional assessments or pursue legal actions as a result of tax audits, and we cannot predict or provide assurance as to the ultimate outcome of such assessments and legal actions.

A tax law was enacted in Brazil, effective January 1, 2015, that under certain circumstances would impose a 15% to 25% withholding tax on charter hire payments made to a non-Brazilian related party exceeding certain thresholds of total contract value. Although we believe that our operations are not subject to this law, the tax has been withheld at the source by our customer and we have recorded approximately $8 million withholding tax expense since inception of the law. Discussions with our customer over the applicability of this legislation are ongoing.

Insurance

We maintain certain insurance coverage against specified marine perils, which include physical damage and loss of hire for certain units.

We maintain insurance in the geographic areas in which we operate, although pollution, reservoir damage and environmental risks generally are not fully insurable. Our insurance policies and contractual rights to indemnity may not adequately cover our losses or may have exclusions of coverage for some losses. We do not have insurance coverage or rights to indemnity for all risks, including loss of hire insurance on most of the rigs in our fleet or named windstorm perils with respect to our rigs cold-stacked in the U.S. Gulf of Mexico. Uninsured exposures may include expatriate activities prohibited by U.S. laws and regulations, radiation hazards, certain loss or damage to property on board our rigs and losses relating to shore-based terrorist acts or strikes. If a significant accident or other event occurs and is not fully covered by insurance or contractual indemnity, it could materially adversely affect our financial position, results of operations or cash flows. Additionally, there can be no assurance that those parties with contractual obligations to indemnify us will necessarily be financially able to indemnify us against all these risks.

Other

As of September 30, 2017, we had letters of credit of $47 million and performance bonds totaling $44 million supported by surety bonds outstanding. Approximately $12 million of the letters of credit related to the Successor activity, and $35 million of the letters of credit back surety bonds that support performance bonds issued by the Predecessor. Under the Consensual Plan, the Successor is not obligated to repay the issuing banks if the letters of credit are drawn by the beneficiaries. On the Effective Date, we entered into the Letter of Credit Agreement (the "LC Agreement") among lenders and issuing banks of the letters of credit. Pursuant to the LC Agreement, the Successor must pay a 2.5% monthly fee for all letters of credit that were outstanding at the emergence date until such time as the letter of credit is extinguished. The LC Agreement has a term of five years. The performance bonds of $44 million outstanding at September 30, 2017 were primarily obligations of the Predecessor. The performance bonds are secured by letters of credit totaling $35 million and $9 million of restricted cash that was held by the Predecessor. In November 2017, upon the release of performance bond cash collateral and pursuant to an agreement with the Joint Administrators, the restricted cash was transferred from the Predecessor to the Successor.

Separation Agreements

In connection with the Spin-Off, the Predecessor entered into several definitive agreements with Noble or its subsidiaries (collectively, the "Noble Separation Agreements") that, among other things, set forth the terms and conditions of the Spin-Off and provide a framework for the Predecessor's relationship with Noble after the Spin-Off, including the following agreements:

- Master Separation Agreement;
- Tax Sharing Agreement;

- Employee Matters Agreement;
- Transition Services Agreement relating to services Noble and Paragon will provide to each other on an interim basis; and
- Transition Services Agreement relating to Noble's Brazil operations.

On the Effective Date, the Predecessor rejected the Separation Agreements pursuant to the terms of the Consensual Plan. As a result of rejecting the Tax Sharing Agreement, the Predecessor is no longer entitled to indemnity from Noble with respect to the tax liabilities. In addition, Noble may assert claims against the Predecessor for indemnification amounts that would have been owed to Noble pursuant to the Tax Sharing Agreement.

NOTE 18—SUPPLEMENTAL CASH FLOW INFORMATION

The net effect of changes in other assets and liabilities on cash flows from operating activities is as follows:

	Successor	Predecessor	
(In thousands)	July 18, 2017 to September 30, 2017	January 1, 2017 to July 18, 2017	Nine Months Ended September 30, 2016
Accounts receivable	$ (2,164)	$ 13,391	$ 134,082
Other current assets	5,928	6,881	29,602
Other assets	300	2,451	8,254
Accounts payable and accrued payroll	(11,712)	(65,918)	(64,214)
Other current liabilities	2,976	(19,689)	(9,295)
Other liabilities	131	(2,829)	(6,748)
Net change in other assets and liabilities	$ (4,541)	$ (65,713)	$ 91,681
Supplemental information for non-cash activities:			
Accrued capital expenditures	$ 1,308	$ 1,615	$ 4,943
Reclassification of Liabilities subject to compromise	—	—	2,343,963
Netting of VAT receivables and payables	—	12,307	—

We received income tax refunds of approximately $0.01 million and $10 million during the Successor period from July 18, 2017 to September 30, 2017 and the nine months ended September 30, 2016 for the Predecessor, respectively. We made income tax payments of approximately $5 million during the Predecessor period from January 1, 2017 to July 18, 2017

NOTE 19—SEGMENT AND RELATED INFORMATION

As of September 30, 2017, our contract drilling operations were reported as a single reportable segment, Contract Drilling Services, which reflects how our business is managed, and the fact that all of our drilling fleet is dependent upon the worldwide oil industry. The mobile offshore drilling units that comprise our offshore rig fleet operate in a single, global market for contract drilling services and are often redeployed globally due to changing demands of our customers, which consisted largely of major non-U.S. and government owned/controlled oil and gas companies throughout the world. Our contract drilling services segment is able to conduct contract drilling operations in the North Sea, the Middle East and India, Brazil, Mexico, West Africa and Southeast Asia. We will focus on the markets of the North Sea, the Middle East and India.

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

The following discussion and analysis of the consolidated financial condition and results of operations is intended to assist you in understanding our financial position for the periods presented, and should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and related notes as of September 30, 2017 and July 18, 2017 to September 30, 2017 for the Successor period; January 1, 2017 to July 18, 2017, July 1, 2017 to July 18, 2017 and three and nine months ended September 30, 2016 for the Predecessor period contained in this Quarterly Report and the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016.

BUSINESS STRATEGY

Our vision is to be the preferred high-quality, low-cost offshore drilling contractor in our industry. In our business, we believe that drilling contractors are evaluated based on their people, processes, principles, and operational and safety performance. In aligning our strategy with our vision, we pursue the following objectives:

- win new business by leveraging strategic relationships with high-quality, long-term customers in order to maximize the utilization of our asset base in core oil and gas producing areas throughout the world including the North Sea, Middle East and India;
- stabilize and right-size the business following our emergence from bankruptcy in order to manage the cyclical market so that we are well positioned to capitalize when the market rebounds;
- extend our runway to recovery by remaining financially disciplined in our cash management and focusing on continuous improvement in our onshore and offshore business processes to reduce costs and improve efficiency;
- operate in a manner that delivers industry-leading operational uptime and provides exceptional customer service through a fleet operated safely by competent and skilled personnel;
- provide a safe work atmosphere for our employees while protecting the environment and our assets;
- continue to invest in our existing fleet through maintenance, refurbishment and capital upgrades;
- pursue strategic growth opportunities, opportunistically expanding our worldwide fleet capabilities; and
- sell or scrap non-core assets to reduce costs.

