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## Report of Independent Registered Public Accounting Firm

To the Board of Directors of Aquadrill LLC

### *Opinion on the Financial Statements*

We have audited the accompanying consolidated balance sheets of Aquadrill LLC and its subsidiaries (Predecessor) (the "Company") as of December 31, 2020 and the related consolidated statements of operations, cash flows, and changes in members' capital for the period from January 1, 2021 to May 24, 2021, and for each of the two years in the period ended December 31, 2020, including the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2020, and the results of its operations and its cash flows for the period from January 1, 2021 to May 24, 2021, and for each of the two years in the period ended December 31, 2020 in conformity with accounting principles generally accepted in the United States of America.

*Basis of Accounting*

As discussed in Note 4 to the consolidated financial statements, the Company filed a petition on December 1, 2020 with the United States Bankruptcy Court for the Southern District of Texas for reorganization under the provisions of Chapter 11 of the Bankruptcy Code. The Company's Plan and the Disclosure Statement was substantially consummated on May 24, 2021 and the Company emerged from bankruptcy. In connection with its emergence from bankruptcy, the Company adopted fresh start accounting.

### *Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audits. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the relevant ethical requirements relating to our audit, which include standards of the American Institute of Certified Public Accountants (AICPA) Code of Professional Conduct.

We conducted our audits of these consolidated financial statements in accordance with the auditing standards of the PCAOB. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audits we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audits included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audits also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements. We believe that our audits provide a reasonable basis for our opinion.

## *Critical Audit Matters*

The critical audit matters communicated below are matters arising from the current period audit of the consolidated financial statements that were communicated or required to be communicated to the audit committee and that (i) relate to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matters below, providing separate opinions on the critical audit matters or on the accounts or disclosures to which they relate.

*Completeness of uncertain tax positions and valuation of certain uncertain tax positions*

As described in Notes 2 and 8 to the consolidated financial statements, the Company had an unrecognized tax benefit of $39.2 million as of May 24, 2021 of which a portion relates to certain jurisdictions. As disclosed, management recognizes liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. Management regularly assesses the potential outcomes of examinations by tax authorities in determining the adequacy of our provision for income taxes.

The principal considerations for our determination that performing procedures relating to the completeness of uncertain tax positions and valuation of certain uncertain tax positions is a critical audit matter are (i) the significant judgment by management when assessing uncertain tax positions, including a high degree of estimation uncertainty; (ii) a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating management's timely identification of uncertain tax positions and accurate valuation of certain positions; (iii) the evaluation of audit evidence available to support certain uncertain tax positions is complex and resulted in significant auditor judgment as the nature of the evidence is often highly subjective; and (iv) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. For the completeness assertion, these procedures included, among others, (i) reviewing management's memo and exercise of identifying new uncertain tax positions; (ii) reviewing the status of any open tax audits; (iii) reviewing return-to-provision adjustments; (iv) inspecting copies of correspondence occurring during 2021 to evaluate the completeness of information used by management in concluding on the related uncertain tax positions; (v) performing an assessment of the jurisdictions in which the Company operates and discussing with management as to whether there has been any correspondence from local tax authorities; (vi) considering the results of our other audit procedures performed to determine whether there are other uncertain tax positions that have not been identified, including whether there have been any significant structural or contractual changes to the business in 2021 which would impact the uncertain tax positions; and (vii) reviewing global tax accounting services newsletters and industry publications to identify changes to tax laws announced during the year, including those specifically for the oil and gas industry. For the valuation assertion for certain jurisdictions, these procedures included, among others (i) testing the completeness, accuracy and relevance of data used in the calculation of the liability for uncertain tax positions, including reviewing agreements, tax positions, and the related final tax returns; (ii) testing the model for calculating the liability for uncertain tax

positions by jurisdiction, including management's assessment of the technical merits of tax positions and estimates of the amount of tax benefit expected to be sustained, including the amount of interest and penalties recorded to recalculate the closing balance; (iii) evaluating the status and results of income tax audits with the relevant tax authorities; and (iv) reviewing new information pertaining to valuation of these certain jurisdictions arising in 2021. Professionals with specialized skill and knowledge were used to assist in the evaluation of the completeness of uncertain tax positions and measurement of the Company's uncertain tax positions for the certain jurisdictions, including evaluating the reasonableness of management's assessment of whether tax positions are more-likely-than-not of being sustained and the amount of potential benefit to be realized, the application of relevant tax laws, and estimated interest and penalties.

*Determination of the reorganization value of the Company and allocation to the Company's assets and liabilities*

As described in Note 5 to the consolidated financial statements, upon emergence from bankruptcy, the Company met the criteria and were required to adopt fresh start accounting in accordance with the provisions set forth in ASC 852 resulting in a reorganization value of $674.7M and drilling units valued at $278.9M. As disclosed, the reorganization value represents the fair value of the Successor Company's total assets before the consideration of liabilities and is intended to approximate the amount a willing buyer would pay for the assets immediately after the effects of the restructuring. Management were then required to allocate the reorganization value to the Company's individual identifiable tangible and intangible assets and liabilities based on their estimated fair values. Management determined that the fleet of drilling units comprised the principal assets of the Company and then determined a value of these drilling units based primarily on an income approach utilising a discounted cash flow ("DCF") analysis and a cost approach to value drilling units that were targeted for recycling post-emergence.

The principal considerations for our determination that performing procedures relating to the determination of the reorganization value of the Company and allocation to the Company's assets and liabilities is a critical audit matter are (i) the significant judgement by management when assessing the reorganization value and allocation to the Company's assets and liabilities, including a high degree of estimation uncertainty; (ii) a high degree of auditor judgement, subjectivity, and effort in performing procedures and evaluating management's conclusions; (iii) the evaluation of audit evidence available to support the positions taken is complex and resulted in significant auditor judgement as the nature of the evidence is often highly subjective; and (iv) the audit effort involved the use of professionals with specialised skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. These procedures included, among others, (i) reviewing the court approved Plan and the related disclosure statement approved by the Bankruptcy Court; (ii) assessing the rationale management's determination that the midpoint of the amounts included in the Plan and the related disclosure statement was the most appropriate valuation; (iii) auditing management's reconciliation of enterprise value to reorganization value; (iv) assessing the completeness of assets and liabilities subject to the fresh start valuation process and determining which necessitate a valuation adjustment; and (v) determining the reasonableness of the respective allocation of value to the fleet of drilling units. Professionals with specialised skill and knowledge were used to assist in the evaluation of the determination of the reorganization value of the Company and allocation to the Company's assets and liabilities, including evaluating the reasonableness of the reorganization value and the allocation of the values to the rigs.

***Restriction of Use***

This report, including the opinion, has been prepared for and only for the company's directors as a body in accordance with our engagement letter dated September 2, 2021 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the company, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Watford, United Kingdom
July 15, 2022

We have served as the Company's or its predecessor's auditor since 2012.

pwc

## Report of Independent Registered Public Accounting Firm

To the Board of Directors of Aquadrill LLC

### *Opinion on the Financial Statements*

We have audited the accompanying consolidated balance sheets of Aquadrill LLC and its subsidiaries (Successor) (the "Company") as of December 31, 2021, and the related consolidated statements of operations, cash flows, and changes in members' capital for the period from May 25, 2021 to December 31, 2021, including the related notes (collectively referred to as the "consolidated financial statements"). In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of the Company as of December 31, 2021 and the results of its operations and its cash flows for the period from May 25, 2021 to December 31, 2021 in conformity with accounting principles generally accepted in the United States of America.

*Basis of Accounting*

As discussed in Note 4 to the consolidated financial statements, the United States Bankruptcy Court for the Southern District of Texas confirmed the Company's Plan and the Disclosure Statement (the "plan") on May 14, 2021. Confirmation of the plan resulted in the discharge of all claims against the Company that arose before December 1, 2020 and substantially alters or terminates all rights and interests of equity security holders as provided for in the plan. The plan was substantially consummated on May 24, 2021 and the Company emerged from bankruptcy. In connection with its emergence from bankruptcy, the Company adopted fresh start accounting as of May 24, 2021.

### *Basis for Opinion*

These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on the Company's consolidated financial statements based on our audit. We are a public accounting firm registered with the Public Company Accounting Oversight Board (United States) (PCAOB) and are required to be independent with respect to the Company in accordance with the relevant ethical requirements relating to our audit, which include standards of the American Institute of Certified Public Accountants (AICPA) Code of Professional Conduct.

We conducted our audit of these consolidated financial statements in accordance with the auditing standards of the PCAOB. Those auditing standards require that we plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement, whether due to error or fraud. The Company is not required to have, nor were we engaged to perform, an audit of its internal control over financial reporting. As part of our audit we are required to obtain an understanding of internal control over financial reporting but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion.

Our audit included performing procedures to assess the risks of material misstatement of the consolidated financial statements, whether due to error or fraud, and performing procedures that respond to those risks. Such procedures included examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements. Our audit also included evaluating the accounting principles used and significant estimates made by management, as well as evaluating the overall

presentation of the consolidated financial statements. We believe that our audit provides a reasonable basis for our opinion.

### *Critical Audit Matters*

The critical audit matter communicated below is a matter arising from the current period audit of the consolidated financial statements that was communicated or required to be communicated to the audit committee and that (i) relates to accounts or disclosures that are material to the consolidated financial statements and (ii) involved our especially challenging, subjective, or complex judgments. The communication of critical audit matters does not alter in any way our opinion on the consolidated financial statements, taken as a whole, and we are not, by communicating the critical audit matter below, providing a separate opinion on the critical audit matter or on the accounts or disclosures to which it relates.

*Completeness of uncertain tax positions and valuation of certain uncertain tax positions*

As described in Notes 2 and 8 to the consolidated financial statements, the Company had an unrecognized tax benefit of $41.2 million as of December 31, 2021 of which a portion relates to certain jurisdictions. As disclosed, management recognizes liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. Management regularly assesses the potential outcomes of examinations by tax authorities in determining the adequacy of our provision for income taxes.

The principal considerations for our determination that performing procedures relating to the completeness of uncertain tax positions and valuation of certain uncertain tax positions is a critical audit matter are (i) the significant judgment by management when assessing uncertain tax positions, including a high degree of estimation uncertainty; (ii) a high degree of auditor judgment, subjectivity, and effort in performing procedures and evaluating management's timely identification of uncertain tax positions and accurate valuation of certain positions; (iii) the evaluation of audit evidence available to support certain uncertain tax positions is complex and resulted in significant auditor judgment as the nature of the evidence is often highly subjective; and (iv) the audit effort involved the use of professionals with specialized skill and knowledge.

