



**Borr
Drilling**

Borr Drilling Limited

Unaudited Condensed Consolidated Financial Statements

For the fourth quarter and the twelve months ended December 31, 2018

**(Comparatives third quarter 2018, fourth quarter 2017 and the twelve months ended
December 31, 2017)**

Borr Drilling Limited and subsidiaries
Unaudited Consolidated Financial Statements
Unaudited Condensed Consolidated Statements of Operations
(In US\$ millions except per share data)

	Notes	3 months to December 31, 2018	3 months to September 30, 2018	3 months to December 31, 2017	12 months to December 31, 2018	12 months to December 31, 2017
Operating revenues	3	53.5	49.7	0.1	164.9	0.1
Gain on disposals	7	1.3	-	-	18.8	-
Operating expenses						
Rig operating and maintenance expenses		(59.5)	(45.7)	(21.4)	(180.1)	(36.2)
Depreciation and impairment of non-current assets	7	(23.8)	(21.5)	(35.4)	(79.5)	(47.9)
Amortisation of contract backlog	9	(8.5)	(9.7)	-	(24.2)	-
General and administrative expenses	17	(10.8)	(9.7)	(5.6)	(38.7)	(21.0)
Restructuring costs	9	(3.2)	(4.6)	-	(30.7)	-
Cost for issuance of warrants		-	-	-	-	(4.7)
Total operating expenses		(105.8)	(91.2)	(62.4)	(353.2)	(109.8)
Operating loss		(51.0)	(41.5)	(62.3)	(169.5)	(109.7)
Financial income (expense), net	4, 12	(59.2)	4.5	0.6	(57.0)	21.7
Total financial items		(59.2)	4.5	0.6	(57.0)	21.7
Gain from bargain purchase	9	-	-	-	38.1	-
Loss before income taxes		(110.2)	(37.0)	(61.7)	(188.4)	(88.0)
Income tax expense	5	(0.5)	(2.0)	-	(2.5)	-
Net loss for the period		(110.7)	(39.0)	(61.7)	(190.9)	(88.0)
Net (loss) income attributable to non-controlling interests		(0.2)	0.1	-	(0.4)	-
Net loss for the period attributable to shareholders of Borr Drilling Limited		(110.5)	(39.1)	(61.7)	(190.5)	(88.0)
Basic loss per share	6	(0.210)	(0.073)	(0.133)	(0.371)	(0.34)
Diluted loss per share	6	(0.210)	(0.073)	(0.133)	(0.371)	(0.34)
Condensed Consolidated Statement of Comprehensive Income (Loss)						
Loss after income taxes		(110.7)	(39.0)	(61.7)	(190.9)	(88.0)
Unrealised gain (loss) from marketable securities		0.6	-	(6.0)	0.6	(6.2)
Other comprehensive gain (loss)		0.6	-	(6.0)	0.6	(6.2)
Total comprehensive loss for the period		(110.1)	(39.0)	(67.7)	(190.3)	(94.2)
Comprehensive loss for the period attributable to						
Shareholders of Borr Drilling Limited		(109.9)	(39.1)	(67.7)	(189.9)	(94.2)
Non-controlling interests		(0.2)	0.1	-	(0.4)	-
Total Comprehensive loss for the period		(110.1)	(39.0)	(67.7)	(190.3)	(94.2)

See accompanying notes that are an integral part of these Unaudited Condensed Consolidated Financial Statements

Borr Drilling Limited and subsidiaries
Unaudited Consolidated Financial Statements
Unaudited Condensed Consolidated Statements of Balance Sheets
(In US\$ millions except number of shares)

	Notes	December 31, 2018	September 30, 2018	December 31, 2017
ASSETS				
Current assets				
Cash and cash equivalents		27.9	40.6	164.0
Restricted cash	10	63.4	21.2	39.1
Trade receivables		25.1	27.4	-
Jack-up drilling rigs held for sale	7	-	1.1	-
Marketable securities	11	4.2	-	-
Other current assets	13	84.8	94.1	22.4
Total current assets		205.4	184.4	225.5
Non-current assets				
Property, Plant and Equipment		9.5	10.7	0.1
Jack-up drilling rigs	7	2,286.4	2,118.0	783.3
Newbuildings	8	361.8	412.9	642.7
Marketable securities	11	31.0	30.4	20.7
Other long-term assets	14	19.6	34.1	-
Total non-current assets		2,708.3	2,606.1	1,446.8
Total assets		2,913.7	2,790.5	1,672.3
LIABILITIES AND EQUITY				
Current liabilities				
Trade payables		10.0	8.8	9.6
Accruals and other current liabilities	19	106.1	57.9	11.5
Total current liabilities		116.1	66.7	21.1
Non-Current liabilities				
Long-term debt	16	1,174.6	985.2	87.0
Other liabilities		8.0	8.0	-
Onerous contracts	15	81.5	78.6	71.3
Total non-current liabilities		1,264.1	1,071.8	158.3
Total liabilities		1,380.2	1,138.5	179.4
Commitments and contingencies	21			
EQUITY				
Common shares of par value US\$0.01 per share: authorized 625,000,000 (2017: 525,000,000) shares, issued 532,640,327 (2017: 478,292,500) shares and outstanding 525,341,755 (2017: 476,322,500) shares at December 31, 2018		5.3	5.3	4.8
Additional paid in capital		1,837.5	1,836.3	1,587.8
Treasury shares		(26.2)	(16.4)	(6.7)
Other comprehensive income		(5.6)	(6.2)	(6.2)
Accumulated deficit		(279.2)	(168.7)	(88.8)
Equity attributable to the Company		1,531.8	1,650.3	1,490.9
Non-controlling interest		1.7	1.7	2.0
Total equity		1,533.5	1,652.0	1,492.9
Total liabilities and equity		2,913.7	2,790.5	1,672.3

See accompanying notes that are an integral part of these Unaudited Condensed Consolidated Financial Statements.