We believe that customers recognize our commitment to safety and that our performance history and reputation for safe, reliable, efficient operations provide us with a competitive advantage. As a key component of our commitment to safety and quality, we continuously train our personnel in operational practices, safety standards and procedures. We believe that safety and operational excellence promote stronger relationships with multiple important stakeholders, including our employees, our customers and the local communities in which we operate, and reduce both downtime and costs.

We are committed to maintaining and leveraging the geographic diversity of our operations and the quality and longevity of our customer relationships. Our fleet operates for national, international and independent oil and gas companies in some of the world's most active hydrocarbon producing markets.

We currently have a well-maintained fleet of drilling rigs which allows us to provide reliable and effective drilling services to our customers across multiple geographies. We intend to continue to invest capital in a disciplined manner to maintain, refurbish and strategically upgrade our assets in order to build on our fleet's strong operational history. We also intend to continue to optimize the quality and performance profile of our fleet by selectively investing in strategic upgrades to increase the longevity and competitive capabilities of our rigs which we believe will lead to increased drilling efficiencies and the ability to continue to meet and exceed the needs of our customers in a cost-effective manner. By investing in our fleet, we believe we can extend our rigs' useful lives, reduce operational downtime and generate ongoing value. We believe that our continued investment in our fleet has allowed us to provide safe, reliable and effective offshore drilling services for our customers and

has made our rigs more competitive in the global marketplace. Nevertheless, during the current industry downturn, we will spend capital judiciously to conserve cash.

We are focused on maintaining a responsible capital structure and appropriate levels of liquidity. We make investment decisions, including refurbishments, maintenance, upgrades and acquisitions, in a disciplined and diligent manner, carefully evaluating these investments based on their ability to maintain or improve our competitive position and strengthen our financial profile. As part of our evaluation, we also look at opportunities to sell rigs that we consider not core to our fleet, as well as scrap assets that will not be profitable in the future.

MARKET OUTLOOK

Brent crude oil prices are a key factor in determining our customers' current activity levels, as well as a critical input customers use to set future budgets and define drilling programs. In the third quarter of 2017, Brent crude prices rose steadily from a closing price of $47.92 per barrel on June 30, 2017 to a closing price of $57.54 per barrel at the end of the third quarter 2017. Brent prices increased further during the fourth quarter 2017 to close at $63.11 per barrel on November 29, 2017, as OPEC, Russia, and other key oil producing nations have indicated they expect to extend their voluntary production limits. Our customers are currently in the midst of their budgetary planning for 2018, and while a rise in commodity prices is normally viewed as a positive leading indicator of increased drilling activity, our discussions with customers suggest that oil and gas companies remain cautious in their outlook, adopting a 'lower for longer' view of commodity prices. We believe they will be equally cautious in committing to drilling programs for 2018.

Nevertheless, in the jackup market, we have seen some increase in tender activity. In the North Sea, our customers are pursuing plug and abandonment programs which fit well with our standard jackups. In the Middle East and India, several customers are tendering for long-term projects where they are seeking to lock in low dayrates for an extended period, suggesting they believe we have reached the trough of the cycle.

Competition for these opportunities remains fierce, with many rigs, both new and old, being bid on each tender. Many customers have indicated a preference for working rigs or units that have just completed a contract as opposed to warm or cold stacked rigs. Furthermore, in recent years, there has been a significant expansion of supply of jackups, the vast majority of which are currently under or have completed construction without a contract for future employment. The introduction of these non-contracted newbuild rigs into the marketplace has increased the overall supply of rigs which compete for drilling service contracts and has negatively impacted both the utilization for our rigs and the dayrates we are able to achieve for our fleet. As a result, despite seeing a general increase in industry utilization, the industry is experiencing continued pressure on dayrates with some rigs being offered for tender at or below cash breakeven prices.

Paragon and certain other rig owners have made decisions to scrap jackups. This has helped to reduce the overall number of available rigs in the market, but we have not yet seen enough scrapping activity to reduce the overcapacity, and the market oversupply could continue for several years if drilling activity does not increase. However, the speculative nature of the jackup newbuilds and the current challenging economic and market conditions may provide us with strategic opportunities to continue renewing our fleet. In doing so, we will be able to apply one of our competitive strengths, the ability to operate assets and generate value while minimizing risk.

We continue to believe that as the industry recovers and drilling activity increases, our customers will begin to pursue shallow water opportunities utilizing jackups. However, we cannot predict when this increase in activity across the various segments may occur or when pricing for working units may improve. While Paragon is positioning itself to benefit from an eventual industry recovery, we are not expecting one in the immediate future and we may experience low dayrates relative to historical high rates as well as low utilization levels for some time.

CONTRACT DRILLING SERVICES BACKLOG

We maintain a backlog (as defined below) of commitments for contract drilling services. The following table reflects, as of September 30, 2017 and including the Prospector Group, the amount of our contract drilling services backlog and the percent of available operating days committed for the periods indicated:

	For the Years Ending December 31,			
(Dollars in millions)	Total	2017	2018	2019
Drilling service backlog	$ 186	$ 47	$ 93	$ 46
Percent of available days committed [1]		22%	17%	8%

(1) Percent of available days committed is calculated by dividing the total number of days our rigs are operating under contract for such period, or committed days, by the product of the total number of our rigs, including cold-stacked rigs, and the number of calendar days in such period. Committed days do not include the days that a rig is stacked or the days that a rig is expected to be out of service for significant overhaul repairs or maintenance.

Our contract drilling services backlog typically reflects estimated future revenues attributable to both signed drilling contracts and letters of intent that we expect to realize. A letter of intent is generally subject to customary conditions, including the execution of a definitive drilling contract. It is possible that some customers that have entered into letters of intent will not enter into signed drilling contracts. As of September 30, 2017, our contract drilling services backlog did not include any letters of intent.

We calculate backlog for any given rig and period by multiplying the full contractual operating dayrate for such rig by the number of days remaining in the period. The reported contract drilling services backlog does not include amounts representing revenues for mobilization, demobilization and contract preparation, which are not expected to be significant to our contract drilling services revenues, amounts constituting reimbursables from customers or amounts attributable to uncommitted option periods under drilling contracts.

The amount of actual revenues earned and the actual periods during which revenues are earned may be materially different than the backlog amounts and backlog periods set forth in the table above due to various factors, including, but not limited to, shipyard and maintenance projects, unplanned downtime, achievement of bonuses, weather conditions and other factors that result in applicable dayrates lower than the full contractual operating dayrate. In addition, amounts included in the backlog may change because drilling contracts may be varied or modified by mutual consent or customers may exercise early termination rights contained in some of our drilling contracts or decline to enter into a drilling contract after executing a letter of intent. As a result, our backlog as of any particular date may not be indicative of our actual revenues for the periods for which the backlog is calculated.