Addressing the matter involved performing procedures and evaluating audit evidence in connection with forming our overall opinion on the consolidated financial statements. For the completeness assertion, these procedures included, among others, (i) reviewing management's memo and exercise of identifying new uncertain tax positions; (ii) reviewing the status of any open tax audits; (iii) reviewing return-to-provision adjustments; (iv) inspecting copies of correspondence occurring during 2021 to evaluate the completeness of information used by management in concluding on the related uncertain tax positions; (v) performing an assessment of the jurisdictions in which the Company operates and discussing with management as to whether there has been any correspondence from local tax authorities; (vi) considering the results of our other audit procedures performed to determine whether there are other uncertain tax positions that have not been identified, including whether there have been any significant structural or contractual changes to the business in 2021 which would impact the uncertain tax positions; and (vii) reviewing global tax accounting services newsletters and industry publications to identify changes to tax laws announced during the year, including those specifically for the oil and gas industry. For the valuation assertion for certain jurisdictions, these procedures included, among others (i) testing the completeness, accuracy and relevance

of data used in the calculation of the liability for uncertain tax positions, including reviewing agreements, tax positions, and the related final tax returns; (ii) testing the model for calculating the liability for uncertain tax positions by jurisdiction, including management's assessment of the technical merits of tax positions and estimates of the amount of tax benefit expected to be sustained, including the amount of interest and penalties recorded to recalculate the closing balance; (iii) evaluating the status and results of income tax audits with the relevant tax authorities; and (iv) reviewing new information pertaining to valuation of these certain jurisdictions arising in 2021. Professionals with specialized skill and knowledge were used to assist in the evaluation of the completeness of uncertain tax positions and measurement of the Company's uncertain tax positions for the certain jurisdictions, including evaluating the reasonableness of management's assessment of whether tax positions are more-likely-than-not of being sustained and the amount of potential benefit to be realized, the application of relevant tax laws, and estimated interest and penalties.

***Restriction of Use***

This report, including the opinion, has been prepared for and only for the company's directors as a body in accordance with our engagement letter dated September 2, 2021 and for no other purpose. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come, including without limitation under any contractual obligations of the company, save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Watford, United Kingdom
July 15, 2022

We have served as the Company's or its predecessor's auditor since 2012.

**Index to Consolidated Financial Statements of Aquadrill LLC**

**AQUADRILL LLC**
**CONSOLIDATED STATEMENTS OF OPERATIONS**
for the period from May 25, 2021 through December 31, 2021 (Successor), the period from January 1, 2021 through May 24, 2021 (Predecessor)
and the years ended December 31, 2020 (Predecessor) and 2019 (Predecessor)
*(In $ millions, except per unit data)*

| | | Successor | Predecessor | | |
|---|---|---|---|---|---|
| | | **Period from May 25, 2021 through December 31, 2021** | **Period from January 1, 2021 through May 24, 2021** | **Year ended December 31, 2020** | **Year ended December 31, 2019** |
| **Operating revenues** | | | | | |
| Contract revenues | | 56.6 | 53.0 | 525.9 | 686.5 |
| Reimbursable revenues | | 2.2 | 1.9 | 11.1 | 20.7 |
| Other revenues | * | — | — | 1.1 | 42.8 |
| **Total operating revenues** | | **58.8** | **54.9** | **538.1** | **750.0** |
| **Operating expenses** | | | | | |
| | * | | | | |
| Vessel and rig operating expenses | | 114.3 | 51.0 | 255.9 | 325.3 |
| Depreciation | | 6.5 | 8.6 | 230.8 | 275.9 |
| Amortization of favorable contracts | | — | — | 40.4 | 45.1 |
| Reimbursable expenses | | 2.1 | 1.7 | 10.2 | 19.4 |
| Selling, general and administrative expenses | * | 4.2 | 13.2 | 34.4 | 34.4 |
| **Total operating expenses** | | **127.1** | **74.5** | **571.7** | **700.1** |
| **Other operating items** | | | | | |
| Gain on sale of assets | | 0.8 | — | — | — |
| Revaluation of contingent consideration | | — | — | — | 0.7 |
| Impairment of long-lived assets | | — | — | (4,210.4) | — |
| **Total other operating items** | | **0.8** | **—** | **(4,210.4)** | **0.7** |
| **Operating (loss)/income** | | **(67.5)** | **(19.6)** | **(4,244.0)** | **50.6** |
| **Financial and other items** | | | | | |
| Interest income | | 0.1 | — | 6.1 | 20.3 |
| Interest expense | * | — | — | (235.3) | (262.5) |
| Loss on derivative financial instruments | * | — | — | (16.1) | (27.7) |
| Foreign currency exchange loss | | (0.3) | (0.7) | (2.7) | (2.6) |
| Gain/(loss) on Reorganization items, net | | — | 2,096.9 | (49.8) | — |
| Restructuring and other expenses | | (2.9) | — | — | — |
| Other financial expenses | | (0.2) | (3.8) | (17.1) | (1.4) |
| **Total financial items, net** | | **(3.3)** | **2,092.4** | **(314.9)** | **(273.9)** |
| **(Loss)/income before income taxes** | | **(70.8)** | **2,072.8** | **(4,558.9)** | **(223.3)** |
| Income tax benefit/(expense) | | 8.6 | (7.6) | (30.0) | 36.1 |
| **Net (loss)/income** | | **(62.2)** | **2,065.2** | **(4,588.9)** | **(187.2)** |

* Includes transactions with related parties in the Predecessor period. Upon emergence, no related parties transactions were identified in the Successor period. Refer to Note 21 - "Related party transactions".

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

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

**AQUADRILL LLC**
**CONSOLIDATED BALANCE SHEETS**
at December 31, 2021 (Successor) and 2020 (Predecessor)
*(In $ millions)*

| | Successor | Predecessor |
|---|---|---|
| | **2021** | **2020** |
| **ASSETS** | | |
| Cash and cash equivalents | 203.2 | 362.0 |
| Restricted cash | 24.7 | 16.4 |
| Accounts receivable, net | 35.0 | 56.6 |
| Amount due from related party | - | 7.6 |
| Other current assets | 55.8 | 45.0 |
| **Total current assets** | **318.7** | **487.6** |
| | | |
| **Non-current assets** | | |
| Drilling units, net | 290.2 | 428.3 |
| Deferred tax assets | 7.8 | 3.3 |
| Other non-current assets | 6.3 | 8.0 |
| **Total non-current assets** | **304.3** | **439.6** |
| **Total assets** | **623.0** | **927.2** |
| | | |
| **LIABILITIES AND MEMBERS' CAPITAL** | | |
| | | |
| Trade accounts payable and accruals | 21.9 | 4.2 |
| Related party payable | - | 7.4 |
| Other current liabilities | 48.4 | 56.3 |
| **Total current liabilities** | **70.3** | **67.9** |
| | | |
| **Liabilities subject to compromise** | **-** | **2,879.1** |
| | | |
| Deferred tax liability | 1.3 | 1.0 |
| Other non-current liabilities | 48.5 | 44.4 |
| **Total long-term liabilities** | **49.8** | **45.4** |
| | | |
| **Commitments and contingencies (see Note 24)** | | |
| | | |
| **Members' Capital:** | | |
| Predecessor Common unitholders (issued 7,527,830 units at December 31, 2020) | - | (944.5) |
| Predecessor Subordinated unitholders (issued 1,654,335 units at December 31, 2020) | - | (371.4) |
| Successor (Accumulated Deficit) | (62.2) | - |
| Successor Common unitholders (issued 20,000,000 units at December 31, 2021) | 565.1 | - |
| **Total members' capital** | **502.9** | **(1,315.9)** |
| Non-controlling interest | - | (749.3) |
| **Total equity/(deficit)** | **502.9** | **(2,065.2)** |
| **Total liabilities and equity** | **623.0** | **927.2** |

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

**AQUADRILL LLC**
**CONSOLIDATED STATEMENTS OF CASH FLOWS**
for the period from May 25, 2021 through December 31, 2021 (Successor), the period from January 1, 2021 through May 24, 2021 (Predecessor)
and the years ended December 31, 2020 (Predecessor) and 2019 (Predecessor)
*(In $ millions)*

| | Successor | Predecessor | | |
|---|---|---|---|---|
| | **Period from May 25, 2021 through December 31, 2021** | **Period from January 1, 2021 through May 24, 2021** | **Year ended December 31, 2020** | **Year ended December 31, 2019** |
| **Cash Flows from Operating Activities** | | | | |
| **Net (loss)/income** | (62.2) | 2,065.2 | (4,588.9) | (187.2) |
| *Adjustments to reconcile net (loss)/income to net cash provided by/(used in) operating activities:* | | | | |
| Depreciation | 6.5 | 8.6 | 230.8 | 275.9 |
| Amortization of deferred loan charges | — | — | 44.2 | 11.7 |
| Amortization of favorable contracts | — | — | 40.4 | 45.1 |
| Impairment of long-lived assets | — | — | 4,210.4 | — |
| Unrealized (gain)/loss related to derivative financial instruments | — | — | (4.0) | 27.6 |
| Payment for long term maintenance | (3.7) | (4.9) | (19.3) | (81.4) |
| Non-cash reorganization items | — | (2,142.2) | 42.9 | — |
| Reversal of credit risk on derivatives | — | — | 7.1 | — |
| Deferred and other taxes | (6.1) | 2.1 | 1.7 | 3.2 |
| Gain on revaluation of contingent consideration | — | — | — | (0.7) |
| Accretion of discount on deferred consideration | — | — | 1.9 | 3.2 |
| Share based compensation | 0.6 | — | — | — |
| Gain on sale of assets | (0.8) | — | — | — |
| *Changes in operating assets and liabilities, net of effect of acquisitions* | | | | |
| Trade accounts receivable | (4.2) | 25.8 | 90.1 | 4.2 |
| Prepaid expenses and accrued income | (10.9) | 5.2 | (32.4) | (2.0) |
| Trade accounts payable | 0.6 | (1.8) | 0.1 | (8.3) |
| Related party balances | — | (3.3) | (1.3) | (47.3) |
| Other assets | 3.3 | (0.5) | 38.7 | 0.7 |
| Other liabilities | 3.2 | (11.2) | 104.7 | (69.4) |
| Changes in deferred revenue | 5.6 | (0.9) | (2.1) | (1.3) |
| **Net cash (used in)/provided by operating activities** | **(68.1)** | **(57.9)** | **165.0** | **(26.0)** |
| **Cash Flows from Investing Activities** | | | | |
| Additions to drilling units | (27.8) | (3.2) | (9.4) | (29.7) |
| Sale of rigs and equipment | 6.5 | — | — | — |
| **Net cash used in investing activities** | **(21.3)** | **(3.2)** | **(9.4)** | **(29.7)** |
| **Cash Flows from Financing Activities** | | | | |
| Repayments of debt | — | — | (306.6) | (192.6) |
| Contingent consideration paid | — | — | (30.6) | (30.0) |
| Cash distributions | — | — | — | (3.3) |
| **Net cash used in financing activities** | — | — | **(337.2)** | **(225.9)** |
| **Net decrease in cash and cash equivalents** | **(89.4)** | **(61.1)** | **(181.6)** | **(281.6)** |
| Cash and cash equivalents at beginning of the period | 317.3 | 378.4 | 560.0 | 841.6 |
| **Cash and cash equivalents, including restricted cash, at the end of the period** | **227.9** | **317.3** | **378.4** | **560.0** |
| Supplementary disclosure of cash flow information | | | | |
| Interest and other financial items paid | — | — | 68.9 | 247.6 |
| Taxes paid | 2.9 | 7.1 | 21.7 | 50.1 |
| Reorganization items, net | — | 45.3 | — | — |