Borr Drilling Limited and subsidiaries
Unaudited Consolidated Financial Statements
Unaudited Condensed Consolidated Statements of Cash Flows
(In US\$ millions)

	Notes	3 months to December 31, 2018	3 months to December 31, 2017	12 months to December 31, 2018	12 months to December 31, 2017
Cash Flows from Operating Activities					
Net (loss)/income		(110.7)	(61.7)	(190.9)	(88.0)
<i>Adjustments to reconcile net (loss)/income to net cash provided by operating activities:</i>					
Non-cash compensation expense related to stock options and warrants		1.4	5.7	3.7	8.2
Depreciation, and impairment of non-current assets	7	23.8	35.4	79.5	47.9
Amortisation of contract backlog	9	8.5	-	24.2	-
Amortisation of onerous contracts	8	-	-	-	(152.2)
Gain on sale of rigs	7	(1.3)	-	(18.8)	-
Change in financial instruments	4	65.2	8.8	65.2	(4.4)
Bargain purchase gain	9	-	-	(38.1)	-
Deferred income tax	5	0.4	-	(0.5)	-
Change in other current and non-current assets		(12.9)	(3.3)	(24.8)	(16.5)
Change in current and non-current liabilities		(15.7)	5.3	(34.7)	20.1
Net cash (used in)/provided by operating activities		(41.3)	(9.8)	(135.2)	(184.8)
Cash Flows from Investing Activities					
Purchase of plant and equipment		(3.0)	0.2	(7.8)	(0.1)
Proceeds from sale of fixed assets	7	3.0	-	41.6	-
Purchase Business Combination (Acquisition), net of cash acquired	9	-	(3.8)	(195.1)	(324.5)
Purchase of marketable securities	11	(3.3)	-	(13.0)	(26.9)
Payment and costs in respect of newbuildings	8	-	(662.4)	(362.4)	(785.2)
Payments and costs in respect of jack-up drilling rigs	7	(15.9)	(1.1)	(23.4)	(119.8)
Net cash (used in)/provided by investing activities		(19.2)	(667.1)	(560.1)	(1,256.5)
Cash Flows from Financing Activities					
Proceeds from share issuance, net of issuance costs and conversion of shareholders loans		-	636.6	218.9	1,415.0
Proceeds from related party shareholder loan	20	-	-	27.7	12.7
Purchase of treasury shares		(10.0)	-	(19.7)	(8.4)
Repayment of long-term debt	9	-	-	(89.3)	-
Purchase of financial instruments	12	-	-	(28.5)	-
Proceeds, net of deferred loan costs, from issuance of long-term debt	8, 16	100.0	87.0	474.4	87.0
Net cash (used in)/provided by financing activities		90.0	723.6	583.5	1,506.3
Net increase (decrease) in cash and cash equivalents		29.5	46.7	(111.8)	65.0
Foreign exchange translation difference		-	-	-	-
Cash and cash equivalents and restricted cash at beginning of the period		61.8	156.4	203.1	138.1
Cash and cash equivalents and restricted cash at the end of period		91.3	203.1	91.3	203.1
Supplementary disclosure of cash flow information					
Interest paid, net of capitalized interest		(9.6)	-	(8.6)	-
Income taxes paid		(1.8)	-	(3.2)	-
Non-cash instalments on newbuildings (note 8)		(87.0)	-	(609.0)	-
Non-cash draw down of long-term debt (note 8,16)		87.0	-	609.0	-
Non-cash settlement of related party shareholder loan (note 20)		-	-	(27.7)	-
Non-cash share issuance (note 20)		-	-	27.7	-

See accompanying notes that are an integral part of these Unaudited Condensed Consolidated Financial Statements.

Borr Drilling Limited and subsidiaries
Unaudited Consolidated Financial Statements

Unaudited Condensed Consolidated Statement of Changes in Shareholders' Equity
(In US\$ millions except share and per share data)

	Number of shares	Common shares	Treasury shares	Additional paid in capital	Other Comprehensive Loss	Accumulated Deficit	Non- controlling interest	Total equity
Consolidated balance at December 31, 2016	77,505,000	0.8	-	157.8	-	(0.8)	-	157.8
Issue of common shares	228,600,000	2.3	-	797.8	-	-	-	800.1
Equity issuance costs	-	-	-	(9.0)	-	-	-	(9.0)
Issue of common shares	162,500,000	1.6	-	648.4	-	-	-	650.0
Equity issuance cost	-	-	-	(8.8)	-	-	-	(8.8)
<i>Other transactions:</i>								
Exercise of warrants	9,687,500	0.1	-	-	-	-	-	0.1
Fair value of warrants issued	-	-	-	7.7	-	-	-	7.7
Equity issuance costs, warrants	-	-	-	(3.0)	-	-	-	(3.0)
Purchase of warrants	-	-	-	(4.7)	-	-	-	(4.7)
Employee benefit plans	-	-	1.7	1.8	-	-	-	3.5
Purchase of treasury shares	-	-	(8.4)	-	-	-	-	(8.4)
Total comprehensive loss	-	-	-	-	(6.2)	(88.0)	-	(94.2)
Sale of shares to non-controlling interest	-	-	-	-	-	-	2.0	2.0
Other, net	-	-	-	(0.2)	-	-	-	(0.2)
Consolidated balance at December 31, 2017	478,292,500	4.8	(6.7)	1,587.8	(6.2)	(88.8)	2.0	1,492.9
Issue of common shares ⁱ	46,707,500	0.4	-	214.3	-	-	-	214.7
Equity issuance costs	-	-	-	(3.2)	-	-	-	(3.2)
Issue of common shares ⁱⁱⁱ	7,640,327	0.1	-	35.1	-	-	-	35.2
<i>Other transactions:</i>								
Employee benefit plans	-	-	-	3.7	-	-	-	3.7
Settlement of directors fees	-	-	0.2	(0.2)	-	-	-	-
Purchase of treasury shares ⁱⁱ	-	-	(19.7)	-	-	-	-	(19.7)
Total comprehensive loss	-	-	-	-	0.6	(190.5)	(0.4)	(190.3)
Non-controlling interest ^{iv}	-	-	-	-	-	0.1	0.1	0.2
Other, net	-	-	-	-	-	-	-	-
Consolidated balance at December 31, 2018	532,640,327	5.3	(26.2)	1,837.5	(5.6)	(279.2)	1.7	1,533.5

The following summarize movement in numbers of shares from December 31, 2017:

- i. On March 23, 2018, 46,707,500 new shares were issued at a subscription price of US\$4.60 per share.
- ii. In the first quarter 2018, the Company purchased 500,000 treasury shares at a cost of US\$2.3 million. In the third quarter 2018, the Company purchased 1,700,000 treasury shares at a cost of US\$7.4 million. In the fourth quarter 2018 the Company purchased 3,200,000 shares at a cost of US\$10.0 million. The Company also transferred 71,428 treasury shares as settlement of director's fees in the fourth quarter 2018. At December 31, 2018 the Company owned 7,298,572 treasury shares, all of which were pledged as collateral for forward contracts.
- iii. On May 30, 2018, 7,640,327 new shares were issued at a subscription price of US\$4.60 per share. As of December 31, 2018, the Company has a share capital of US\$5,326,403.27 million divided into 532,640,327 shares.
- iv. On July 27, 2018 the Company purchased the remaining outstanding shares in Paragon Offshore Limited for US\$1.0 million.