RESULTS OF OPERATIONS

EXPLANATORY NOTES

The Prospector Group Results and Reconciliation to Item 1. Financial Statements

While the voluntary filing for relief under chapter 11 of the Bankruptcy Code in the Bankruptcy Court resulted in the deconsolidation of the Prospector Group in accordance with U.S. GAAP as reflected and disclosed in *Item 1. Financial Statements and Notes to the Financial Statements* of this Quarterly Report, management considers the Prospector Group to constitute our ongoing operational business. Therefore, we have included discussion on the results of the Prospector Group in our management's discussion and analysis of the results of operations. The following table shows the Successor's condensed consolidated results as reported in *Item 1. Financial Statements* and the impact of the full consolidation of the Prospector Group in the results of the Successor period from July 18, 2017 to September 30, 2017.

	Successor July 18, 2017 to September 30, 2017		
(Dollars in thousands)	**As Reported *Item 1 - Financial Statements***	**Prospector Group**	**As Reported (plus Prospector Group)**
Operating revenues			
Contract drilling services	$ 29,130	$ 14,675	$ 43,805
Reimbursables and other	819	650	1,469
	29,949	15,325	45,274
Operating costs and expenses			
Contract drilling services	41,876	4,561	46,437
Reimbursables	556	383	939
Depreciation and amortization	10,523	3,011	13,534
General and administrative	6,017	258	6,275
	58,972	8,213	67,185
Operating income (loss) before interest, reorganization items and income taxes	(29,023)	7,112	(21,911)
Interest expense, net	(1,366)	(2,606)	(3,972)
Other, net	210	(125)	85
Reorganization items, net	—	(1,613)	(1,613)
Other non-operating expenses	(3,072)	—	(3,072)
Earnings from equity method affiliate	2,605	(2,605)	—
Income (loss) before income taxes	(30,646)	163	(30,483)
Income tax provision	(618)	(163)	(781)
Net loss	$ (31,264)	$ —	$ (31,264)

Predecessor and Successor Results Combined - Current Quarter

The combined results of the Predecessor and Successor in 2017, inclusive of the Prospector Group, form the basis of the management discussion and analysis of current period financial conditions and results of operations.

Our quarterly operating results in 2017 consist of the Predecessor period from July 1, 2017 to July 18, 2017 and the Successor period from July 18, 2017 to September 30, 2017, including the Prospector Group (combined, the "Current Quarter") as compared to the Predecessor period for the three months ended September 30, 2016 (the "Comparable Quarter"). While the Predecessor and Successor periods referred to in *Item 1. Financial Statements and Notes to the Financial Statements* are two distinct reporting periods in 2017 as a result of our emergence from bankruptcy on July 18, 2017, our management discussion and analysis is based on the ongoing results of our fleet of drilling rigs in the Current Quarter as compared to the Comparable Quarter and examines any changes to those combined results and reasons for those changes inclusive of our emergence from bankruptcy.

The following table calculates the combined results of the Predecessor and Successor, including the Prospector Group, in the Current Quarter. The Current Quarter results shown here form the basis for the explanations provided in the following section titled *For the Current Quarter and Comparable Quarter.*

	Successor [1]	Predecessor	Current Quarter
(Dollars in thousands)	July 18, 2017 to September 30, 2017	July 1, 2017 to July 18, 2017	Three Months Ended September 30, 2017
Operating revenues			
Contract drilling services	$ 43,805	$ 11,600	$ 55,405
Labor contract drilling services	—	—	—
Reimbursables and other	1,469	282	1,751
	45,274	11,882	57,156
Operating costs and expenses			
Contract drilling services	46,437	5,215	51,652
Labor contract drilling services	—	49	49
Reimbursables	939	180	1,119
Depreciation and amortization	13,534	5,793	19,327
General and administrative	6,275	1,471	7,746
	67,185	12,708	79,893
Operating loss before interest, reorganization items and income taxes	(21,911)	(826)	(22,737)
Interest expense, net	(3,972)	(3,688)	(7,660)
Other, net	85	731	816
Reorganization items, net	(1,613)	935,184	933,571
Other non-operating expenses	(3,072)	—	(3,072)
Income (loss) before income taxes	(30,483)	931,401	900,918
Income tax benefit (provision)	(781)	4,442	3,661
Net income (loss)	$ (31,264)	$ 935,843	$ 904,579

(1) The Successor results shown here for the period from July 18, 2017 to September 30, 2017 reflect the results "As Reported (and including the Prospector Group)" as shown in the first table above under *Reconciliation to Item 1. Financial Statements.*

Predecessor and Successor Results Combined - Current Period

Our year-to-date operating results in 2017 consist of the Predecessor period from January 1, 2017 to July 18, 2017 and the Successor period from July 18, 2017 to September 30, 2017, including the Prospector Group (combined, the "Current Period") as compared to the Predecessor period for the nine months ended September 30, 2016 (the "Comparable Period"). While the Predecessor and Successor periods referred to in *Item 1. Financial Statements and Notes to the Financial Statements* are two distinct reporting periods as a result of our emergence from bankruptcy on July 18, 2017, our discussion below is based on the ongoing results of our fleet of drilling rigs in the Current Period as compared to the Comparable Period and examines any changes to those combined results and reasons for those changes inclusive of our emergence from bankruptcy.

The following table calculates the combined results of the Predecessor and Successor, including the Prospector Group, in the Current Period. The Current Period results shown here form the basis for the explanations provided in the following section titled *For the Current Period and Comparable Period.*

(Dollars in thousands)	Successor [1] July 18, 2017 to September 30, 2017	Predecessor January 1, 2017 to July 18, 2017	Current Period Nine Months Ended September 30, 2017
Operating revenues			
Contract drilling services	$ 43,805	$ 124,663	$ 168,468
Labor contract drilling services	—	—	—
Reimbursables and other	1,469	4,760	6,229
	45,274	129,423	174,697
Operating costs and expenses			
Contract drilling services	46,437	96,853	143,290
Labor contract drilling services	—	(566)	(566)
Reimbursables	939	3,296	4,235
Depreciation and amortization	13,534	66,860	80,394
General and administrative	6,275	17,312	23,587
Loss on impairments	—	391	391
(Gain) on sale of assets, net	—	(1,383)	(1,383)
	67,185	182,763	249,948
Operating loss before interest, reorganization items and income taxes	(21,911)	(53,340)	(75,251)
Interest expense, net	(3,972)	(39,610)	(43,582)
Other, net	85	3,452	3,537
Reorganization items, net	(1,613)	895,931	894,318
Other non-operating expenses	(3,072)	—	(3,072)
Income (loss) before income taxes	(30,483)	806,433	775,950
Income tax benefit (provision)	(781)	2,078	1,297
Net income (loss)	$ (31,264)	$ 808,511	$ 777,247

(1) The Successor results shown here for the period from July 18, 2017 to September 30, 2017 reflect the results "As Reported (and including the Prospector Group)" as shown in the first table above under *Reconciliation to Item 1. Financial Statements.*

For the Current Quarter and the Comparable Quarter

In the Current Quarter, Successor net loss for July 18, 2017 to September 30, 2017 was $31 million, on operating revenues of $45 million, including the Prospector Group. Also in the Current Quarter, Predecessor net income for July 1, 2017 to July 18, 2017 was $936 million, on operating revenues of $12 million. Predecessor net income for July 1, 2017 to July 18, 2017 was the result of our gain on settlement of liabilities subject to compromise pursuant to our emergence from bankruptcy on July 18, 2017. In the Comparable Quarter, Predecessor net loss was $64 million, on operating revenues of $125 million.