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

**AQUADRILL LLC**
**CONSOLIDATED STATEMENTS OF CHANGES IN MEMBERS' CAPITAL**
for the period from May 25, 2021 through December 31, 2021 (Successor), the period from January 1, 2021 through May 24, 2021 (Predecessor)
and the years ended December 31, 2020 (Predecessor) and 2019 (Predecessor)
*(In $ millions)*

| | Members' Capital | | | | |
|---|---|---|---|---|---|
| | Common Units | Subordinated Units | Total Before Non-controlling interest | Non-controlling interest | Total (Deficit)/ Equity |
| **Consolidated balance at December 31, 2018 (Predecessor)** | **1,224.8** | **104.9** | **1,329.7** | **1,384.5** | **2,714.2** |
| Net loss | (76.2) | (16.7) | (92.9) | (94.3) | (187.2) |
| Cash distributions | (1.8) | — | (1.8) | (1.5) | (3.3) |
| **Consolidated balance at December 31, 2019 (Predecessor)** | **1,146.8** | **88.2** | **1,235.0** | **1,288.7** | **2,523.7** |
| Net loss | (2,091.3) | (459.6) | (2,550.9) | (2,038.0) | (4,588.9) |
| **Consolidated balance at December 31, 2020 (Predecessor)** | **(944.5)** | **(371.4)** | **(1,315.9)** | **(749.3)** | **(2,065.2)** |
| Net income | 921.2 | 202.4 | 1,123.6 | 941.6 | 2,065.2 |
| Cancellation of Predecessor Equity | 23.3 | 169.0 | 192.3 | (192.3) | - |
| **Consolidated balance at May 24, 2021 (Predecessor)** | - | - | - | - | - |

| | Common Units | Additional Paid-in Capital | Accumulated (Deficit) / Earnings | Total Equity/ (Deficit) |
|---|---|---|---|---|
| Issuance of Successor members' units | — | 564.5 | — | 564.5 |
| Amortization of share based awards | — | 0.6 | — | 0.6 |
| Net loss | — | — | (62.2) | (62.2) |
| **Balance at December 31, 2021 (Successor)** | — | **565.1** | **(62.2)** | **502.9** |

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

## Note 1 - General information

***Background***

Aquadrill LLC ("Aquadrill", the "Company," "we," "us" or "our") is a limited liability company incorporated under the laws of the Republic of the Marshall Islands and is the successor reporting company to Seadrill Partners LLC ("Seadrill Partners" or "SDLP"). We provide offshore drilling services to the oil and gas industry. At December 31, 2021 (Successor) we owned and operated 9 offshore drilling units. Our fleet consists of drillships, semi-submersible rigs and tender rigs for operations in shallow and deepwater areas, as well as benign and harsh environments.

The following discussion is intended to assist you in understanding our financial position at December 31, 2021 (Successor), financial position at December 31, 2020 (Predecessor), and our results of operations for the period from May 25 through December 31, 2021 (Successor), the period from January 1 through and including May 24, 2021 (Predecessor), the twelve months ended December 31, 2020 (Predecessor), and the twelve months ended December 31, 2019 (Predecessor).

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

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

***Basis of presentation***

The Consolidated Financial Statements are presented in accordance with generally accepted accounting principles in the United States of America ("U.S. GAAP"). The amounts are presented in United States Dollars ("U.S. Dollars" or "USD") rounded to the nearest million, unless otherwise stated.

***Basis of consolidation***

The financial statements include the results and financial position of all companies in which we directly or indirectly hold more than 50% of the voting control. We eliminate all intercompany balances and transactions.

During the Successor period, we have 100% interest in Aquadrill Operating LP and its subsidiaries as well as Aquadrill Capricorn Holdings LLC and its subsidiaries.

During the Predecessor period, we controlled Seadrill Operating LP (as renamed to Aquadrill Operating LP upon emergence) and its majority owned subsidiaries as well as Seadrill Capricorn Holdings LLC (as renamed to Aquadrill Capricorn Holdings LLC upon emergence) and its majority owned subsidiaries, during which we separately presented within equity on our Consolidated Balance Sheets the ownership interests attributable to parties with non-controlling interests in our consolidated subsidiaries, and we separately presented net income attributable to such parties in our Consolidated Statements of Changes in Members' Capital. Subsequent to emergence, we control 100% of our subsidiaries and have no non-controlling interests.

***Bankruptcy accounting***

Aquadrill LLC and certain of its direct and indirect consolidated subsidiaries (the "Debtors") filed voluntary petitions on December 1, 2020 (the "Petition Date") to commence prearranged reorganization proceedings under Chapter 11 of Title 11 of the United States Bankruptcy Code ("Bankruptcy Code") in the Southern District of Texas (the "Bankruptcy Court") case number 20-35740. During the pendency of the Chapter 11 proceedings, the Debtors operated its business as "debtor-in-possession" under the jurisdiction of the Bankruptcy Court and in accordance with the applicable provision of the Bankruptcy Code. For further information refer to Note 4 - "Chapter 11 Proceedings".

Since the Petition Date, we prepared our Consolidated Financial Statements under Accounting Standards Codification 852, *Reorganizations* ("ASC 852"). ASC 852 requires that the financial statements, for periods subsequent to filing bankruptcy petitions, distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business. Accordingly, certain expenses, gains and losses that are realized or incurred in the bankruptcy proceedings between the Petition Date and Effective Date were recorded in "Gain/(loss) on Reorganization items, net" on the Company's Consolidated Statements of Operations. Ongoing expenses related to the reorganization incurred after the Effective Date are recognized in "Restructuring and other expenses" on the Company's Consolidated Statements of Operations. In addition, ASC 852 provides for changes in the accounting and presentation of significant items on the Consolidated Balance Sheets, particularly liabilities. Pre-petition obligations that may have been impacted by Chapter 11 reorganization process were classified on the Consolidated Balance Sheets within "Liabilities subject to compromise".

***Fresh Start Reporting***

Upon the Effective Date, in accordance with ASC 852 related to fresh start reporting, Aquadrill became a new entity for financial reporting purposes. Upon adoption of fresh start reporting, our assets and liabilities were recorded at their reorganization values. The reorganization values of certain of our assets and liabilities differed materially from the recorded values of our assets and liabilities as reflected in the Predecessor historical Consolidated Balance Sheets. The Company applied fresh start accounting effective May 24, 2021, the Effective Date and the new basis of our assets and liabilities are reflected in our Consolidated Balance Sheet as of December 31, 2021 (Successor) and the related adjustments thereto were recorded in the Consolidated Statement of Operations of the Predecessor as "Gain/(loss) on Reorganization items, net", with any deferred tax effects through "Income tax expense", during the period from January 1, 2021 through and including May 24, 2021.

As such, our Consolidated Financial Statements subsequent to May 24, 2021 are not and will not be comparable to the Predecessor Consolidated Financial Statements prior to the Effective Date. Our Consolidated Financial Statements and related footnotes are presented with a black line division which delineates the lack of comparability between amounts presented prior to and including May 24, 2021. Our financial results for future periods following the application of fresh start accounting will be different from historical trends and the differences may be material.

***Going concern***

In our Form 20-F covering our annual report for the fiscal year ended December 31, 2020 (Predecessor), issued on April 30, 2021, we reported that uncertainties linked to our Chapter 11 Proceedings gave rise to a substantial doubt over our ability to continue as a going concern for a period of at least twelve months after the date the financial statements were issued.

As set out in Note 4 – Chapter 11 Proceedings and Note 5 – Fresh Start Accounting, we emerged from the Chapter 11 and completed our plan of reorganization on May 24, 2021. This addressed our liquidity concerns as it extinguished approximately $2,727.1 million in debt obligations and $20.8 million in unsecured interest rate swaps. We emerged from Chapter 11 with $317.3 million of post emergence cash (inclusive of restricted cash) and no outstanding debt. We believe that the cash on hand in combination with our operating revenues will generate sufficient cash flow to fund our anticipated working capital requirements for the next twelve months. Therefore, there is no longer a substantial doubt over our ability to continue as a going concern for at least the twelve months after the date the financial statements are issued.

**Note 2 - Accounting policies**

The accounting policies set out below have been applied consistently to all periods in these Consolidated Financial Statements, unless otherwise noted.

***Allowance for credit losses***

We adopted accounting standard update 2016-13 *Measurement of Credit Losses on Financial Instruments* effective January 1, 2020. The new guidance replaces the "incurred loss" model required under the previous guidance with a current "expected credit loss" (or "CECL") model. The CECL model requires recognition of expected credit losses over the life of a financial asset upon its initial recognition. Comparative periods are presented under the previous guidance with an allowance against a receivable balance recognized only if it was probable that we would not recover the full amount due to us. We determined doubtful accounts on a case-by-case basis and considered the financial condition of the customer as well as specific circumstances related to the receivable such as customer disputes. The CECL model applies to external trade receivables, related party receivables and other financial assets measured at amortized cost. We determined on transition at January 1, 2020, the impact of the CECL model was not material and no credit loss adjustments were applied.

The CECL model contemplates a broader range of information to estimate expected credit losses over the contractual lifetime of an asset. It also requires entities to consider the risk of loss even if it is remote. We estimate expected credit losses based on relevant information about past events, including historical experience, current conditions and reasonable and supportable forecasts of events which may affect the collectability. We estimate the CECL allowance using a "probability-of-default" model, calculated by multiplying the exposure at default by the probability of default by the loss given default by a risk overlay multiplier over the life of the financial instrument (as defined by ASU 2016-13).

***Revenue from contracts with customers***

The activities that primarily drive the revenue earned from our drilling contracts include (i) providing a drilling rig and the crew and supplies necessary to operate the rig, (ii) mobilizing and demobilizing the rig to and from the drill site and (iii) performing rig preparation activities and/or modifications required for the contract with a customer. Consideration received for performing these activities may consist of dayrate drilling revenue, mobilization and demobilization revenue, contract preparation revenue and reimbursement revenue. We account for these integrated services as a single performance obligation that is (i) satisfied over time and (ii) comprised of a series of distinct time increments of service.

We recognize revenues for activities that correspond to a distinct time increment of service within the contract term in the period when the services are performed. We recognize consideration for activities that are (i) not distinct within the context of our contracts and (ii) do not correspond to a distinct time increment of service, ratably over the estimated contract term.

We determine the total transaction price for each individual contract by estimating both fixed and variable consideration expected to be earned over the term of the contract. The amount estimated for variable consideration may be constrained and is only included in the transaction price to the extent that it is probable that a significant reversal of previously recognized revenue will not occur throughout the term of the contract. When determining if variable consideration should be constrained, we consider whether there are factors outside of our control that could result in a significant reversal of revenue as well as the likelihood and magnitude of a potential reversal of revenue. We re-assess these estimates each reporting period as required. Refer to Note 7 - "Revenue from contracts with customers".

*Dayrate drilling revenue* - Our drilling contracts generally provide for payment on a dayrate basis, with higher rates for periods when the drilling unit is operating and lower rates or zero rates for periods when drilling operations are interrupted or restricted. The dayrate invoices billed to the customer are typically determined based on the varying rates applicable to the specific activities performed on an hourly basis. Such dayrate consideration is allocated to the distinct hourly increment service it relates to. Revenue is recognized in line with the contractual rate billed for the services provided for any given hour.

*Mobilization revenue* - We may receive fees (on either a fixed lump-sum or variable dayrate basis) for the mobilization of our rigs. These activities are not considered to be distinct within the context of the contract. The associated revenue is allocated to the overall performance obligation and recognized ratably over the expected term of the related drilling contract. We record a contract liability for mobilization fees received, which is amortized ratably to contract drilling revenue as services are rendered over the initial term of the related drilling contract.