See accompanying notes that are an integral part of these Unaudited Condensed Consolidated Financial Statements

Borr Drilling Limited and subsidiaries

Unaudited Consolidated Financial Statements

Notes to the Unaudited Condensed Consolidated Financial Statements
for the period ended December 31, 2018

Note 1 - General information

Borr Drilling Limited was incorporated in Bermuda on August 8, 2016. The company is listed on the Oslo Stock Exchange, under the ticker BDRILL. Borr Drilling Limited is an international offshore drilling contractor providing services to the oil and gas industry, with the ambition of acquiring and operating modern jack-up drilling rigs. As of December 31, 2018, the total fleet consisted of 36 jack-up drilling rigs and one semi-submersible drilling rig, of which 9 jack-up drilling rigs are scheduled for delivery between 2019 and 2020.

As used herein, and unless otherwise required by the context, the term "Borr Drilling" refers to Borr Drilling Limited and the terms "Company," "we," "Group," "our" and words of similar import refer to Borr Drilling and its consolidated companies. The use herein of such terms as "group", "organisation", "we", "us", "our" and "its", or references to specific entities, is not intended to be a precise description of corporate relationships.

Basis of presentation

We have prepared our accompanying unaudited condensed consolidated financial statements in accordance with accounting principles generally accepted in the United States ("U.S.") for interim financial information. Pursuant to such rules and regulations, these financial statements do not include all disclosures required by accounting principles generally accepted in the U.S. for complete financial statements. The condensed consolidated financial statements reflect all adjustments, which are, in the opinion of management, necessary for a fair presentation of financial position, results of operations and cash flows for the interim periods. Such adjustments are considered to be of a normal recurring nature unless otherwise noted. Operating results for the three months ended December 31, 2018, are not necessarily indicative of the results that may be expected for the year ending December 31, 2018, or for any future period. The accompanying condensed consolidated financial statements and notes thereto should be read in conjunction with the audited consolidated financial statements and notes thereto including the Company's annual report for the year ended December 31, 2017. The amounts are presented in millions of United States dollar (U.S. dollar), unless otherwise stated. The financial statements have been prepared on a going concern basis.

The consolidated financial statements present the financial position of Borr Drilling Limited and its subsidiaries. Investments in companies in which the Company controls, or directly or indirectly holds more than 50% of the voting control are consolidated in the financial statements.

Subsequent events have been reviewed from the period end to issuance of the condensed consolidated financial statement on February 28, 2019.

Basis of consolidation

The consolidated financial statements include the assets and liabilities of the Company. All intercompany balances, transactions and internal sales have been eliminated on consolidation. Unrealized gains and losses arising from transactions with affiliates are eliminated to the extent of the Company's interest in the entity. The non-controlling interests of subsidiaries were included in the Consolidated Balance Sheets and Statements of Operations as "Non-controlling interests". Profit or loss and each component of other comprehensive income are attributed to the equity holders of the parent of the Group and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance.

Use of estimates

Preparation of financial statements in accordance with U.S. GAAP requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

Note 2 - Accounting policies

The accounting policies adopted in the preparation of the condensed interim consolidated financial statements are consistent with those followed in the preparation of the Company's consolidated financial statements for the year ended December 31, 2017. None of the new accounting standards or amendments that were adopted as of the fourth quarter of 2018 had a significant effect on the condensed interim consolidated financial statements.

Recently Issued Accounting Standards

Adoption of new accounting standards

In January 2017, the FASB issued guidance to ASU 2017-01 "Business Combinations (Topic 805): Clarifying the Definition of a Business". The amendments provide guidance on evaluating whether transactions should be accounted for as an asset acquisition or a business combination (or disposal). The guidance requires that in order to be considered a business, a transaction must include, at a minimum, an input and a substantial process that together significantly contribute to the ability to create output. The guidance removes the evaluation of whether a market participant could replace the missing elements. The revised guidance is effective for annual reporting periods beginning after December 15, 2017, including interim reporting periods within those annual reporting periods. The adoption did not have a material impact on the Consolidated Financial Statements and related Disclosures.

Borr Drilling Limited and subsidiaries

Unaudited Consolidated Financial Statements

Notes to the Unaudited Condensed Consolidated Financial Statements
for the period ended December 31, 2018

On May 10, 2017, the FASB issued ASU 2017-09, Scope of Modification Accounting, which amends the scope of modification accounting for share-based payment arrangements, provides guidance on the types of changes to the terms or conditions of share-based payment awards to which an entity would be required to apply modification accounting under ASC 718. For all entities, the ASU is effective for annual reporting periods, including interim periods within those annual reporting periods, beginning after December 15, 2017. The adoption did not have a material impact on the Consolidated Financial Statements and related Disclosures.

Issued not effective accounting standards

In February 2016, the FASB issued ASU 2016-02, Leases (Topic 842). The update requires an entity to recognize right-of-use assets and lease liabilities on its balance sheet and disclose key information about leasing arrangements. It also offers specific accounting guidance for a lessee, a lessor and sale and leaseback transactions. Lessees and lessors are required to disclose qualitative and quantitative information about leasing arrangements to enable a user of the financial statements to assess the amount, timing and uncertainty of cash flows arising from leases. The guidance will be effective for fiscal years beginning after December 15, 2018, including interim periods within those fiscal years and early adoption is permitted. We expect to conclude our valuation of the expected effect of adoption prior to the release of our annual report of 2018, due April 30, 2019.