Average Rig Utilization, Operating Days and Average Dayrates

Operating results for our contract drilling services segment are dependent on two primary metrics: rig utilization and dayrates. The following table includes the average rig utilization, operating days and average dayrates for our rig fleet, including the Prospector Rigs, for the Current Quarter as compared to the Comparable Quarter.

	Current Quarter	Comparable Quarter	Change
	Three Months Ended September 30, 2017	Three Months Ended September 30, 2016	%
Jackups			
Average Rig Utilization [1]	23%	32%	(28)%
Operating Days [2]	690	1,001	(31)%
Average Dayrates	$ 73,268	$ 98,824	(26)%
Floaters			
Average Rig Utilization [1]	13%	13%	— %
Operating Days [2]	57	74	(22)%
Average Dayrates	$ 84,925	$ 241,379	(65)%
Total			
Average Rig Utilization [1]	22%	29%	(24)%
Operating Days [2]	747	1,075	(31)%
Average Dayrates	$ 74,157	$ 108,534	(32)%

(1) We define utilization for a specific period as the total number of days our rigs are operating under contract, divided by the product of the total number of our rigs, including cold-stacked rigs, and the number of calendar days in such period. Information reflects our policy of reporting on the basis of the number of available rigs in our fleet.

(2) Information reflects the number of days that our rigs were operating under contract.

Operating Results

The following table sets forth our operating results for the Current Quarter as compared to the Comparable Quarter.

(Dollars in thousands)	Current Quarter Three Months Ended September 30, 2017	Comparable Quarter Three Months Ended September 30, 2016	Change $	Change %
Operating revenues				
Contract drilling services	$ 55,405	$ 116,674	$ (61,269)	(53)%
Labor contract drilling services	—	4,517	(4,517)	(100)%
Reimbursables and other	1,751	3,887	(2,136)	(55)%
	57,156	125,078	(67,922)	(54)%
Operating costs and expenses				
Contract drilling services	51,652	85,109	(33,457)	(39)%
Labor contract drilling services	49	4,966	(4,917)	(99)%
Reimbursables	1,119	2,778	(1,659)	(60)%
Depreciation and amortization	19,327	50,270	(30,943)	(62)%
General and administrative	7,746	11,464	(3,718)	(32)%
	79,893	154,587	(74,694)	(48)%
Operating loss	$ (22,737)	$ (29,509)	$ 6,772	(23)%

Contract Drilling Services Operating Revenues—Changes in contract drilling services revenues for the Current Quarter as compared to the Comparable Quarter resulted from a 31% decrease in operating days which negatively impacted revenues by $35 million. This was coupled with a 32% decrease in average dayrates, which resulted in a $26 million decrease in revenues from the Comparable Quarter.

The decrease in contract drilling services revenues was attributable to both our floaters and jackups, which experienced decreases of $13 million and $48 million, respectively, in the Current Quarter as compared to the Comparable Quarter.

The decrease in floater revenues of $13 million in the Current Quarter was driven by a 65% decrease in average dayrates, which resulted in a $9 million decrease in revenues from the Comparable Quarter. This was coupled with a 22% decrease in operating days from the Comparable Quarter which resulted in a $4 million decrease in revenues from the Comparable Quarter.

The decrease in floater average dayrates during the Current Quarter was due to a lower rate for the *Paragon MSS1*, which was the only floater operating in the Current Quarter. The decrease in operating days for our floaters was attributable to *Paragon DPDS3*, which was uncontracted for all of the Current Quarter but experienced partial utilization in Brazil in the Comparable Quarter partially offset by an increase in operating days for *Paragon MSS1*.

The $48 million decrease in jackup revenues in the Current Quarter was driven by a 31% decrease in operating days which resulted in a $31 million decrease in revenues from the Comparable Quarter. This was coupled with a 26% decrease in average dayrates, which resulted in a $17 million decrease in revenues from the Comparable Quarter.

The decrease in jackup operating days was primarily related to *Paragon C461* in the North Sea and *Paragon M1162* in the Middle East, which were uncontracted for all of the Current Quarter but experienced full utilization during the Comparable Quarter. The remaining decrease in operating days is due to *Paragon C20051* and *Paragon HZ1* in the North Sea and *Paragon L784* in the Middle East which were uncontracted for all of the Current Quarter but were contracted for a portion of the Comparable Quarter. This was partially offset by an increase in operating days for *Paragon B391* and *Prospector 1* in the North Sea.

The decrease in jackup average dayrates during the Current Quarter was due to an overall decrease in dayrates across our fleet.

Contract Drilling Services Operating Costs and Expenses — Contract drilling services operating costs and expenses decreased $33 million in the Current Quarter as compared to the Comparable Quarter due to reduced operating days across our fleet as well as cost reduction initiatives implemented across our operations.

Labor Contract Drilling Services Operating Revenues and Costs and Expenses — The decline in revenues and expenses associated with our Canadian labor contract drilling services was primarily related to the termination of our labor contract with Hibernia Management and Development Ltd. in June 2016.

Reimbursables Operating Revenues and Costs and Expenses — Margin on our reimbursable remained relatively constant. We record reimbursements from customers for out-of-pocket expenses as operating revenues and the related direct costs as operating expenses. Changes in the amount of these reimbursables generally do not have a material effect on our financial position, results of operations or cash flows.

Depreciation and Amortization — The $31 million decrease in depreciation and amortization in the Current Quarter was attributable to lower depreciation on assets subject to fair value adjustment as required by fresh start accounting.

General and Administrative — General and administrative expenses decreased $4 million in the Current Quarter as compared to the Comparable Quarter primarily due to cost reduction initiatives implemented across the business as a result of reduced operations.