*Demobilization Revenue* - We may receive fees (on either a fixed lump-sum or variable dayrate basis) for the demobilization of our rigs. Demobilization revenue expected to be received upon contract completion is estimated as part of the overall transaction price at contract inception and recognized over the term of the contract. In most of our contracts, there is uncertainty as to the likelihood and amount of expected demobilization revenue to be received. For example, the amount may vary dependent upon whether or not the rig has additional contracted work following the contract. Therefore, the estimate for such revenue may be constrained, as described above, depending on the facts and circumstances pertaining to the specific contract. We assess the likelihood of receiving such revenue based on past experience and knowledge of the market conditions.

*Revenues Related to Reimbursable Expenses* - We generally receive reimbursements from our customers for the purchase of supplies, equipment, personnel services and other services provided at their request in accordance with a drilling contract or other agreement. Such reimbursable revenue is variable and subject to uncertainty, as the amounts received and timing thereof are highly dependent on factors outside of our influence. Accordingly, reimbursable revenue is fully constrained and not included in the total transaction price until the uncertainty is resolved, which typically occurs when the related costs are incurred on behalf of a customer. We are generally considered a principal in such transactions and record the associated revenue at the gross amount billed to the customer, at a point in time, as "Reimbursable revenues" in our Consolidated Statements of Operations.

*Deferred Contract Costs* - Certain direct and incremental costs incurred for upfront preparation, initial mobilization and modifications of contracted rigs represent costs of fulfilling a contract as they relate directly to a contract, enhance resources that will be used in satisfying our performance obligations in the future and are expected to be recovered. Such costs are deferred and amortized ratably to contract drilling expense as services are rendered over the initial term of the related drilling contract.

***Other revenues***

Other revenues consist of related party revenues and early termination fees. Refer to Note 9 - "Other revenues". Revenue is recognized as the performance obligation is satisfied.

*Related party revenues* - Related party revenues relate to onshore support and offshore personnel provided to Seadrill Limited in the Predecessor period. Seadrill Limited is no longer a related party after the Effective Date. Refer to Note 21 - "Related party transactions"

*Early termination fees* - Other revenues also include amounts recognized as early termination fees under drilling contracts which have been terminated prior to the contract end date. Contract termination fees are recognized daily as and when any contingencies or uncertainties are resolved.

***Vessel and rig operating expenses***

Vessel and rig operating expenses are costs associated with operating a drilling unit that is either in operation or stacked. Costs include the remuneration of offshore crews and related costs, rig supplies, insurance costs, expenses for repairs and maintenance, costs for onshore support personnel and costs for management, operational support and technical supervision agreements with third parties related to the day to day management of our drilling units. We expense such costs as incurred.

*Mobilization and demobilization expenses*

We incur costs to prepare a drilling unit for a new customer contract and to move the rig to a new contract location. We capitalize the mobilization and preparation costs for a rig's first contract as a part of the rig value and recognize them as depreciation expense over the expected useful life of the rig. For subsequent contracts, we defer these costs over the expected contract term (see "Deferred Contract Costs" above), unless we do not expect the costs to be recoverable, in which case we expense them as incurred.

We incur costs to transfer a drilling unit to a safe harbor or different geographic area at the end of a contract. We expense such demobilization costs as incurred. We also expense any costs incurred to relocate drilling units that are not under contract.

*Repairs, maintenance and periodic surveys*

Costs related to periodic overhauls of drilling units are capitalized and amortized over the anticipated period between overhauls, which is generally five years. Related costs are primarily yard costs and the cost of employees directly involved in the work. We include amortization costs for periodic overhauls in depreciation expense. Costs for other repair and maintenance activities are included in vessel and rig operating expenses and are expensed as incurred.

***Income taxes***

Aquadrill LLC is organized in the Republic of the Marshall Islands and resident in the United Kingdom for taxation purposes. The Company does not conduct business or operate in the Republic of the Marshall Islands, and is not subject to income, capital gains, profits or other taxation under current Marshall Islands law. As a tax resident of the United Kingdom the Company is subject to tax on income earned from sources within the United Kingdom. Certain subsidiaries operate in other jurisdictions where taxes are imposed. Consequently, income taxes have been recorded in these jurisdictions when appropriate. Our income tax expense is based on our income and statutory tax rates in the various jurisdictions in which we operate. We provide for income taxes based on the tax laws and rates in effect in the countries in which operations are conducted and income is earned. There is little or no expected relationship between the provision for or benefit from income taxes and income or loss before income taxes because the countries in which we operate have taxation regimes that vary not only with respect to the nominal rate, but also in terms of the availability of deductions, credits and other benefits. Variations also arise because income earned and taxed in any particular country or countries may fluctuate from year to year. Refer to Note 8 – "Taxation".

The determination and evaluation of our annual group income tax provision involves interpretation of tax laws in various jurisdictions in which we operate and requires significant judgment and use of estimates and assumptions regarding significant future events, such as amounts, timing and character of income, deductions and tax credits. The Company recognizes tax liabilities based on its assessment of whether its tax positions are more likely than not sustainable, based on the technical merits of its tax positions and considerations of the relevant taxing authorities' administrative practices and precedents.

We recognize liabilities for uncertain tax positions based on a two-step process. The first step is to evaluate the tax position for recognition by determining if the weight of available evidence indicates that it is more likely than not that the position will be sustained on audit, including resolution of related appeals or litigation processes, if any. The second step is to measure the tax benefit as the largest amount that is more than 50% likely of being realized upon settlement. While we believe we have appropriate support for the positions taken on our tax returns, we regularly assess the potential outcomes of examinations by tax authorities in determining the adequacy of our provision for income taxes.

Current income tax expense reflects an estimate of our income tax liability for the current year, withholding taxes, changes in prior year tax estimates as tax returns are filed, or from tax audit adjustments. Income tax expense consists of taxes currently payable and changes in deferred tax assets and liabilities calculated according to local tax rules. We recognize the income tax effects of intercompany sales or transfers of assets, other than inventory, in the Consolidated Statement of Operations as "Income tax benefit/(expense)" in the period the sale or transfer occurs.

Deferred tax assets and liabilities are based on temporary differences that arise between carrying values used for financial reporting purposes and amounts used for taxation purposes of assets and liabilities and the future tax benefits of tax loss carry forwards.

Our deferred tax expense or benefit represents the change in the balance of deferred tax assets or liabilities as reflected on the balance sheet. Valuation allowances are determined to reduce deferred tax assets when it is more likely than not that some portion or all of the deferred tax assets will not be realized. To determine the amount of deferred tax assets and liabilities, as well as at the valuation allowances, we must make estimates and certain assumptions regarding future taxable income, including where our drilling units are expected to be deployed, as well as other assumptions related to our future tax position. A change in such estimates and assumptions, along with any changes in tax laws, could require us to adjust the deferred tax assets, liabilities or valuation allowances. The amount of deferred tax provided is based upon the expected manner of settlement of the carrying amount of assets and liabilities, using tax rates enacted at the balance sheet date. The impact of tax law changes is recognized in periods when the change is enacted.

***Foreign currencies***

The majority of our revenues and expenses are denominated in U.S. Dollars and all of our subsidiaries use U.S. Dollars as their functional currency. Our reporting currency is also U.S. Dollars.

Transactions in foreign currencies are translated into U.S. Dollars at the rates of exchange in effect at the date of the transaction. Foreign currency denominated monetary assets and liabilities are remeasured using rates of exchange at the balance sheet date. Gains and losses on foreign currency transactions are included in the Consolidated Statements of Operations.

***Fair value measurements***

We estimate fair value at a price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants in the principal market for the asset or liability. Hierarchy Levels 1, 2 and 3 are terms for the priority of inputs to valuation techniques used to measure fair value. Hierarchy Level 1 inputs are unadjusted quoted prices for identical assets or liabilities in active markets. Hierarchy Level 2 inputs are significant other observable inputs, including direct or indirect market data for similar assets or liabilities in active markets or identical assets or liabilities in less active markets. Hierarchy Level 3 inputs are significant unobservable inputs, including those that require considerable judgment for which there is little or no market data. When a valuation requires multiple input levels, we categorize the entire fair value measurement according to the lowest level of input that is significant to the measurement even though we may have also utilized significant inputs that are more readily observable.

***Current and non-current classification***

Generally, assets and liabilities (excluding liabilities subject to compromise) are classified as current assets and liabilities respectively if their maturity is within one year of the balance sheet date. In addition, we classify any derivative financial instruments whose fair value is a net liability as current. Current liabilities will include amounts from lenders payable on demand at their discretion due to event of default clauses being met.

Generally, assets and liabilities are classified as non-current assets and liabilities respectively, if their maturity is beyond one year of the balance sheet date. In addition, we classify loan fees based on the classification of the associated debt principal and we classify any derivative financial instruments whose fair value is a net asset as non-current.

Where the liabilities were subject to compromise as part of the Chapter 11 Proceedings they are classified separately in the Consolidated Balance Sheet and neither classified as current or non-current.

***Cash and cash equivalents***

Cash and cash equivalents consist of cash, bank deposits and highly liquid financial instruments with maturities of three months or less. Amounts are presented net of allowances for credit losses.

Restricted cash consists of bank deposits which are subject to restrictions due to legislation, regulation or contractual arrangements. Restricted cash amounts that are expected to be used after one year from the balance sheet date are classified as non-current assets. Amounts are presented net of allowances for credit losses, which are assessed based on consideration of whether the balances have short-term maturities and whether the counterparty has an investment grade credit rating, limiting any credit exposure. Refer to Note 13 – "Restricted cash".

***Receivables***

Receivables, including accounts receivable, are recorded in the balance sheet at their nominal amount net of expected credit losses and write-offs. Interest income on receivables is recognized as earned. Refer to Note 14 - "Accounts receivable".

***Contract assets and liabilities***

Accounts receivables are recognized when the right to consideration becomes unconditional based upon contractual billing schedules. If we recognize revenue ahead of this point, we also recognize a contract asset. Contract assets balances relate primarily to demobilization revenues recognized during the period but are contingent on future demobilization activities.

Contract liabilities include payments received for mobilization, rig preparation and upgrade activities which are allocated to the overall performance obligation and recognized ratably over the initial term of the contract.

***Related parties***

Parties are related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also related if they are subject to common control or common significant influence. In the Predecessor periods, amounts receivable from related parties are presented net of allowances for expected credit losses and write-offs. Interest income on receivables is recognized as earned. Refer to Note 21 - "Related party transactions" for details of balances and material transactions with related parties.

***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.

In assessing the recoverability of our drilling units carrying amounts, we make assumptions regarding estimated future cash flows, estimates in respect of residual value, day rates, drilling unit operating expenses and overhaul requirements.

***Business combinations***

We apply the acquisition method of accounting for business combinations. The acquisition method requires the total of the purchase price of acquired businesses and any non-controlling interest recognized to be allocated to the identifiable tangible and intangible assets and liabilities acquired at fair value, with any residual amount being recorded as goodwill as of the acquisition date. Costs associated with the acquisition are expensed as incurred.