In June 2016, the FASB issued ASU No. 2016-13, Financial Instruments-Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments, which revises guidance for the accounting for credit losses on financial instruments within its scope. The new standard introduces an approach, based on expected losses, to estimate credit losses on certain types of financial instruments and modifies the impairment model for available-for-sale debt securities. The guidance will be effective January 1, 2020, with early adoption permitted. Entities are required to apply the standard's provisions as a cumulative-effect adjustment to retained earnings as of the beginning of the first reporting period in which the guidance is adopted. The Company is in the process of evaluating the impact of this standard update on its consolidated financial statements and related disclosures.

Note 3 - Revenues

The services the Company performs represent a single performance obligation under our drilling contracts. This performance obligation is satisfied over time. The Company earns revenues primarily by performing the following activities: (i) providing our drilling rig, work crews, related equipment and services necessary to operate the rig (ii) delivering the drilling rig by mobilising to and demobilising from the drill location, and (iii) performing certain pre-operating activities, including rig preparation activities or equipment modifications required for the contract.

The Company recognises revenues earned under our drilling contracts based on variable dayrates, which range from a full operating dayrate to lower rates or zero rates for periods when drilling operations are interrupted or restricted, based on the specific activities performed during the contract. Such dayrate consideration is attributed to the distinct time period to which it relates within the contract term, and therefore, recognised as the Company perform the services. The Company recognises reimbursement revenues and the corresponding costs as the Company provide the customer-requested goods and services, when such reimbursable costs are incurred while performing drilling operations. Prior to performing drilling operations, the Company may receive pre-operating revenues, on either a fixed lump-sum or variable dayrate basis, for mobilisation, contract preparation, customer-requested goods and services or capital upgrades, which the Company recognise on a straight-line basis over the contract period. The Company recognise losses for loss making contracts immediately.

In the three months ended December 31, 2018, September 30, 2018 and December 31, 2017 and twelve months ended December 31, 2018 and 2017, the Company recognised revenues of US\$53.5 million, US\$49.7 million, US\$ 0.1 million, US\$164.9 million and US\$ 0.1 million, respectively, primarily relating to dayrates.

To obtain contracts with our customers, the Company incurs costs to prepare a rig for contract and deliver or mobilise a rig to the drilling location. The Company defers pre-operating costs, such as contract preparation and mobilisation costs, and recognise such costs on a straight-line basis, consistent with the general pace of activity, in operating and maintenance costs over the estimated firm period of drilling. In the three months ended December 31, 2018, September 30, 2018 and December 31, 2017 and twelve months ended December 31, 2018 and 2017, the Company recognised US\$2.0 million, US\$1.6 million, US\$ nil, US\$12.0 million and US\$ nil, respectively, of pre-operating expenses included in rig operating and maintenance expenses in the Unaudited Condensed Consolidated Statements of Operations.

Borr Drilling Limited and subsidiaries
Unaudited Consolidated Financial Statements

Notes to the Unaudited Condensed Consolidated Financial Statements
for the period ended December 31, 2018

Note 4 - Financial income (expense), net

Financial income (expense), net is comprised of the following:

	3 months to December 31, 2018	3 months to September 30, 2018	3 months to December 31, 2017	12 months to December 31, 2018	12 months to December 31,2017
<i>(In US\$ millions)</i>					
Interest income	0.2	0.1	0.9	1.2	3.2
Interest capitalised to newbuildings (note 8)	6.3	7.7	-	23.4	-
Foreign exchange loss, net	(0.6)	-	-	(1.1)	(0.3)
Other financial expenses	(1.2)	(1.4)	-	(3.5)	-
Interest expense, gross	(14.8)	(12.9)	(0.5)	(37.1)	(0.5)
Change in unrealised (loss)/gain on Call Spread (note 12)	(16.9)	(1.7)	-	(25.7)	-
(Loss)/gain on forward contracts (note 12)	(32.2)	12.7	4.9	(14.2)	19.3
Total	(59.2)	4.5	5.3	(57.0)	21.7

(Loss)/gain on forward contracts is presented net for the year ended December 31, 2018. The Company recorded an unrealised loss of US\$35.1 million and a realised accounting gain of US\$20.9 million.

Note 5 - Taxation

Borr Drilling Limited is a Bermuda company not required to pay taxes in Bermuda on ordinary income or capital gains as it qualifies as an Exempted Company. We operate through various subsidiaries in numerous countries throughout the world and are subject to tax laws, policies, treaties and regulations, as well as the interpretation or enforcement thereof, in jurisdictions in which we or any of our subsidiaries operate, were incorporated, or otherwise considered to have a tax presence. Our income tax expense is based upon our interpretation of the tax laws in effect in various countries at the time that the expense was incurred.

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.

	3 months to December 31, 2018	Change in tax estimates	3 months to September 20, 2018	3 months to December 31, 2017	12 months to December 31, 2018	12 months to December 31,2017
Income tax expense is comprised of the following:						
<i>(In US\$ millions)</i>						
Current tax	0.9	(0.3)	1.4	-	2.0	-
Change in deferred tax	(0.4)	0.3	0.6	-	0.5	-
Total	0.5	-	2.0	-	2.5	-

Note 6 - Earnings/(Loss) per share

The computation of basic earnings/(loss) per share ("EPS") is based on the weighted average number of shares outstanding during the period. Diluted EPS includes the effect of the assumed conversion of potentially dilutive instruments which are 13,075,000 share options outstanding issued to employees and directors and convertible bonds with a conversion price of US\$6.6963 for a total of 52,267,670 shares. Due to the Company's current loss-making position these are deemed to have an anti-dilutive effect on the EPS of the Company.

	3 months to December 31, 2018	3 months to September 30, 2018	3 months to December 31, 2017	12 months to December 31, 2018	12 months to December 31, 2017
Basic loss per share	(0.213)	(0.073)	(0.133)	(0.366)	(0.34)
Diluted loss per share	(0.213)	(0.073)	(0.133)	(0.366)	(0.34)
Issued ordinary shares at the end of the period	532,640,327	532,640,327	478,292,500	532,640,327	478,292,500
Weighted average numbers of shares in issue for the period	532,640,327	532,640,327	464,162,065	514,387,507	258,631,442

Borr Drilling Limited and subsidiaries
Unaudited Consolidated Financial Statements

Notes to the Unaudited Condensed Consolidated Financial Statements
for the period ended December 31, 2018

Note 7 - Jack-up drilling rigs

	December 31, 2018	December 31, 2017
<i>(In US\$ millions)</i>		
Opening balance	783.3	-
Additions	315.8	688.4
Asset transfers (note 8)	1,275.7	142.8
Depreciation and amortisation	(69.6)	(21.2)
Disposals	(18.8)	
Impairment	-	(26.7)
Total	2,286.4	783.3

On March 29, 2018 the Company completed the acquisition of Paragon Offshore Limited and took ownership of 22 jack-up drilling rigs and one semi-submersible. Each rig was valued using a fair value approach by an external third party. Fair value for all acquired rigs was estimated to US\$261.0 million (see note 9) of which US\$246.0 million was allocated to jack-up drilling rigs and US\$15.0 million was allocated to assets held for sale.