Other Expenses

Interest Expense, net — In the Current Quarter, Successor interest expense, net for July 18, 2017 to September 30, 2017 was $4 million and includes interest expense on the Sale-Leaseback Transaction of the Prospector Group. Also in the Current Quarter, Predecessor interest expense, net for July 1, 2017 to July 18, 2017 was $4 million. In the Comparable Quarter, Predecessor interest expense, net for the three months ended September 30, 2016 was $18 million. The Predecessor continued to make interest payments on the Term Loan Facility and the Revolving Credit Facility in the ordinary course of business, based on Bankruptcy Court approval up to and on the Effective Date. Predecessor interest expense also includes interest associated with the rental payments on our Sale-Leaseback Transaction prior to fresh-start accounting. Successor interest expense included interest associated with the rental payments on our Sale-Leaseback Transaction subsequent to fresh-start accounting which reduced the total outstanding fair value of the sale-leaseback obligation. Successor interest expense also includes interest on an aggregate $85 million in principal, New Term Loan Facility, deemed outstanding pursuant to the Consensual Plan.

Reorganization Items, net and Other Non-Operating Expenses — In the Current Quarter, Successor reorganization items, net for July 18, 2017 to September 30, 2017 was $2 million and consists entirely of professional fees incurred for the Prospector Bankruptcy cases. Subsequent to the Effective Date, the Successor also incurred other non-operating expenses for July 18, 2017 to September 30, 2017 of $3 million, which consist of charges that are directly related to the Paragon Bankruptcy cases. Also in the Current Quarter, Predecessor reorganization items, net for July 1, 2017 to July 18, 2017 was a gain of $935 million which consists of a $1.23 billion gain on settlement of liabilities subject to compromise and a $238 million non-cash loss for fresh-start accounting adjustments both pursuant to our emergence from bankruptcy on July 18, 2017 and $57 million in post-petition professional fees directly associated with the Predecessor's reorganization. In the Comparable Quarter, Predecessor reorganization items, net for the three months ended September 30, 2017 was expense of $17 million which primarily comprised professional fees directly associated with the Paragon Bankruptcy cases.

Income Tax Provision — In the Current Quarter, Successor income tax provision for July 18, 2017 to September 30, 2017 was $1 million, including the Prospector Group. Also in the Current Quarter, Predecessor income tax benefit for July 1, 2017 to July 18, 2017 was $4 million. In the Comparable Quarter, Predecessor income tax provision for the three months ended September 30, 2016 was $1 million. Changes in our income tax benefit/provision are related to the underlying changes in the profitability/loss associated with our operations in various jurisdictions and certain discrete tax items.

For the Current Period and Comparable Period

In the Current Period, Successor net loss for July 18, 2017 to September 30, 2017 was $31 million, on operating revenues of $45 million, including the Prospector Group. Also in the Current Period, Predecessor net income for January 1, 2017 to July 18, 2017 was $809 million, on operating revenues of $129 million. Predecessor net income for January 1, 2017 to July 18, 2017 was the result of our gain on settlement of liabilities subject to compromise pursuant to our emergence from bankruptcy on July 18, 2017. In the Comparable Period, Predecessor net loss was $94 million, on operating revenues of $575 million.

Average Rig Utilization, Operating Days and Average Dayrates

Operating results for our contract drilling services segment are dependent on two primary metrics: rig utilization and dayrates. The following table includes the average rig utilization, operating days and average dayrates for our rig fleet, including the Prospector Rigs, for the Current Period as compared to the Comparable Period.

	Current Period	Comparable Period	Change
	Nine Months Ended September 30, 2017	Nine Months Ended September 30, 2016	%
Jackups			
Average Rig Utilization [1]	23%	39%	(41)%
Operating Days [2]	2,044	3,618	(43)%
Average Dayrates	$ 80,036	$ 109,142	(27)%
Floaters			
Average Rig Utilization [1]	4%	25%	(84)%
Operating Days [2]	57	416	(86)%
Average Dayrates	$ 84,925	$ 291,598	(71)%
Total			
Average Rig Utilization [1]	20%	37%	(46)%
Operating Days [2]	2,101	4,034	(48)%
Average Dayrates	$ 80,168	$ 127,958	(37)%

(1) We define utilization for a specific period as the total number of days our rigs are operating under contract, divided by the product of the total number of our rigs, including cold-stacked rigs, and the number of calendar days in such period. Information reflects our policy of reporting on the basis of the number of available rigs in our fleet.

(2) Information reflects the number of days that our rigs were operating under contract.

Operating Results

The following table sets forth our operating results for the Current Period as compared to the Comparable Period.

(Dollars in thousands)	Current Period Nine Months Ended September 30, 2017	Comparable Period Nine Months Ended September 30, 2016	Change $	Change %
Operating revenues				
Contract drilling services	$ 168,468	$ 516,182	$ (347,714)	(67)%
Labor contract drilling services	—	16,750	(16,750)	(100)%
Reimbursables and other	6,229	42,201	(35,972)	(85)%
	174,697	575,133	(400,436)	(70)%
Operating costs and expenses				
Contract drilling services	143,290	289,446	(146,156)	(50)%
Labor contract drilling services	(566)	14,218	(14,784)	(104)%
Reimbursables	4,235	35,870	(31,635)	(88)%
Depreciation and amortization	80,394	181,732	(101,338)	(56)%
General and administrative	23,587	33,459	(9,872)	(30)%
Loss on impairments	391	—	391	**
(Gain) on sale of assets, net	(1,383)	—	(1,383)	**
	249,948	554,725	(304,777)	(55)%
Operating income (loss)	$ (75,251)	$ 20,408	$ (95,659)	(469)%

** Not a meaningful percentage

Contract Drilling Services Operating Revenues—Changes in contract drilling services revenues for the Current Period as compared to the Comparable Period were driven by a 48% decrease in operating days which negatively impacted revenues by $277 million. This was coupled with a 37% decrease in average dayrates which decreased revenues by $71 million.

The decrease in contract drilling services revenues was attributable to both our floaters and jackups, which experienced decreases of $117 million and $231 million, respectively, in the Current Period as compared to the Comparable Period.

The decrease in floater revenues of $117 million in the Current Period was driven by an 86% decrease in operating days which resulted in a $105 million decrease in revenues. This was coupled with a 71% decrease in average dayrates which resulted in decreased revenues of $12 million from the Comparable Period.

The decrease in operating days for our floaters was primarily attributable to *Paragon DPDS3* and *Paragon MSS2* which were uncontracted for all of the Current Period but experienced partial utilization in Brazil in the Comparable Quarter. *Paragon MSS1* in the North Sea was uncontracted for a portion of the Current Period but was contracted for all or a greater portion of the Comparable Period. The decrease in floater average dayrates during the Current Quarter was due to a lower rate for the *Paragon MSS1*, which was the only floater operating in the Current Quarter.

The $231 million decrease in jackup revenues in the Current Period was driven by a 43% decrease in jackup operating days which resulted in a $172 million decrease in revenues. This was coupled with a 27% decrease in average dayrates which resulted in decreased revenues of $59 million from the Comparable Period.