***Drilling units***

Rigs, vessels and related equipment are recorded at historical cost less accumulated depreciation. The cost of these assets, less estimated residual value is depreciated on a straight-line basis over their estimated remaining economic useful lives. The estimated residual value is taken to be offset by any decommissioning costs that may be incurred. The estimated economic useful life of our floaters, when new, is 30 years. The direct and incremental costs of significant capital projects, such as rig upgrades and reactivation projects, are capitalized and depreciated over the remaining life of the asset.

Drilling units acquired in a business combination are measured at fair value at the date of acquisition. Drilling units were also remeasured to reorganization value when we applied fresh start accounting at the date of emergence. Cost of property and equipment sold or retired, with the related accumulated depreciation and impairment is removed from the Consolidated Balance Sheet, and resulting gains or losses are included in the Consolidated Statement of Operations.

We re-assess the remaining useful lives of our drilling units when events occur which may impact our assessment of their remaining useful lives. These include changes in the operating condition or functional capability of our rigs, technological advances, changes in market and economic conditions as well as changes in laws or regulations affecting the drilling industry. Refer to Note 16 - "Drilling units ".

***Assets held for sale***

Assets are classified as held for sale when all of the following criteria are met: management commits to a plan to and has board of directors authority to sell the asset (disposal group), the asset is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such assets, an active program to locate a buyer and other actions required to complete the plan to sell the asset (disposal group) have been initiated, the sale of the asset is probable, and transfer of the asset is expected to qualify for recognition as a completed sale, within one year. The term probable refers to a future sale that is likely to occur, the asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value and actions required to complete the plan indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

***Impairment of long-lived assets***

We review the carrying value of our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be appropriate. We first assess recoverability of the carrying value of the asset by estimating the undiscounted future net cash flows expected to be generated from the asset, including eventual disposal. If the undiscounted future net cash flows are less than the carrying value of the asset, we then compare the carrying value of the asset with the discounted future net cash flows, using a relevant weighted-average cost of capital. The impairment loss to be recognized during the period, is the amount by which the carrying value of the asset exceeds the discounted future net cash flows.

***Favorable drilling contracts - intangible assets***

Favorable drilling contracts are recorded as an intangible asset at fair value on the date of acquisition less accumulated amortization. The amortization is recognized in the Consolidated Statements of Operations under "Amortization of favorable contracts". The amounts of these assets are amortized on a straight-line basis over the estimated remaining economic useful life or contractual period.

***Derivative financial instruments and hedging activities***

Our derivative financial instruments are measured at fair value and are not designated as hedging instruments. Changes in their fair value are recorded as a gain or loss as a separate line item within "Financial and other items" in the Consolidated Statements of Operations. We classify the asset or liability for derivative financial instruments within "Other current assets" or "Other current liabilities" in our Consolidated Balance Sheets. We offset assets and liabilities for derivatives that are subject to legally enforceable master netting agreements. Refer to Note 23 - "Fair Value Measurement".

***Trade payables***

Trade payables are liabilities to a supplier for a good or service provided to us.

***Deferred charges***

Loan related costs, including debt issuance, arrangement fees and legal expenses, are capitalized and presented in the balance sheet as a direct deduction from the carrying amount of the related debt liability, and amortized over the term of the related loan and the amortization is included in "Interest expense" in the Consolidated Statement of Operations.

***Debt***

In the Predecessor periods we had financed a significant proportion of the cost of acquiring our fleet of drilling units through the issue of debt instruments. At the inception of a term debt arrangement or whenever we made the initial drawdown on a revolving debt arrangement, we incurred a liability for the principal to be repaid. Refer to Note 17 - "Debt".

***Loss contingencies***

We recognize a loss contingency in the Consolidated Balance Sheets where we have a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate of the amount can be made. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability. Refer to Note 24 - "Commitments and contingencies".

***Equity allocation***

Earnings and losses attributable to unitholders of Aquadrill are allocated to all unitholders on a pro rata basis for the purposes of presentation in the Consolidated Statements of Changes in Members' Capital. Earnings and losses in the Predecessor period attributable to unitholders were first reduced for any cash distributions for the period to be paid to the holders of the incentive distribution rights. After the Effective Date no incentive distribution rights remained.

***Share based compensation***

Subsequent to our emergence from Chapter 11, we granted share based awards to our employees. At the grant date, there existed two classes of RSUs, one of which was equity classified and the other liability classified - refer to Note 19 – "Share based compensation". On September 21, 2021, the Board approved an amendment to certain Restricted Stock Unit ("RSU") Award Agreements issued under the 2021 Long Term Incentive Plan ("2021 LTIP") such that the form of settlement is at the discretion of the Committee designated by the Board to administer the plan (the "Committee") rather than at the discretion of the grantee. The amendment removes the optionality for cash or equity settlement and requires all awards to be settled in Company common units, or in cash at the option of the Committee, reclassifying all previous liability awards as equity awards. Upon the Board's approval of the amendment, the awards were remeasured at the modification-date fair value and are accounted for as an equity-classified award going forward, so long as there are no further changes to the award.

The fair value of the awards is based on the fair value of the underlying common units on the Effective Date (the "Award Date") as well as September 21, 2021 (the "Modification Date"). The fair value of the equity awards granted was $2.0 million on the Award Date, and the fair value of the liability awards was $1.3 million on the Award Date. Note that the incremental compensation cost due to the modification was less than $0.1 million. The fair value of the awards is based on the fair value of the underlying common units at a 1 to 1 ratio, and as such the fair value of one award equals the fair value of one common unit. The fair value of the common units was calculated at the Award Date and the Modification Date utilizing the income approach of valuation, plus cash on hand to determine the Company's total Enterprise Value, divided by the total common units outstanding to arrive at a per unit fair value. As part of the utilization of the income approach of valuation, the Company utilized a risk-free rate equal to the yield of the US Treasury composite with 20-years to maturity. As the fair value of the awards relies on the underlying value of our common units, the volatility of our common units will affect the fair value of the awards. The volatility of the common units is closely related to our operations, which the Company estimates utilizing expected volatility in the analysis of the fair value of the common units. On the Modification Date the liability awards were remeasured as equity awards and had a fair value of $1.3 million. The weighted average remaining term of these awards is 2.4 years as of December 31, 2021.

***Guarantees***

Guarantees issued by us, excluding those that are guaranteeing our own performance, are recognized at fair value at the time that the guarantees are issued and reported in "Other current liabilities" and "Other non-current liabilities" in our Consolidated Balance Sheets. If it becomes probable that we will have to perform under a guarantee, we remeasure the liability if the amount of the loss can be reasonably estimated. The recognition of fair value is not required for certain guarantees such as the parent's guarantee of a subsidiary's debt to a third party. Financial guarantees written are assessed for credit losses and any allowance is presented as a liability for off-balance sheet credit exposures where the balance exceeds the collateral provided over the remaining instrument life. The allowance is assessed at the individual guarantee level, calculated by multiplying the balance exposed on default by the probability of default and loss given default over the term of the guarantee.

**Note 3 - Recent accounting standards**

We adopted the following accounting standard updates ("ASUs") in the year which did not have any material impact on our Consolidated Financial Statements and related disclosures:

- ***ASU 2021-03 – Intangibles – Goodwill and Other (Topic 350): Accounting Alternative for Evaluating Triggering Events***
- ***ASU 2021-01 – Reference Rate Reform (Topic 848): Scope***
- ***ASU 2020-10 – Codification Improvement***
- ***ASU 2020-09 – Debt (Topic 470) – Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762***
- ***ASU 2020-08 – Codification Improvements to Subtopic 310-20, Receivables – Nonrefundable Fees and Other Costs***
- ***ASU 2020-06 – Debt – Debt with Conversion and Other Options (Subtopic 470-20) and Derivatives and Hedging – Contracts in Entity's Own Equity (Subtopic 815-40) – Accounting for Convertible Instruments and Contracts in an Entity's Own Equity***
- ***ASU 2020-05 – Revenue from Contracts with Customers (Topic 606) and Leases (Topic 842) – Effective Dates for Certain Entities***
- ***ASU 2020-04 Reference Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting***
- ***ASU 2020-03 – Codification Improvements to Financial Instruments***
- ***ASU 2020-02 – Financial Instruments – Credit Losses (Topic 326) and Leases (Topic 842) – Amendments to SEC Paragraphs Pursuant to SEC Staff Accounting Bulletin No. 119 and Update to SEC Section on Effective Date Related to Accounting***
- ***ASU 2020-01 – Investments – Equity Securities (Topic 321), Investments – Equity Method and Join Ventures (Topic 323), and Derivatives and Hedging (Topic 815) – Clarifying the Interactions between Topic 321, Topic 323, and Topic 815***
- ***ASU 2019-12 – Income Taxes (Topic 740) – Simplifying the Accounting for Income Taxes***
- ***ASU 2019-11 – Codification Improvements to Topic 326, Financial Instruments – Credit Losses***
- ***ASU 2019-01 – Leases (Topic 842) – Codification Improvements***

***Recently issued accounting standards***

Recently issued ASUs by the FASB that we have not yet adopted but which could affect our Consolidated Financial Statements and related disclosures in future periods:

***ASU 2021-07 – Compensation – Stock Compensation (Topic 718) – Determining the Current Price of an Underlying Share***

In October 2021, the FASB issued ASU 2021-07 to address the concerns of private company stakeholders about the cost and complexity associated with determining the current price input into the valuation of a share-based award granted as compensation. The amendments in this ASU provide a practical expedient for a nonpublic entity to determine the current price input of equity-classified share-based awards issued to both employees and nonemployees. The practical expedient in the ASU will be effective prospectively for all qualifying awards granted or modified during the fiscal years beginning after December 15, 2021 and interim periods within fiscal years beginning after December 15, 2022, with early application permitted for financial statements that have not yet been issued or made available for issuance as of October 25, 2021. We are in the process of evaluating the impact of this standard update on our Consolidated Financial Statements and related disclosures.

***ASU 2021-08 – Business Combinations (Topic 805) – Accounting for Contract Assets and Contract Liabilities from Contracts with Customers***

In October 2021, the FASB issued ASU 2021-08 which addresses diversity in practice and inconsistency related to the recognition and measurement of contract assets and contract liabilities acquired in a business combination. The amendments in the ASU require that an acquirer recognize and measure contract assets and liabilities acquired in a business combination in accordance with ASC 606, *Revenue from Contracts with Customers*. For nonpublic entities, this ASU will be effective for fiscal years beginning after December 15, 2023, including interim periods within those fiscal years, with early adoption permitted. We evaluated the impact of this standard update on our Consolidated Financial Statements and related disclosures and determined that there will be no material impact on the Consolidated Financial Statements and related disclosures.

***ASU 2021-09 – Leases (Topic 842) – Discount Rate for Lessees that are Not Public Business Entities***

In November 2021, the FASB issued ASU 2021-09 which allows a lessee that is not a public business entity to elect an accounting policy to use a risk-free rate as its discount rate by class of underlying asset rather than at an entity-wide level, as is currently required by ASC 842, *Leases*. The amendments in this ASU also require that when the rate implicit in the lease is readily determinable for any individual lease, the lessee would use that rate regardless of whether it has made the risk-free rate election. For entities that have adopted ASC 842, the amendments in this ASU will be effective for fiscal years beginning after December 15, 2021 and interim periods within fiscal years beginning after December 15, 2022, with early application permitted. We are in the process of evaluating the impact of this standard update on our Consolidated Financial Statements and related disclosures and do not believe there will be a material impact on the Consolidated Financial Statements and related disclosures.