The Company sold 17 rigs jack-up drilling rigs during the second quarter for total proceeds of US\$35.2 million resulting in a gain of US\$17.5 million. Of the 17 jack-up drilling rigs, 15 jack-up drilling rigs were classified as held for sale as of March 31, 2018.

In the fourth quarter, the Company sold the standard jack-up rig "L1112" (formerly "Ed Holt") for net proceeds of approximately US\$2.4 million. The sale resulted in a gain of approximately US\$1.3 million. The Company also took delivery of the newbuilding "Natt" in October 2018 (see note 8).

In addition, the Company recorded a depreciation charge of US\$3.1 million in the fourth quarter 2018, US\$4.0 million in the third quarter 2018 and US\$9.9 million for the full year 2018 related to property, plant and equipment (US\$ nil in 2017).

Note 8 - Newbuildings

	December 31, 2018	December 31, 2017
<i>(In US\$ millions)</i>		
Opening balance	642.7	-
Additions	971.4	785.5
Capitalized interest	23.4	-
Asset transfers	(1,275.7)	(142.8)
Total	361.8	642.7

<u>Rig</u>	<u>Delivery date</u>	<u>Final instalment (US\$ million)</u>	<u>Delivery financing (US\$ million)</u>	<u>Shipyard</u>
Saga	January – 18	72.5	-	Keppel
Gerd	January – 18	87.0	87.0	PPL
Gersemi	February – 18	87.0	87.0	PPL
Grid	April – 18	87.0	87.0	PPL
Gunnlod	June – 18	87.0	87.0	PPL
Skald	June – 18	72.4	-	Keppel
Groa	July – 18	87.0	87.0	PPL
Gyme	September – 18	87.0	87.0	PPL
Natt	October – 18	87.0	87.0	PPL
Total		753.9	609.0	

The table above does not include first instalment and capitalised interest and will not cast to the asset transfer.

The final instalment of US\$72.5 million for "Saga" was paid in December 2017. In the second quarter of 2018, the Company paid a pre-delivery instalment of US\$288.0 million. The pre-delivery instalment is secured by a parent guarantee from Keppel Offshore & Marine Ltd. The Company has, furthermore, secured financing of the delivery payment for each Keppel rig from Offshore Partners Pte. Ltd (former Caspian Rigbuilders Pte. Ltd). Each loan will be non-amortising and matures five years after the respective delivery dates. The delivery financing will be secured by a first priority mortgage, an assignment of earnings, an assignment of insurance and a charge over shares and parent guarantee from the Company.

Revision to comparative presentation

The company has revised its presentation of 2017 extinguishment of the onerous contracts related to the purchased newbuild contracts with Keppel FELS Limited, the amounts are now netted against the additions line in the table above. The cashflow presentation is also revised to show amounts paid, which reduced the onerous contract liability, as cashflows from operating activity.

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Note 9 - Business acquisition

Paragon Offshore Limited

Borr Drilling announced a binding tender agreement on February 21, 2018 to offer to purchase all outstanding shares in Paragon Offshore Limited ("Paragon"). The total acquisition price for all outstanding shares was US\$241.3 million or US\$43.88 per share. The transaction was subject to the satisfaction of the offer conditions, customary closing conditions, including, among other customary conditions, that (a) at least 3,361,763 Paragon Shares ("Shares"), representing at least 67% of the outstanding Shares have been validly tendered and not withdrawn before the Expiration Date, (b) no material adverse change shall have occurred prior to closing, and (c) Paragon shall have completed all actions necessary to acquire ownership of certain Prospector drilling rigs and legal entities currently subject to chapter 11 proceedings in the United States Bankruptcy Court in the District of Delaware. The Offer was not subject to a financing condition. On March 29, 2018, all of the conditions to the Offer were satisfied and the transaction closed. Shareholders holding 99.41% of the shares accepted the offer for a total payment of \$240.0 million.

Recognised amounts of identifiable assets acquired and liabilities assumed at fair value:

	March 29, 2018
<i>(In US\$ millions)</i>	
Cash and Cash equivalents	41.7
Restricted cash	4.2
Trade receivables	31.0
Other current assets (including contract backlog of US\$31.6 million)	53.4
Jack-up drilling rigs	246.0
Assets held for sale	15.0
Property, Plant and Equipment	16.1
Other long-term assets (including contract backlog of US\$12.8 million)	24.8
Trade payables	(10.5)
Accruals and other current liabilities	(40.9)
Long term debt	(87.7)
Other non-current liabilities	(13.7)
Total	279.4
 <i>Fair value of consideration satisfied by cash:</i>	
Payment upon completion by the Company (March 29, 2018)	240.0
Payment to non-controlling interest	1.3
Total	241.3
 Total fair value of purchase consideration	 241.3
Fair value of net assets acquired	279.4
Bargain Gain	(38.1)

Paragon was an international driller with a fleet of 23 drilling units. This fleet included two modern units, the Prospector 1 and Prospector 5 built in 2013 and 2014. The portfolio also included a semi-submersible drilling rig, "MSS1" with a long-term contract for TAQA in the North Sea which commenced on March 6, 2018.

The Paragon transaction is accounted for as a business combination. The estimated fair value of Paragon is valued by an independent third party. The estimated fair value of the individual rigs was derived by using a market and income-based approach with market participant based assumptions.

Bargain purchase gain of US\$38.1 million was recognised as a gain in the Condensed Consolidated Statement of Operations. Bargain purchase gain arises when fair value of the net assets acquired is higher than total fair value of purchase consideration.