The decrease in jackup operating days was primarily related to *Paragon M1162* in the Middle East and *Paragon C461* in the North Sea which were uncontracted for all of the Current Period but experienced full utilization during the Comparable Period. The remaining decrease in operating days is due to *Paragon M825* and *Paragon M826* in West Africa, *Paragon B391*, *Paragon C20051*, *Paragon C20052*, *Paragon C463* and *Paragon HZ1* in the North Sea, *Paragon L784* in the Middle East and *Paragon M842* in Mexico which were uncontracted for a portion of the Current Period but were contracted for all or a greater portion of the Comparable Period. This was partially offset by an increase in operating days for *Prospector 1* in the North Sea and *Dhabi II* in the Middle East.

The decrease in jackup average dayrates during the Current Period was due to an overall decrease in dayrates across our fleet.

Contract Drilling Services Operating Costs and Expenses — Contract drilling services operating costs and expenses decreased $146 million in the Current Period as compared to the Comparable Period due to reduced operating days across our fleet as well as cost reduction initiatives implemented across our operations.

Labor Contract Drilling Services Operating Revenues and Costs and Expenses — The decline in revenues and expenses associated with our Canadian labor contract drilling services was primarily related to the termination of our labor contract with Hibernia Management and Development Ltd. in June 2016.

Reimbursables Operating Revenues and Costs and Expenses — We record reimbursements from customers for out-of-pocket expenses as operating revenues and the related direct costs as operating expenses. Changes in the amount of these reimbursables generally do not have a material effect on our financial position, results of operations or cash flows.

Depreciation and Amortization — The $101 million decrease in depreciation and amortization in the Current Period was primarily attributable to lower depreciation on assets subject to the impairment charges taken in the fourth quarter of 2016 and fair value adjustment as required by fresh start accounting.

General and Administrative — General and administrative expenses decreased $10 million in the Current Period as compared to the Comparable Period primarily due to cost reduction initiatives implemented across the business as a result of reduced operations.

Other Expenses

Interest Expense, net — In the Current Period, Successor interest expense, net for July 18, 2017 to September 30, 2017 was $4 million and includes interest expense on the Sale-Leaseback Transaction of the Prospector Group. Also in the Current Period, Predecessor interest expense, net for January 1, 2017 to July 18, 2017 was $40 million. In the Comparable Period, Predecessor interest expense, net for the nine months ended September 30, 2017 was $58 million. The Predecessor continued to make interest payments on the Term Loan Facility and the Revolving Credit Facility in the ordinary course of business, based on Bankruptcy Court approval up to and on the Effective Date. Predecessor interest expense also includes interest associated with the rental payments on our Sale-Leaseback Transaction prior to fresh-start accounting. Successor interest expense includes interest associated with the rental payments on our Sale-Leaseback Transaction subsequent to fresh-start accounting which reduced the total outstanding fair value of the sale-leaseback obligation. Successor interest expense also includes interest on an aggregate $85 million in principal, New Term Loan Facility, deemed outstanding pursuant to the Consensual Plan.

Reorganization Items, net and Other Non-Operating Expenses — In the Current Period, Successor reorganization items, net for July 18, 2017 to September 30, 2017 was $2 million and consists entirely of professional fees incurred for the Prospector Bankruptcy cases. Subsequent to the Effective Date, the Successor also incurred other non-operating expenses for July 18, 2017 to September 30, 2017 of $3 million, which consist of charges that are directly related to the Paragon Bankruptcy cases. Also in the Current Period, Predecessor reorganization items, net for January 1, 2017 to July 18, 2017 was a gain of $896 million which consists of a $1.23 billion gain on settlement of liabilities subject to compromise and a $238 million non-cash loss for fresh-start accounting adjustments both pursuant to our emergence from bankruptcy on July 18, 2017 and $96 million in post-petition professional fees directly associated with the Predecessor's reorganization. In the Comparable Period, Predecessor reorganization items, net for the nine months ended September 30, 2017 was expense of $57 million which primarily comprised professional fees directly associated with the Paragon Bankruptcy cases.

Income Tax Provision — In the Current Period, Successor income tax provision for July 18, 2017 to September 30, 2017 was $1 million, including the Prospector Group. Also in the Current Period, Predecessor income tax benefit for January 1, 2017 to July 18, 2017 was $2 million. In the Comparable Period, Predecessor income tax provision for the nine months ended September 30, 2016 was $1 million. Changes in our income tax benefit/provision are related to the underlying changes in the profitability/loss associated with our operations in various jurisdictions and certain discrete tax items.

Non-GAAP Performance Measure: Adjusted EBITDA

We define Adjusted EBITDA as net income (loss) before taxes plus interest expense, depreciation and amortization, losses on impairments, foreign currency losses, reorganization items, and other non-operating expenses less gains on the sale of assets, interest income and foreign currency gains. Adjusted EBITDA, as used and defined by us, may not be comparable to similarly titled measures employed by other companies and is not a measure of performance calculated in accordance with U.S. GAAP. Adjusted EBITDA should not be considered in isolation or as a substitute for operating income, net income or loss, cash flows provided by or used in operating, investing and financing activities, or other income or cash flow statement data prepared in accordance with U.S. GAAP. However, we believe Adjusted EBITDA is useful to an investor in evaluating our operating performance because this measure: (1) is used by investors in our industry to measure a company's operating performance without regard to items excluded from the calculation of such term, which can vary substantially from company to company depending upon accounting methods and book value of assets, capital structure and the method by which assets were acquired, among other factors; (2) helps investors and creditors to more meaningfully evaluate and compare the results of our operations from period to period by removing the effect of certain non-recurring transactions, our capital structure and asset base from its operating structure; and (3) is used by our management as a basis for strategic planning and forecasting. There are significant limitations to using Adjusted EBITDA as a measure of performance, including the inability to analyze the effect of certain recurring and non-recurring items that materially affect our net income or loss, and the lack of comparability of results of operations of different companies.

The reconciliation from net income (loss) to Adjusted EBITDA is as follows in the table below and calculates the combined results of the Predecessor and Successor, including the Prospector Group, in the Current Quarter and Current Period as explained in Results of Operations.