***ASU 2021-10—Government Assistance (Topic 832)—Disclosures by Business Entities about Government Assistance***

In November 2021, the FASB issued ASU 2021-10 which updated required disclosures about transactions with a government that have been accounted for by analogizing to a grant or contribution accounting model to increase transparency about the types of transactions, the accounting for the transactions, and the effect of the transactions on an entity's financial statements. This guidance will be effective for all entities for annual periods beginning after December 15, 2021, with early adoption permitted. We evaluated the impact of this standard update on our Consolidated Financial Statements and related disclosures and determined that there will be no material impact on the Consolidated Financial Statements and related disclosures.

***Other accounting standard updates issued by the FASB***

As of July 15, 2022, the FASB have issued several further updates not included above. We do not currently expect any of these updates to affect our Consolidated Financial Statements and related disclosures either on transition or in future periods.

**Note 4 - Chapter 11 Proceedings**

From the Petition Date through the Effective Date, we prepared our Consolidated Financial Statements under Accounting Standards Codification 852, *Reorganizations* ("ASC 852"). ASC 852-10, *Reorganizations*, applies to entities that have filed a petition for relief under Chapter 11 of the Bankruptcy Code. ASC 852 requires that the financial statements, for periods subsequent to filing bankruptcy petitions, distinguish transactions and events that are directly associated with the reorganization to be distinguished from the ongoing operations of the business. Accordingly, certain expenses, gains and losses that are realized or incurred in the bankruptcy proceedings are recorded in "Gain/(loss) on Reorganization items, net" on the Company's Consolidated Statements of Operations. In addition, ASC 852 provides for changes in the accounting and presentation of significant items on the Consolidated Balance Sheets, particularly liabilities. Pre-petition obligations that may have been impacted by Chapter 11 reorganization process were classified on the Consolidated Balance Sheets within "Liabilities subject to compromise".

***Overview***

*Events leading to the Chapter 11 Cases*

Since 2017, Seadrill Partners LLC and its debtor affiliates (Seadrill Texas LLC, Seadrill Hungary Kft., Seadrill Deepwater Drillship Ltd., Seabras Rig Holdco Kft., Seadrill Partners Operating LLC, Seadrill Ghana Operations Ltd., Seadrill Partners Malaysia Sdn Bhd., Seadrill Auriga Hungary Kft., Seadrill Polaris Ltd., Seadrill Gulf Operations Auriga LLC, Seadrill Canada Ltd., Seadrill Partners Finco LLC, Seadrill T-15 Ltd., Seadrill Gulf Operations Sirius LLC, Seadrill Partners B.V., Seadrill T-16 Ltd., Seadrill Capricorn Holdings LLC, Seadrill Gulf Operations Vela LLC, Seadrill Operating LP, Seadrill US Gulf LLC, Seadrill China Operations Ltd., Seadrill Operating GP LLC, Seadrill International Ltd., Seadrill Vela Hungary Kft., Seadrill OPCO Sub LLC, Seadrill Leo Ltd., Seadrill Vencedor Ltd., and Seadrill Mobile Units (Nigeria) Ltd) (collectively, the "Debtors," and together with Seadrill Partners LLC's direct and indirect non-Debtor subsidiaries and affiliates, collectively, "SDLP" and/or the "SDLP Group"), faced an onslaught of negative macroeconomic trends, including reduced upstream capital expenditures, a surplus in supply of available drilling units, and increased price competition. In response, SDLP and its seven-member Board of Directors proactively sought to address the SDLP Group's capital structure challenges. Additionally, SDLP, through the four-member Conflicts Committee of its Board of Directors (the "Conflicts Committee"), focused on several key conflict issues, including the potential to restructure and/or replace the management services agreements (the "MSA") with Seadrill Limited to best maximize value. To that end, the Conflicts Committee retained Evercore as its independent financial adviser and Sheppard Mullin as its independent legal counsel.

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

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

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

On November 25, 2020, Seadrill Limited, without prior notice to SDLP, exercised certain purported rights under the MSA to settle approximately $24.2 million in purported various claims, which was $19.4 million in excess of the $4.8 million authorized by the Conflicts Committee (the "Cash Sweep"). Thereafter, the Conflicts Committee assessed Seadrill Limited's actions and sought to chart a path forward to maximize the value of the Debtors in light of numerous considerations. Among other things, the Conflicts Committee: (a) conferred with the Debtors' management team and the Conflicts Committee's independent advisors; (b) engaged with the advisors to the Ad Hoc Group regarding the situation; (c) considered the effect of Seadrill Limited's actions or potential actions on its operations, customers, and employees; and (d) engaged with independent counsel regarding potential legal recourse.

Following several days of review and numerous formal and informal meetings, both at the Conflicts Committee level and at the Board level, the Debtors determined that it was prudent to commence the reorganization proceedings (the "Chapter 11 Proceedings") to ensure that no additional unauthorized settlements like the Cash Sweep occurred by Seadrill

Limited and to use the chapter 11 process to maximize the value of the Debtors' enterprise for the benefit of all stakeholders. In conjunction with their decision to commence the Chapter 11 Cases, the Debtors negotiated with the Ad Hoc Group for consensual use of cash collateral. As part of that agreement, the Debtors were to complete the Strategic Process, the outcome of which the Debtors anticipated would serve as the foundation for a plan of reorganization to address the Debtors' over-leveraged balance sheet and an expeditious exit from Chapter 11 bankruptcy.

*Bankruptcy Petitions and Chapter 11 Proceedings*

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

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

As set forth in the Plan and the Disclosure Statement, holders of claims or interests in Classes 3, 4, and 5 were eligible to vote to accept or reject the Plan in accordance with the solicitation procedures. Holders of claims in classes 1 and 2 were unimpaired and conclusively presumed to accept the Plan and, therefore, did not vote to accept or reject the Plan. Holders of claims and interest in classes 8, 9, and 10 were impaired under the Plan, entitled to no recovery under the Plan, and are therefore were deemed to have rejected the Plan. Holders of claims in classes 6 and 7 were unimpaired and conclusively presumed to have accepted the Plan (to the extent reinstated) or were impaired and deemed to reject the Plan (to the extent cancelled and released), and, in either event, were not entitled to vote to accept or reject the Plan. All voting classes voted to accept the Plan in the numbers and amounts required by section 1126 of the Bankruptcy Code.

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

*Emergence from Chapter 11 Proceedings*

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

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

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

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

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

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

Prior to the Company's emergence from Chapter 11 bankruptcy on the Effective Date, all pre-petition amounts of known or potential pre-petition claims to be resolved in connection with the Chapter 11 Proceedings were classified as "Liabilities subject to compromise" in the Consolidated Balance Sheets at the expected amount of the allowed claim. All liabilities subject to compromise excluding general unsecured claims ("GUC") have either been settled or reinstated pursuant to the terms of the Plan. The GUC has not been settled and will not be settled prior to completion of our audited financials.

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

***Debtor-In-Possession***

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

***New Management Services Agreements***

Prior to the Chapter 11 filing, Seadrill Limited was a related party of the Company and owned 46.6% of the outstanding limited liability interests of the Company, which included 34.9% of the outstanding common units and 100% of the subordinated units. Seadrill Limited was responsible for the management, marketing, and operation of our fleet of drilling units through a series of management, operational support, and technical supervision service agreements. We were charged a fee for the services provided to us. Note that after the Effective Date Seadrill Limited was no longer a related party.

On January 20, 2021, the Company entered into a management agreement with Energy Drilling Management Pte. Ltd. ("Energy Drilling") to maintain, market and operate our owned tender rigs; *T-15*, *T-16*, and *Vencedor*. The Energy Drilling MSA was the result of an extensive marketing process conducted by the Debtors. As part of this process, the Debtors

reached out to numerous potential counterparties, received, and evaluated several bids in consultation with Sheppard Mullin, and in the Debtors' business judgment, decided to enter into the Energy Drilling MSA. On February 2, 2021, the Bankruptcy Court entered the Energy Drilling Order, approving the Debtors' entry into the Energy Drilling MSA agreement. The agreement started a 90-day transition period of services provided for the *T-15*, *T-16* and *Vencedor* from Seadrill Limited to Energy Drilling.

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

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

***Seadrill Limited Global Settlement***

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

Under the MSA Settlement Order, Seadrill Limited was to provide restructuring and transition services to SDLP, within the scope set forth in the MSA Settlement Order through June 30, 2021 in exchange for a total fee of $3.0 million, inclusive of a restructuring services fee of $0.7 million for the period December 2020 through June 2021 (the "Restructuring Services Fee") and a fee of $2.3 million (the "Transition Support Fee"), which fees were to be paid by SDLP in accordance with the terms and on the timing set forth in the MSA Settlement Order. Under the MSA Settlement Order, Seadrill Limited was not obligated to provide restructuring or transition services after June 30, 2021, so long as Seadrill Limited had made reasonable efforts to plan and complete the transition by such date. Further the MSA Settlement Order provided that Seadrill Limited ceased to be obliged to market the SDLP vessels.

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

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

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

The MSA Settlement Order additionally authorized and directed the SDLP Debtors to fund $9.0 million in cash into a separate, segregated SDLP bank account to be used for the sole purpose of securing payments under the MSA Settlement Order (the "Segregated Account"). The balance of the Segregated Account was to remain at or above the initial funding amount until services provided to SDLP by Seadrill Limited under the terms of the Settlement were fully paid for. The Settlement Order deemed the cash in the Segregated Account free and clear of all preexisting liens, claims, and encumbrances and granted Seadrill Limited a first priority lien on the Segregated Account to secure amounts owed under the Settlement. Other than with respect to payments contemplated by the Settlement, SDLP was to not remove cash from the Segregated Account.

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

***Rejection of Executory Contracts***

Subject to certain exceptions, under the Bankruptcy Code, the Debtors had the right to assume, amend and assume, assign or reject certain executory contracts and unexpired leases, subject to the approval of the Bankruptcy Court and certain other conditions. Generally, the assumption of a contract required the Debtors to satisfy pre-petition obligations under the contract, which potentially included payment of pre-petition liabilities in whole or in part. Rejection of a contract was typically treated as a breach occurring as of the moment immediately preceding the Petition Date. Subject to certain exceptions, this rejection relieved the Company from performing future obligations under the contract but entitled the counterparty to assert a pre-petition general unsecured claim for damages. During Chapter 11 proceedings, the Company identified one lease to reject based on the Company no longer utilizing the leased premises. No other contracts were rejected.