At the closing of the Paragon transaction the Company settled the long-term debt of US\$89.3 million, including accrued interest and breakage fee and recorded US\$22.3 million as restructuring cost in the first quarter of 2018. In the second quarter of 2018 restructuring costs of US\$5.0 million were recognised. During the third quarter of 2018 restructuring cost of US\$4.6 million was recognised. The Company recognised US\$3.2 million of restructuring cost in the fourth quarter 2018.

During the third quarter of 2018 the Company purchased the remaining outstanding shares in Paragon Offshore limited for US\$1.0 million.

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Paragon pro forma information

Basis of preparation

The unaudited pro forma condensed combined historical statements of operations are based on Borr Drilling Limited's ("Borr") and Paragon Offshore Limited's ("Paragon") historical consolidated financial statements as adjusted to give effect to the acquisition of Paragon Offshore Limited. The unaudited pro forma combined statements of operations for the 12 months ended December 31, 2018 give effect to the Paragon Offshore Limited acquisition as if it had occurred on the January 1, 2018.

Pro forma adjustments

The following adjustments have been reflected in the pro forma condensed combined financial statements for 2018:

a - Reflects the estimated depreciation and amortization expense of US\$7.8 million relating to the depreciation and amortisation related to the acquired fleet of rigs. Two of the acquired rigs were subject to a change in estimated useful life in order to conform to Borr's depreciation policy, reducing from 35 years to 30 years. In addition, the value of the fleet was reduced in total by US\$166.6 million, from US\$427.6 million to US\$261.0 million, based on management's estimated of fair value, thereby reducing depreciation by US\$2.9 million.

b - Reflecting the amortisation of the fair value of acquired contract backlog. As part of the purchase price allocation exercise, management determined that the firm contractual backlog on rigs in operation at the time of acquisition met the definition of an intangible asset. The amount was capitalised and is amortised to the income statement over the period of the firm contract. The adjustment of US\$6 million reflects the backlog being capitalised at January 1, 2018.

The tax effect of adjustments a and b have had the Company's statutory tax rate of 0% applied to them. The Company is an Exempted Company for tax purposes in Bermuda.

Transocean transaction

On March 15, 2017, the Company entered into an agreement and a signed letter of intent to acquire fifteen high specification jack-up drilling rigs from Transocean Inc ("Transocean"). The transaction consisted of Transocean's entire jack-up fleet, comprising eight rig owning companies in Transocean's fleet and five newbuildings under construction at Keppel Fels Limited, Singapore. Total consideration for the transactions was approximately US\$1.35 billion and included remaining contract backlog and remaining yard instalments to be made to Keppel Fels Limited for the five newbuildings.

On March 15, 2017 a deposit of US\$32.0 million, in line with the agreement between the parties, was paid to Transocean. The Company secured financing for the transaction through a private placement of equity securities. The transaction was subject to the parties executing definitive agreements and satisfying formal closing conditions, including final approvals from the board of directors of both companies.

On May 31, 2017, the Company completed the transaction (acquisition date) with Transocean paying a further consideration of US\$288.7 million, in addition to the US\$32.0 million deposit already paid. As a result of the transaction, the Company took 100% ownership of the following established rig owning entities and branches, which have been accounted for as a business combination under ASC 805:

Name of acquired company	New name of acquired company
Constellation II Limited	Borr Jack-Up VIII Limited (name changed once Chevron contract completed)
GlobalSantaFe West Africa Drilling Limited	Borr Baug Limited
Transocean Andaman Limited	Borr Idun Limited
Transocean Ao Thai Limited	Borr Mist Limited
Transocean Britannia Limited	Borr Atla Limited
Transocean Drilling Resources Limited	Borr Brage Limited
Transocean Drilling Services Offshore Inc.	Borr Jack-Up XIV Inc.
Transocean Siam Driller Limited	Borr Odin Limited

Three of the Transocean Rigs were on contract with an external customer at the time of closing. One rig ended the contract in July 2017. As part of the agreement, the Company will pay such an amount equal to the amounts received by the owners of the three rigs under the Transocean Bareboat Charter to Transocean. As a result of the agreement with Transocean, the bareboat operating revenue and costs for these rigs are presented net in the consolidated statement of operations.

Recognised amounts of identifiable assets acquired and liabilities assumed at fair value:

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May 31, 2017

(In US\$ millions)

Jack-up drilling rigs	547.7
Current assets	0.5
Onerous contract (Note 7 and 14)	(223.7)
Total	324.5

Fair value of consideration satisfied by cash:

Deposit on March 15, 2017	32.0
Payment upon completion (May 31, 2017)	288.7
Balancing payment	3.8
Total	324.5

Total Fair value of purchase consideration	324.5
Fair value of net assets acquired	324.5
Goodwill	-

The jack-up drilling rigs have been fair valued by an independent third party. The estimated fair value of the jack-up drilling rigs was derived by using a market and income based approach with market participant based assumptions. An onerous contract position arose with regards to the newbuilding contracts acquired as the carrying value (future commitments) differs from prevailing market rates and cashflows at the time of acquisition. The net present value of the newbuilding contracts has been recorded as a liability at the purchase date.

Acquisition related transaction costs consisted of various legal, accounting, commissions, valuations and other professional fees which amounted to US\$3.3 million, which were expensed as incurred and are presented in the statement of operations within general and administrative expenses. No goodwill was recognised from the business combination.

No quantitative pro forma profit and loss information has been prepared as if the Transocean Transactions completed on 1 January 2017 or earlier as such financial information is not available to the Company and is as the Group determined that the profit and loss information 31 May 2017 was of limited relevance for an understanding of the Group's financial position. The calculated depreciation in Q1 2017 would have amounted to approximately USD 6.6 million assuming that the Transocean Transaction closed on 1 January 2017. In addition, had the Transocean Transaction completed on 1 January 2017, Borr Drilling would have incurred slightly higher general and administrative expenses in connection with management of the Transocean Rigs. However, since three of contracts were still managed by Transocean and that the remainder of the Transocean Rigs were stacked, such costs are expected to be limited. At the time of the transaction the estimated all-in stacking cost (excluding overhead) per Rig was approximately USD 3,500 per day on average.

Note 10 - Restricted cash

	December 31, 2018	September 30, 2018	December 31, 2017
(In US\$ millions)			
Opening balance	21.2	39.1	15.2
Transfer to (from) restricted cash	42.4	(17.9)	23.9
Total	63.4	21.2	39.1

All restricted cash is classified as current assets and consist of deposits in margin accounts and bank deposits in relation to forward contracts and deposits made for issued guarantees.