(in thousands)	Current Quarter Three Months Ended September 30, 2017	Comparable Quarter Three Months Ended September 30, 2016	Current Period Nine Months Ended September 30, 2017	Comparable Period Nine Months Ended September 30, 2016
Net income (loss)	$ 904,579	$ (63,618)	$ 777,247	$ (93,937)
Adjustments:				
Depreciation and amortization	19,327	50,270	80,394	181,732
Loss on impairments	—	—	391	—
(Gain) on sale of assets, net	—	—	(1,383)	—
Interest expense, net	7,660	18,446	43,582	58,299
Other, net	(816)	(2,804)	(3,537)	(1,512)
Reorganization items, net	(933,571)	17,211	(894,318)	56,602
Other non-operating expenses	3,072	—	3,072	—
Income tax (benefit) provision	(3,661)	1,256	(1,297)	956
Adjusted EBITDA	$ (3,410)	$ 20,761	$ 4,151	$ 202,140

LIQUIDITY AND CAPITAL RESOURCES

Financial Resources and Liquidity Overview

Our ability to fund our operations, pay the principal and interest on our New Term Loan Facility and satisfy our other obligations will depend upon our available liquidity and the amount of cash flows we are able to generate from our operations. As of September 30, 2017, we had available liquidity in cash and cash equivalents of $152 million. During the nine months ended September 30, 2017, our cash balance declined by approximately $731 million as we utilized $515 million of our cash on hand to make the Secured Lender Distribution and the Bondholder Distribution pursuant to the Consensual Plan and used approximately $119 million net cash in operating activities. This decline in our cash balance includes a decrease of $22 million in cash and cash equivalents attributable to the deconsolidation of the Prospector Group.

We have had negative cash flows from operations in recent fiscal periods and conditions in our industry remain depressed. Further, we do not have access to borrowings under a revolving credit facility and are restricted in our ability to take certain actions without the permission of the lenders under the New Term Loan Facility, including the incurrence of debt, the granting of liens, the payment of dividends and the sale of assets. Our ability to generate cash from operations and maintain sufficient liquidity can be affected by events beyond our control, including commodity prices, demand for our services, the valuation of our assets and other obligations as well as prevailing economic, financial and industry conditions, and we can offer no assurance that we will be able to generate sufficient cash from operations or maintain sufficient liquidity. If industry conditions do not improve, we are likely to continue to have significant negative cash flows from operations during the remainder of 2017 and into 2018. If we lack sufficient liquidity to satisfy our debt or other obligations, we could be required to pursue a strategic transaction or alternative to restructure our business and capital structure.

The table below includes a summary of our cash flow information for the Successor period from July 18, 2017 to September 30, 2017 and the Predecessor periods from January 1, 2017 to July 18, 2017 and the nine months ended September 30, 2016

	Successor	Predecessor	
(In thousands)	July 18, 2017 to September 30, 2017	January 1, 2017 to July 18, 2017	Nine Months Ended September 30, 2016
Cash flows provided by (used in):			
Operating activities	$ (27,887)	$ (91,071)	$ 244,636
Investing activities	(13,520)	(51,397)	(79,079)
Financing activities	—	(547,488)	(59,165)

Negative cash flows from operating activities for the nine months ended September 30, 2017 are driven by the overall decrease in our business activity (see discussion of changes in operating loss in "Results of Operations" above). Changes in cash flows from investing activities are primarily dependent on our level of capital expenditures, which varies based on the timing of projects. Cash used for capital expenditures totaled $11 million during the nine months ended September 30, 2017, as compared to $45 million during the same period in 2016. During the nine months ended September 30, 2017, cash used in investing activities was impacted by an increase in restricted cash related to the creation of professional fee claims escrow and general unsecured claims escrow accounts pursuant to the Consensual Plan. Cash used in financing activities for the nine months ended September 30, 2017 is due to a total of $32 million in repayments on our Sale-Leaseback Transaction and a $515 million payment made in settlement of the Secured Lender Distribution and the Bondholder Distribution pursuant to the Consensual Plan.

Meeting Our Liquidity Needs

We have maintained our liquidity position by giving priority to generating cash flows, including cost and capital expenditure reductions, while maintaining our long-term commitment to providing high quality services. During the pendency of the Paragon Bankruptcy cases and upon emergence from bankruptcy, our primary sources of liquidity have been cash on hand and cash flows from operations. In addition to the cash requirements to fund ongoing operations, we have incurred significant professional fees and other costs in connection with preparation and handling of the Paragon Bankruptcy cases. For the Predecessor periods from January 1, 2017 to July 18, 2017 and the nine months ended September 30, 2016, we paid $44 million and $31 million, respectively, in professional fees.

Pursuant to the terms of the Consensual Plan, the Predecessor holds approximately $11 million of cash on trust to discharge the fees, expenses and disbursements of the administration of the Predecessor, including the fees and expenses of the Joint Administrators, and the wind down of the Predecessor's remaining subsidiaries, excluding the Prospector Group. As of the Effective Date, the Former Parent Company and its Liquidating Subsidiaries have approximately $7 million in cash in certain of its subsidiaries which will also be used for the wind down of the Predecessor's remaining subsidiaries.

Our currently anticipated cash flow needs, both in the short-term and long-term, may include the following:

- normal recurring operating expenses;
- committed capital expenditures;
- discretionary capital expenditures, including various capital upgrades;
- capital expenditures for the reactivation of stacked rigs upon securing an acceptable drilling contract; and
- service of outstanding indebtedness, including mandatory pre-payments.

We currently expect to fund these cash flow needs with cash generated by our operations, available cash balances, or asset sales as allowed under our credit agreements.

Capital Expenditures

Cash used for capital expenditures totaled $5 million during the Successor period from July 18, 2017 to September 30, 2017 and $6 million and $45 million during the Predecessor periods from January 1, 2017 to July 18, 2017 and the nine months ended September 30, 2016, respectively.

In the future, we expect to continue making investments in capital expenditures. Subject to our liquidity limitations, we plan investments during the remainder of 2017 to be primarily for expenditures to extend the useful lives of our rigs.

Factors that could cause actual capital expenditures to materially exceed plan include delays and cost overruns in shipyards (including costs attributable to labor shortages), shortages of equipment, latent damage or deterioration to hull, equipment and machinery in excess of engineering estimates and assumptions, changes in governmental regulations and requirements and changes in design criteria or specifications during repair or construction.

OFF-BALANCE SHEET ARRANGEMENTS

We have no off-balance sheet arrangements as that term is defined in Item 303(a)(4)(ii) of Regulation S-K of the SEC.

Forward-Looking Statements

This Quarterly Report includes "forward-looking statements". All statements other than statements of historical facts included in this report are forward-looking statements, including statements regarding contract backlog, fleet status, our financial position, our plan of reorganization, the Paragon Bankruptcy cases, the Prospector Bankruptcy cases, business strategy, taxes, timing or results of acquisitions or dispositions, repayment of debt, borrowings under our credit facilities or other instruments, future capital expenditures, contract commitments, dayrates, contract commencements, extension or renewals, contract tenders, the outcome of any dispute, litigation, audit or investigation, plans and objectives of management for future operations, foreign currency requirements, indemnity and other contract claims, construction and upgrade of rigs, industry conditions, access to financing, impact of competition, governmental regulations and permitting, availability of labor, worldwide economic conditions, taxes and tax rates, indebtedness covenant compliance, dividends and distributable reserves, and timing for compliance with any new regulations. When used in this report, the words "anticipate," "believe," "estimate," "expect," "intend," "may," "plan," "project," "should" and similar expressions are intended to be among the statements that identify forward-looking statements. Although we believe that the expectations reflected in such forward-looking statements are reasonable, we cannot assure you that such expectations will prove to be correct. These forward-looking statements speak only as of the date of this Quarterly Report and we undertake no obligation to revise or update any forward-looking statement for any reason, except as required by law. These factors include those referenced or described in Part I, Item 1A, "Risk Factors" of our Annual Report on Form 10-K for the year ended December 31, 2016, and this Quarterly Report. Such risks and uncertainties are beyond our control, and in many cases, we cannot predict the risks and uncertainties that could cause our actual results to differ materially from those indicated by the forward-looking statements. You should consider these risks and uncertainties when you are evaluating us.