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

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

- Predecessor equity interests were cancelled, released, and extinguished and the Predecessor equity holders did not receive any consideration;
- 20 million New Common Units of the Successor company were issued or reserved for issuance, in accordance with the Plan;
- Approximately 31.8% of the New Common Units were issued or reserved for issuance to holders of super senior term loan claims against the Company and certain of its Chapter 11 debtor affiliates;
- Approximately 68.2% of the New Common Units were issued or reserved for issuance to holders of TLB secured claims against the Company and certain of its Chapter 11 debtor affiliates;

- All outstanding obligations under the Term Loan B were settled;
- The limited liability company agreement was amended for the authorization of the New Common Units and to provide registration rights thereunder, among other corporate governance actions;
- $12.7 million of certain general unsecured claims were to receive their pro-rata share of the $2.3 million that was funded on the Effective Date into the General Unsecured Claim Distribution Account with the residual continuing unimpaired;
- The holders of other secured claims and other priority claims received payment in full in cash on the Effective Date or through the ordinary course of business after the Effective Date;
- The MSA Agreements were entered into for the management of the Company's offshore drilling units. See the New Management Services Agreements item above for further discussion on the MSA Agreements;
- The Settlement Agreement was entered into with Seadrill Limited which cancelled and released all pre-petition receivables and payables between us and Seadrill Limited. Approximately $4.9 million in payables to Seadrill Limited remained as of the Effective Date, which were reclassified to third-party payables upon emergence. See the Seadrill Limited Global Settlement item above for further discussion on the Settlement Agreement with Seadrill Limited;
- A Transition Services Agreement was agreed to with Seadrill Limited that provided for a safe and efficient transition. See the Seadrill Limited Global Settlement item above for further discussion on the Transition Services Agreement;
- The Plan resolved all potential claims against the Company alleged by related parties, secured creditors and unsecured creditors;
- The Board of Directors authorized the 2021 Long-term Incentive Plan ("2021 LTIP") which provides for awards in the form of Options, Unit Appreciation Rights, Restricted Unit Awards, Restricted Settlement Unit Awards, Performance Awards, or other Unit-Based awards. 1,052,631 New Common Units were authorized and reserved for issuance pursuant to the 2021 LTIP. No New Common Units were issued under the 2021 LTIP as of the Effective Date.

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

***Reorganization items, net***

Incremental expenses, gains and losses that were realized or incurred between the Petition Date and the Effective Date and as a direct result of the Chapter 11 Cases and the implementation of the Plan, gains on the settlement of liabilities under the Plan and the net impact of fresh start accounting adjustments are classified as "Gain/(loss) on Reorganization items, net" in the Consolidated Statements of Operations. Advisory and professional fees associated with our restructuring that were incurred before the Petition Date are recorded in "Other financials items" in our Consolidated Statements of Operations. For the year ended December 31, 2020 (Predecessor), $9.5 million of professional and advisory fees that were incurred pre-petition were recorded in "Other financials items". Advisory and professional fees associated with our restructuring that were incurred after the Effective Date are recorded in "Restructuring and other expenses" in our Consolidated Statements of Operations. For the period from May 25, 2021 through December 31, 2021 (Successor), $3.7 million of professional and advisory fees that were incurred after the Effective Date were recorded in "Restructuring and other expenses".

The following table summarizes the components included within Reorganization items, net (in millions):

| | Successor | Predecessor | |
|---|---|---|---|
| *(In $ millions)* | **Period from May 25, 2021 to December 31, 2021** | **Period from January 1, 2021 to May 24, 2021** | **Period from December 1, 2020 to December 31, 2020** |
| Advisory and professional fees | $ - | 35.4 | $ 7.1 |
| Write-off of unamortized debt issuance costs | - | - | 42.9 |
| Gain on liabilities subject to compromise | - | (2,292.1) | - |
| Interest income on surplus cash invested | - | (0.1) | (0.2) |
| Fresh start valuation adjustments | - | 150.0 | - |
| Success fees for professional service providers | - | 9.8 | - |
| Elimination of Predecessor accumulated other comprehensive income | - | 0.1 | - |
| **Total Gain/(loss) on reorganization items, net** | **$ -** | **(2,096.9)** | **$ 49.8** |

*Advisory and professional fees* - Professional and advisory fees incurred for post-petition Chapter 11 expenses.

*Write-off of unamortized debt issuance costs* - On the Petition Date, $42.9 million of unamortized debt issuance costs on the impaired secured credit facilities and unsecured bonds were expensed.

*Gain on liabilities subject to compromise* - At emergence from Chapter 11 we settled our liabilities subject to compromise in accordance with the Plan. The total net gain on liabilities subject to compromise of $2,292.1 million is comprised of a $65.8 million gain resulting from the Settlement Agreement approved by the court on May 14, 2021 and a $2,226.3 million gain on liabilities subject to compromise at emergence. Refer to Note 5 – Fresh Start Accounting for further information.

*Interest income on surplus cash invested* - Interest income recognized on cash held within entities that had filed for Chapter 11.

*Fresh start valuation adjustments* - At emergence from Chapter 11, our assets and liabilities were recorded at reorganization value in accordance with ASC 852. The effects of the application of fresh start accounting were applied as of May 24, 2021 and the new basis of our assets and liabilities are reflected in the Consolidated Balance Sheet as of December 31, 2021 (Successor) and the related adjustments thereto were recorded in the Consolidated Statement of Operations in the Predecessor. Refer to Note 5 – Fresh Start Accounting for further information.

*Success fees for professional service providers* - Represents professional and advisory fees earned conditionally upon our emergence from bankruptcy.

*Elimination of Predecessor accumulated other comprehensive income ("AOCI")* - All equity of the Predecessor Company was written off, including AOCI at emergence. The adjustment of AOCI was recorded as a reorganization item, consistent with the concept of applying fresh-start adjustments to the respective assets or liabilities which gave rise to the component of other comprehensive income.

**Note 5 – Fresh Start Accounting**

***Fresh Start Accounting***

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

We applied fresh start accounting effective May 24, 2021 which resulted in a new basis of accounting and Aquadrill becoming a new entity for financial reporting purposes with no beginning retained earnings or deficit as of the Effective Date. The effects of the Plan and the application of fresh start accounting were applied as of May 24, 2021 and the new basis of our assets and liabilities are reflected in our Consolidated Balance Sheet as of December 31, 2021 (Successor) and the related adjustments thereto were recorded in the Consolidated Statement of Operations of the Predecessor as "Gain/(loss) on Reorganization items, net" during the period from January 1, 2021 through May 24, 2021. As a result of the application of fresh start accounting and the effects of the implementation of the Plan, certain values and operational results of the consolidated financial statements subsequent to May 24, 2021 are not comparable to those in the Company's consolidated financial statements prior to and including May 24, 2021. The Effective Date reorganization values of the Successor's assets differ materially from their recorded values as reflected on the historical balance sheet of the Predecessor.

***Reorganization Value***

Reorganization value, as determined in accordance with Accounting Standards Codification 820, *Fair Value Measurement* ("ASC 820"), represents the fair value of the Successor Company's total assets before the consideration of liabilities and is intended to approximate the amount a willing buyer would pay for the assets immediately after the effects of the restructuring. Under fresh start accounting, we are required to allocate the reorganization value to the Company's individual identifiable tangible and intangible assets and liabilities based on their estimated fair values (except for deferred income taxes) in conformity with Accounting Standards Codification 805, *Business Combinations* ("ASC 805"). Deferred income tax amounts were determined in accordance with Accounting Standards Codification 740, *Income Taxes* ("ASC 740").

As set forth in the Plan and the related disclosure statement approved by the Bankruptcy Court, the valuation analysis resulted in an enterprise value of the Successor to be between $350.0 million to $650.0 million, with a midpoint of $500.0 million. After deducting estimated undiscounted cash needed to fund operations of $225.0 million and adding estimated pre-emergence Cash of $255.0 million, the valuation analysis resulted in an implied Equity Value of approximately $380.0 million to $680.0 million, with a midpoint of $530.0 million. Based on the estimates and assumptions discussed below, the Company valued the Successor's individual assets, liabilities, and equity instruments for financial reporting purposes and determined the value of the enterprise was approximately $500.0 million as of the Effective Date, which fell in line with the midpoint of the forecast enterprise value ranges approved by the Bankruptcy Court.

The company estimated the enterprise value of the Successor using a discounted cash flow ("DCF") method. The DCF analysis is a forward-looking enterprise valuation methodology that estimates fair value by calculating the present value of expected future cash flows to be generated plus a present value of the estimated terminal value. The Company established an estimate of future cash flows through 2025 based on earnings forecasts and assumptions regarding growth and margin projections. A terminal value was included and was calculated using the constant growth method based on the projected cash flows of the final year of the forecast period plus 2.0% per annum until the end of the life of the drilling unit. Income taxes were forecast as a percentage of revenue utilizing an estimated effective tax rate of 6.0% for drillships and semi-submersible rigs and 3.2% for tender rigs. The discount rate was estimated based on an after-tax weighted average cost of capital ("WACC") reflecting the rate of return that would be expected by a market participant and equated to approximately 21.5%. The WACC also takes into consideration a company-specific risk premium, reflecting the risk associated with the overall uncertainty of the financial projections used to estimate future cash flows.

While the Company considers such estimates and assumptions reasonable, they are inherently subject to significant business, economic and competitive uncertainties, many of which are beyond the Company's control and, therefore, may not be realized. Changes in these estimates and assumptions may have a significant effect on the determination of the Company's enterprise value. The assumptions used in the calculations for the DCF analysis included projected revenue, costs and cash flows which represented the Company's best estimates at the time the analysis was prepared. The DCF analysis has various complex considerations and judgments, including the discount rate and all of the other projections. Due to the unobservable inputs to the valuation, the fair value would be considered Level 3 in the fair value hierarchy.

The estimated enterprise value is not necessarily indicative of the actual value and the financial results; changes in the economy or the financial markets could result in a different enterprise value. The actual value of the business is subject to certain uncertainties and contingencies that are difficult to predict and will fluctuate with changes in various factors affecting the financial conditions and prospects of such a business.

Fair values are inherently subject to significant uncertainties and contingencies beyond our control. Accordingly, there can be no assurance that the estimates, assumptions, valuations, and financial projections will be realized, and actual results could vary materially.

***Valuation of Drilling Units***

Our fleet of drilling units comprise our principal assets. With the assistance of valuation experts, we determined a fair value of these drilling units based primarily on an income approach utilizing a DCF analysis. We established an estimate of future cash flows for the period ranging from emergence to the end of life for each rig and discounted the estimated future cash flows to present value. The expected cash flows used in the discounted cash flows were derived from earnings forecasts and assumptions regarding growth and margin projections.

Discount rates of 18.8% to 27.0% were estimated based on an after-tax weighted average return on assets ("WARA") reflecting the rate of return that would be expected by a market participant. The WARA also takes into consideration rig-specific risk premium reflecting the risk associated with the overall uncertainty of the financial projects used to estimate future cash flows. We used a cost approach to value drilling units that have been targeted for recycling post-emergence based on the actual scrap value of the drilling unit.

***Reconciliation of enterprise value to fair value of Successor common equity***

The following table reconciles the enterprise value to the estimated fair value of the Successor's equity at the Effective Date (in millions):

| | | |
|---|---|---|
| Enterprise Value, excluding cash | $ | 500.0 |
| Plus : Excess Cash[1] | | 64.5 |
| **Fair value of Successor equity** | **$** | **564.5** |

(1) Excess cash of $64.5 million is calculated by taking the Company's Successor cash and cash equivalents balance of $289.5 million less $225.0 million of minimum cash required to operate the business as determined by management. The minimum cash required to operate the business of $225.0 million was also utilized in the estimation of the range of enterprise values included in the Plan and approved by the Bankruptcy Court.