Note 11 - Marketable Securities

Marketable securities are marked to market, with changes in fair value recognised in "Other comprehensive income" ("OCI"). In 2017, the Company purchased debt securities for approximately US\$26.9 million. In 2018, the Company purchased additional debt securities of US\$9.7 million and shares of US\$4.2 million whereof US\$0.9 million were not settled by December 31, 2018 and the Company has recorded a corresponding liability within accrued expenses.

As of December 31, 2017, an accumulated unrealised loss of US\$6.2 million was recognised in OCI. In the fourth quarter 2018, an unrealised gain of US\$0.6 million was recognised in OCI.

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Note 12 - Financial Instruments

Forward contracts

As of December 31, 2018, the Company has forward contracts to purchase shares in listed drilling companies for an aggregate amount of approximately US\$85.4 million. The forward contracts consist of forward assets of US\$50.3 million and forward liabilities of US\$85.4 million, and are presented as net unrealized loss of US\$35.1 million under accrued expenses and other current liabilities (see note 19) in the consolidated balance sheet as of December 31, 2018. During the fourth quarter of 2018, the Company settled forward contracts resulting in net cash proceeds of US\$16.1 million.

Call Spread

On May 16, 2018 the Company successfully placed US\$350.0 million in convertible bonds due in 2023 (the "Bonds") (see note 16). The Company has purchased from Goldman Sachs International call options over 52,268,060 shares with a strike price of US\$6.6963 to mitigate the economic exposure from a potential exercise of the conversion rights embedded in the Bonds. In addition, the Company has sold to Goldman Sachs International call options over the same number of shares with a strike of US\$8.5225. The transactions are referred to as the "Call Spread". The purpose of the Call Spread is to improve the effective conversion premium for the Company in relation to the Bonds to 75% over US\$4.87. The average maturity of the call options purchased and sold is May 14, 2023 with maturities starting on May 16, 2022 and ending on May 16, 2024. The call options bought and sold are European options exercisable only at maturity and are cash settled. Fair value adjustments during the fourth quarter of 2018 resulted in an unrealised loss recognised in the Condensed Consolidated Statements of Operations in financial income (expense), net, of US\$16.9 million. As of December 31, 2018, aggregated fair value adjustments is an unrealised loss of US\$25.7 million related to one-off costs for entering into the position and subsequent fair value adjustments.

Note 13 - Other current assets

	December 31, 2018	September 30, 2018	December 31, 2017
Other current assets are comprised of the following:			
<i>(In US\$ millions)</i>			
Unrealized gain on forward contracts	-	13.2	4.4
Current taxes receivable	0.5	3.0	1.0
Deferred mobilisation costs	2.8	2.2	10.3
Prepayments	10.8	7.1	2.6
Withholding tax receivable	11.6	11.6	-
Accrued revenue	18.9	14.4	-
Other receivables	20.0	15.5	4.1
Contract backlog (note 9)	20.2	27.1	-
Total	84.8	94.1	22.4

Note 14 - Other long-term assets

	December 31, 2018	September 30, 2018	December 31, 2017
Other long-term assets are comprised of the following:			
<i>(In US\$ millions)</i>			
Contract backlog (note 9)	-	1.6	-
Other receivables	0.5	1.1	-
Deferred tax asset	2.6	2.3	-
Call Spread (note 12)	2.8	19.7	-
Tax refunds	4.2	4.2	-
Prepaid fees	9.5	5.2	-
Total	19.6	34.1	-

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Note 15 - Onerous contracts

	December 31, 2018	September 30, 2018	December 31, 2017
<i>(In US\$ millions)</i>			
Onerous lease commitments	10.2	7.3	-
Onerous rig contracts	71.3	71.3	71.3
Total	81.5	78.6	71.3

Onerous contracts for Hull B366 (TBN “Tivar”) of US\$16.8 million, Hull B367 (TBN “Vale”) of US\$26.9 million and Hull B368 (TBN “Var”) of US\$27.6 million, in total US\$71.3 million, relate to the estimated excess of remaining shipyard instalments to be made to Keppel FELS over the value in use estimate for the jack-up drillings rigs to be delivered. Remaining shipyard instalments and onerous contract are expected to be settled when the newbuildings are delivered and paid in 2020.

Note 16 - Long-term debt

As of December 31, 2018

Long-term debt is comprised of the following:	<u>Carrying value</u>	<u>Fair value</u>	<u>Principal</u>	<u>Back end fee</u>	Maturities		
					<u>Less than 6 months</u>	<u>6 months to 1 year</u>	<u>1-5 years</u>
<i>(In US\$ millions)</i>							
Senior Secured Revolving Loan Facility, US\$200 million	130.0	130.0	130.0	-	-	-	130.0
Convertible bonds	346.5	287.9	350.0	-	-	-	350.0
Delivery financing from PPL	698.1	695.8	669.6	26.1	-	-	695.8
Total	1,174.6	1,113.7	1,149.6	26.1	-	-	1,175.8

As of December 31, 2017

Long-term debt is comprised of the following:	<u>Carrying value</u>	<u>Fair value</u>	<u>Principal</u>	<u>Back end fee</u>	Maturities		
					<u>Less than 6 months</u>	<u>6 months to 1 year</u>	<u>1-5 years</u>
<i>(In US\$ millions)</i>							
Delivery financing from PPL	87.0	87.0	83.7	3.3	-	-	87.0
Total	87.0	87.0	83.7	3.3	-	-	87.0

Covenants

The senior secured revolving loan facility agreement contains financial covenants for the Group including maintaining a book equity ratio equal to or greater than 40%, maintaining positive working capital and maintaining free liquidity, including available portion under the Revolving Credit Facility, equivalent to the greater of (i) US\$50 million and (ii) 5.00 per cent of net interest bearing debt. The Bond and the delivery financing for the PPL newbuildings are not subject to financial covenants.

Convertible bond

In May 2018 the Company successfully placed US\$350.0 million in convertible bonds with maturity in 2023. The convertible bonds have a conversion premium of 37.5% over US\$4.87. The initial conversion price will therefore be US\$6.6963 for a total of 52,267,670 shares. The Bonds will have a coupon of 3.875% per annum payable semi-annually in arrears. Average interest rate for our interest bearing debt was 5.84% for the year ended December 31, 2018.