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

Market risk is the potential for loss from a change in the value of a financial instrument as a result of fluctuations in interest rates or currency exchange rates, as further described below.

Interest Rate Risk

On the Effective Date, in connection with the effectiveness of the Consensual Plan, all outstanding obligations of the Predecessor under the Senior Notes and the indenture governing such obligations were cancelled and discharged, and the Predecessor and certain of its subsidiaries were released from their respective obligations under the Revolving Credit Facility and the Term Loan Facility.

For variable rate debt, interest rate changes generally do not affect the fair market value of such debt, but do impact future earnings and cash flows, assuming other factors are held constant. The Successor is subject to market risk exposure related to changes in interest rates on borrowings under the New Term Loan Facility.

Interest on borrowings under the New Term Loan Facility is at an agreed upon applicable margin over adjusted LIBOR, or base rate plus such applicable margin as stated in the agreement. As of September 30, 2017, we had $85 million borrowings outstanding under the New Term Loan Facility. A 1% change in the interest rate on the floating rate debt would have impacted our annual earnings and cash flows by approximately $1 million.

Foreign Currency Risk

Our reporting currency is the U.S. dollar. All subsidiaries of the Predecessor and Successor maintain their books and records in their functional currency. The functional currency of the Predecessor was primarily the U.S. dollar. Based on an assessment of the economic circumstances of the operations, the functional currency for all subsidiaries of the Successor has been designated as the U.S. dollar. We therefore define foreign currency transactions as any transaction denominated in a currency other than the U.S. dollar. Monetary assets and liabilities denominated in a foreign currency are measured to U.S. dollars at the rate of exchange in effect as of each respective period end; items of income and expense are measured at average monthly rates; and property and equipment and other non-monetary assets are measured at historical rates. Realized and unrealized gains and losses on foreign currency transactions are recorded in “Other, net” on our Condensed Consolidated Statement of Operations

Outside the United States, a portion of our expenses are incurred in local currencies. Therefore, when the U.S. dollar weakens (strengthens) in relation to the currencies of the countries in which we operate, our expenses reported in U.S. dollars will increase (decrease). We are exposed to risks on future cash flows to the extent that local currency expenses exceed revenues denominated in local currencies that are other than the U.S. dollar. To help manage this potential risk, we may periodically enter into derivative instruments to manage our exposure to fluctuations in foreign currency exchange rates, and we may conduct hedging activities in future periods to mitigate such exposure. We do not engage in derivative transactions for speculative or trading purposes, nor are we a party to leveraged derivatives. At September 30, 2017, we had no outstanding derivative contracts.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information regarding legal proceedings is set forth in Note 1 - *"Organization, Currents Events, and Basis of Presentation*" and Note 17, *"Commitments and Contingencies"* to our unaudited consolidated financial statements included in Item I, Part I of this Quarterly Report.

As of September 30, 2017, we were involved in a number of lawsuits and matters which have arisen in the ordinary course of business for which we do not expect the liability, if any, to have a material adverse effect on our Condensed Consolidated Balance Sheets, Condensed Consolidated Statements of Operations and Condensed Consolidated Statements of Cash Flows. We cannot predict with certainty the outcome or effect of pending or threatened litigation or legal proceedings. There can be no assurance that our beliefs or expectations as to the outcome or effect of any lawsuit or other matters will prove correct and the eventual outcome could materially differ from management's current estimates.

ITEM 1A. RISK FACTORS

Except as set forth below, there have been no material changes to the risk factors previously disclosed in our Annual Report on Form 10-K for the year ended December 31, 2016. For additional information about our risk factors see the risks described in Part I, Item 1A, "*Risk Factors*," of our Annual Report on Form 10-K for the year ended December 31, 2016, filed with the SEC.

We filed for reorganization under chapter 11 of the Bankruptcy Code for the Prospector Group on July 20, 2017 and are subject to the risks and uncertainties associated with the Prospector Bankruptcy cases.

We filed the Prospector Bankruptcy cases on July 20, 2017. For the duration of the Prospector Bankruptcy cases, our operations and our ability to execute our business strategy will be subject to the risks and uncertainties associated with the Prospector Bankruptcy cases. These risks include:

- our ability to continue as a going concern;
- our ability to obtain Bankruptcy Court approval with respect to motions filed in the Prospector Bankruptcy cases from time to time;
- our ability to develop, prosecute, confirm and consummate a plan of reorganization with respect to the Prospector Bankruptcy cases;
- the ability of third parties to seek and obtain court approval to terminate or shorten the exclusivity period for us to propose and confirm a plan of reorganization, to appoint a U.S. trustee or to convert the Prospector Bankruptcy cases to chapter 7 cases;
- our ability to obtain and maintain normal payment and other terms with customers, vendors and service providers;
- our senior management will be required to spend significant time and effort dealing with bankruptcy and restructuring activities rather than focusing exclusively on business operations;
- our ability to maintain contracts or sign new contracts that are critical to our operations;
- our ability to attract, motivate and retain key employees through the process of reorganization, and to attract new employees;
- our ability to retain key vendors or secure alternative supply sources;
- our ability to fund an execute our business plan; and
- our ability to obtain acceptable and appropriate financing to refinance the Sale-Leaseback Transaction, if applicable.

We will also be subject to risks and uncertainties with respect to the actions and decisions of our creditors and other third parties who have interests in the Prospector Bankruptcy cases that may be inconsistent with our plans, and the costs of the chapter 11 proceedings may be higher than we expect.

These risks and uncertainties could affect our business and operations in various ways. For example, negative events or publicity associated with the Prospector Bankruptcy cases could adversely affect our relationships with our vendors and employees, as well as with customers, which in turn could adversely affect our operations and financial condition. Also, pursuant to the Bankruptcy Code, we need Bankruptcy Court approval for transactions outside the ordinary course of business, which may limit our ability to respond timely to events or take advantage of opportunities. Because of the risks and uncertainties associated with the Prospector Bankruptcy cases, we cannot predict or quantify the ultimate impact that events occurring during the chapter 11 proceedings will have on our business, financial condition and results of operations, and there is no certainty as to our ability to continue as a going concern.