PPL Shipyard rigs delivery financing

Delivery financing debt relates to delivery financing for the PPL newbuildings, “Galar”, “Gerd”, “Gersemi”, “Grid”, “Gunnlod”, “Groa”, “Gyme” and “Natt” delivered in November 2017, January 2018, February 2018, April 2018, June 2018, July 2018, September 2018 and October 2018, respectively. Each loan is non-amortising and matures five years after the respective delivery date. The delivery financing is secured by a first priority mortgage over the relevant PPL Rig and a guarantee from the Company.

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Note 17 - Share-based compensation

Share-based payment charges for the period ending:

<i>(In US\$ millions)</i>	3 months to December 31, 2018	3 months to September 30, 2018	3 months to December 31, 2017	12 months to December 31, 2018	12 months to December 31,2017
Total	1.4	1,4	1.0	3.7	1.8

At July 9, 2018 the Board of Borr Drilling Limited decided to issue 7,470,000 share options to the Company's employees. The options have a strike price of US\$4.87 per share. The options will expire after five years and have a four-year vesting period. The total estimated cost of the scheme will be approximately US\$9.0 million which will be expensed over the requisite service period. Total aggregated number of share options authorised by the Board is 16.88 million and as of December 31, 2018, 13,075,000 share options are outstanding.

Note 18 - Fair values of financial instruments

Financial instruments included in the consolidated accounts within 'Level 1 and 2' of the fair value hierarchy are valued using quoted market prices, broker or dealer quotations or alternative pricing sources with reasonable levels of price transparency.

Included in "Level 1" are cash and cash equivalents, restricted cash, trade receivables, marketable securities, other current assets (excluding prepayments and financial instruments, trade payables, accruals and other liabilities). The carrying value of any accounts receivable and payables approximates fair value due to the short time to expected payment or receipt of cash.

Included in "Level 2" are forward contracts and Call Spread (note 12). No assets or liabilities have been transferred from one level to another during the quarter.

Note 19 - Accruals and other current liabilities

	December 31, 2018	September 30, 2018	December 31, 2017
Accruals and other current liabilities are comprised of the following:			
<i>(In US\$ millions)</i>			
Accrued payroll and severance	3.1	16.7	-
Income tax payable	4.2	5.7	-
Unrealised loss on forwards (note 12)	35.1	-	-
Accrued expenses	63.7	35.5	11.5
Total accruals and other current liabilities	106.1	57.9	11.5

Note 20 - Related party transactions

Transactions with those holding significant influence over the Company

Equity offering

At March 22, 2018, the Company announced that it would raise up to US\$250 million in an equity offering divided in two tranches. Tranche 2 of (the "Equity Offering") was subject to approval by the extraordinary general meeting to be held on 5 April 2018 and subsequent share issue. In connection with the settlement of Tranche 2, US\$27.7 million was registered as liability to shareholders including US\$20.0 million to Drew Holdings Ltd ("Drew") as of March 31, 2018. Drew is a trust established for the benefit of Tor Olav Trøim, the Chairman of the Company. As of May 30, 2018, the 7,640,327 new shares allocated in Tranche 2 of the Equity Offering were validly issued and fully paid.

Director fee

On November 20, 2018, the Company transferred 71,428 of its treasury shares to Mr. Jan A. Rask. Following this transaction, Mr. Rask owns a total of 71,428 shares in the Company. Mr Jan A. Rask received treasury shares during fourth quarter 2018 as settlement of his director fee for the period from the Company's Annual General Meeting in 2017 until this year's Annual General Meeting. In accordance with the agreement, settlement of treasury shares will be valued at US\$3.50 per share, being the share price at the time Mr Rask was elected as an independent director of the Board 31 August 2017. The three other directors, which represent directly, or indirectly large shareholders do not receive any director compensation

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Commercial Arrangements

We have obtained certain rig and other operating supplies from Schlumberger and may continue to obtain such supplies in the future. Purchases from Schlumberger were US\$8.5 million during 2018 and \$0.1 million during 2017. As of the balance sheet date, US\$0.4 million and US\$ nil were outstanding at December 31, 2018 and 2017, respectively.

Note 21 - Commitments and contingencies

The Company has the following commitments:

Delivery instalments for jack-up drilling rigs	Delivery instalment	Back-end fee
Total	963.9	25.8

In addition, the lender in PPL Shipyard delivery financing is entitled to 25% of the increase in market value of the relevant PPL Shipyard Rig from 31 October 2017 until the repayment date less the relevant Group Company's net cost of ownership of the jack-up rig.

Note 22 - Subsequent events

Delivery of Njord

In January 2019, the Company took delivery of the "Njord". The final delivery installment was US\$87.0 million and the company accepted delivery financing for the same amount.

Secured US\$160 million financing

In February 2019, the Company secured a US\$160 million financing consisting of a US\$100 million revolving credit and a US\$60 million guarantee credit line for issuance of guarantees, subject to customary closing documentation.

Note 23 - Reconciliation of alternative performance measures

	3 months to December 31, 2018	3 months to September 30, 2018	3 months to December 31, 2017	12 months to December 31, 2018	12 months to December 31, 2017
<i>(In US\$ millions)</i>					
Net loss	(110.7)	(39.0)	(9.6)	(190.9)	(88.0)
Depreciation and impairment of non-current assets	23.8	21.5	8.0	79.5	47.9
Amortisation contract backlog (note 9)	8.5	9.7	-	24.2	-
Financial (income) expense (note 4)	59.2	(4.5)	(15.3)	57.0	(21.7)
Gain from bargain purchase (note 9)	-	-	-	(38.1)	-
Income tax expense (note 5)	0.5	2.0	-	2.5	-
EBITDA	(18.7)	(10.3)	(16.9)	(65.8)	(61.8)

The Company uses certain financial information calculated on a basis other than in accordance with accounting principles generally accepted in the United States (US GAAP) including EBITDA. EBITDA as used herein represent net loss less: depreciation and impairment of non-current assets, amortisation of contract backlog, net financials, gain from bargain purchase and income tax expense. EBITDA is included as a supplemental disclosure because the Company believes that the measure provides useful information regarding the Company's operational performance.