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, the estimates set forth herein are not necessarily indicative of actual outcomes, and there can be no assurance that the estimates, projections or assumption will be realized.

The following table reconciles the enterprise value to the estimated reorganization value as of the Effective Date (in millions):

| | | |
|---|---|---|
| Enterprise Value, excluding cash | $ | 500.0 |
| Plus : Excess Cash | | 64.5 |
| Plus: Current liabilities, non-interest bearing | | 64.3 |
| Plus: Deferred tax liabilities, non- current | | 0.8 |
| Plus: Other non-current liabilities | | 45.1 |
| **Reorganization Value** | **$** | **674.7** |

*Consolidated Balance Sheet*

The adjustments included in the following Consolidated Balance Sheet reflect the effects of the consummation of the transactions contemplated by the Plan (reflected in the column "Reorganization Adjustments") as well as fair value adjustments as a result of the adoption of fresh start accounting (reflected in the column "Fresh Start Adjustments"). The explanatory notes provide additional information with regard to the adjustments recorded, the methods used to determine fair values or other amounts of the assets and liabilities as well as significant assumptions or inputs.

| | As of May 24, 2021 | | | | | | |
|---|---|---|---|---|---|---|---|
| | Predecessor Company | Reorganization Adjustments | | Fresh Start Adjustments | | Successor Company |
| | (In millions) | | | | | |
| **ASSETS** | | | | | | |
| Cash and cash equivalents | $ 323.5 | $ (34.0) | (a) | $ - | | $ 289.5 |
| Restricted cash | 25.3 | 2.5 | (b) | - | | 27.8 |
| Accounts receivable, net | 30.8 | - | | - | | 30.8 |
| Other current assets | 18.2 | 22.8 | (c) | (1.6) | (l) | 39.4 |
| **Total current assets** | **397.8** | **(8.7)** | | **(1.6)** | | **387.5** |
| | | | | | | |
| **Non-current assets** | | | | | | |
| Drilling units | 427.8 | - | | (148.9) | (m) | 278.9 |
| Deferred tax assets | 1.0 | - | | - | | 1.0 |
| Other non-current assets | 7.3 | - | | - | | 7.3 |
| **Total non-current assets** | **436.1** | **-** | | **(148.9)** | | **287.2** |
| **Total assets** | **$ 833.9** | **$ (8.7)** | | **$ (150.5)** | | **$ 674.7** |
| | | | | | | |
| **LIABILITIES AND MEMBERS' CAPITAL** | | | | | | |
| **Current liabilities** | | | | | | |
| Trade accounts payable and accruals | $ 12.2 | $ 9.1 | (d) | $ - | | $ 21.3 |
| Related party payable | 4.9 | (4.9) | (e) | - | | - |
| Other current liabilities | 44.0 | (0.5) | (f) | (0.5) | (n) | 43.0 |
| **Total current liabilities** | **61.1** | **3.7** | | **(0.5)** | | **64.3** |
| | | | | | | |
| **Liabilities subject to compromise** | **2,793.1** | **(2,793.1)** | (g) | **-** | | **-** |
| | | | | | | |
| **Non-current liabilities** | | | | | | |
| Deferred tax liability | 0.8 | - | | - | | 0.8 |
| Other non-current liabilities | 45.1 | - | | - | | 45.1 |
| **Total non-current liabilities** | **45.9** | **-** | | **-** | | **45.9** |
| | | | | | | |
| **Commitments and contingencies** | | | | | | |
| **Equity** | | | | | | |
| Member's capital | | | | | | |
| Predecessor members' unit capital | 235.5 | (235.5) | (h) | - | | - |
| Predecessor additional paid in capital | 1,509.0 | (1,509.0) | (h) | - | | - |
| Successor additional paid in capital | - | 564.5 | (k) | - | | 564.5 |
| Predecessor accumulated other comprehensive (loss)/ income | (0.1) | 0.1 | (i) | - | | - |
| Predecessor accumulated (deficit)/ earnings | (4,451.2) | 4,601.2 | (j) | (150.0) | (o) | - |
| **Total members' capital** | **(2,706.8)** | **3,421.3** | | **(150.0)** | | **564.5** |
| Non-controlling interest | 640.6 | (640.6) | (h) | - | | - |
| **Total (deficit)/equity** | **(2,066.2)** | **2,780.7** | | **(150.0)** | | **564.5** |
| **Total liabilities and equity** | **$ 833.9** | **$ (8.7)** | | **$ (150.5)** | | **$ 674.7** |

***Reorganization Adjustments (in millions):***

(a) Adjustments to cash and cash equivalents included the following:

| | |
|---|---|
| **Cash and cash equivalents** | |
| Payment for professional fees | (7.9) |
| Funding of Professional Fee Escrow Account | (21.6) |
| Payment to Transocean for Administrative Claim related to Patent Settlement | (2.0) |
| Funding of General Unsecured Claim Distribution Account | (2.3) |

| | |
|---|---|
| Funding of Claim Administration Distribution Account | (0.2) |
| **Change in cash and cash equivalents** | **(34.0)** |

(b) Adjustments to restricted cash included the following:

| **Restricted cash** | |
|---|---|
| Funding of General Unsecured Claim Distribution Account | 2.3 |
| Funding of Claim Administration Distribution Account | 0.2 |
| **Change in restricted cash** | **2.5** |

(c) Adjustments to other current assets included the following:

| **Other current assets** | |
|---|---|
| Funding of Professional Fee Escrow Account | 21.6 |
| Recognition of prepaid amount related to the Transocean Patent Settlement | 1.2 |
| **Changes in other current assets** | **22.8** |

(d) Adjustments to trade accounts payable and accruals included the following:

| **Trade accounts payable and accruals** | |
|---|---|
| Accrual for undistributed Claim Distribution Account for General Unsecured Claims on emergence | 2.3 |
| Payment of professional fees | (3.7) |
| Success fees accrued upon emergence | 5.6 |
| Reclassification from related party payable to trade account payable related to certain amounts owed to Seadrill Limited | 4.9 |
| **Change in trade accounts payable and accruals** | **9.1** |

(e) Reflects the reclassification from related party payable to trade accounts payable related to certain amounts owed to Seadrill Limited.

(f) Adjustments to other current liabilities included the following:

| **Other current liabilities** | |
|---|---|
| Recognition of income tax payable as a result of the reorganization | 0.3 |
| Payment to Transocean for Administrative Claim related to Patent Settlement | (0.8) |
| **Change in other current liabilities** | **(0.5)** |

(g) Liabilities subject to compromise were settled as follows in accordance with the Plan:

| **Gain on liabilities subject to compromise** | |
|---|---|
| Senior undersecured or impaired external debt | 2,727.1 |
| Derivatives previously recorded at fair value | 20.8 |
| Account payables and other liabilities | 12.7 |
| Accrued interest payable | 32.5 |
| **Liabilities subject to compromise** | **2,793.1** |
| Less: Fair value of equity issued to holders of super senior term loan claims and TLB secured claims | (564.5) |
| Less: Undistributed Claim Distribution account for holders of General Unsecured Claims on emergence | (2.3) |
| **Gain on settlement of liabilities subject to compromise** | **2,226.3** |

(h) Reflects the cancellation of Predecessor members' capital and non-controlling interest to accumulated earnings

(i) Reflects the reorganization adjustment to reset accumulated other comprehensive income.

(j) Adjustments to Predecessor accumulated (deficit)/earnings included the following:

| **Predecessor accumulated (deficit)/earnings** | |
|---|---|
| Gain on settlement of liabilities subject to compromise | 2,226.3 |
| Cancellation of Predecessor members' capital | 1,744.5 |
| Success fees incurred upon emergence | (9.8) |
| Cancellation of accumulated other comprehensive income | (0.1) |
| Cancellation of non-controlling interest | 640.6 |
| Recognition of tax expenses related to reorganization adjustments | (0.3) |
| **Total change in Predecessor accumulated earnings** | **4,601.2** |

(k) Reflects the issuance of 20,000,000 common units to holders of super senior term loan claims and TLB secured claims

***Fresh Start Adjustments (in millions)***

(l) Adjustment to write-off current deferred mobilization costs that have no future economic benefit to the Successor

(m) Adjustment to the drilling units to record the fair value of the rigs and capital spares utilizing a combination of income-based and market-based approaches

(n) Adjustment to write-off current deferred mobilization revenues that do not represent future performance obligations of the Successor

(o) Reflects the fresh start accounting adjustment to reset accumulated earnings

**Note 6– Segment information**

***Operating segment***

We regard our fleet as one single operating segment. The Chief Operating Executive, which is the Chief Executive Officer, reviews performance at this level as an aggregated sum of assets, liabilities and operating income.

A breakdown of our revenues by customer for the period from May 25, 2021 through December 31, 2021 (Successor), the period from January 1, 2021 through May 24, 2021 (Predecessor) and years ended on December 31, 2020 (Predecessor) and 2019 (Predecessor) is as follows:

| | **Successor** | | **Predecessor** | | | | | |
|---|---|---|---|---|---|---|---|---|
| | **Period from May 25, 2021 through December 31, 2021** | | **Period from January 1, 2021 through May 24, 2021** | | **Year ended December 31, 2020** | | **Year ended December 31, 2019** | |
| PTTEP | 77.8 | % | 10.9 | % | — | % | — | % |
| Equinor | 22.2 | % | — | % | — | % | — | % |
| BP | — | % | 63.7 | % | 75.8 | % | 67.6 | % |
| Reliance | — | % | — | % | 8.6 | % | — | % |
| ExxonMobil | — | % | — | % | 8.3 | % | 11.0 | % |
| Petronas | — | % | 25.4 | % | 5.5 | % | 9.9 | % |
| Chevron | — | % | — | % | — | % | 7.2 | % |
| Other | — | % | — | % | 1.8 | % | 4.3 | % |
| **Total** | **100.0** | **%** | **100.0** | **%** | **100.0** | **%** | **100 .0** | **%** |

***Geographic Data***

Revenues are attributed to geographical areas based on the country of operations for drilling activities, i.e., the country where the revenues are generated. The following presents the revenues for the period from May 25, 2021 through December 31, 2021 (Successor), the period from January 1, 2021 through May 24, 2021 (Predecessor) and years ended on December 31, 2020 (Predecessor) and 2019 (Predecessor) and fixed assets as of December 31, 2021 (Successor) and 2020 (Predecessor) by geographic area:

*Revenues*

| **Successor** | **Predecessor** |
|---|---|

| (In $ millions) | Period from May 25, 2021 through December 31, 2021 | Period from January 1, 2021 through May 24, 2021 | Year ended December 31, 2020 | Year ended December 31, 2019 |
|---|---|---|---|---|
| United States | 13.0 | 34.9 | 409.4 | 539.1 |
| India | — | — | 46.0 | — |
| Canada | — | — | 45.2 | 60.9 |
| Malaysia | 45.8 | 20.0 | 36.9 | 40.1 |
| Thailand | — | — | 0.2 | 53.8 |
| Gabon | — | — | 0.2 | 21.2 |
| Myanmar | — | — | — | 17.8 |
| Other | — | — | 0.2 | 17.1 |
| **Total** | **58.8** | **54.9** | **538.1** | **750.0** |

*Fixed Assets—Drilling Units* [1]

| (In $ millions) | Successor 2021 | Predecessor 2020 |
|---|---|---|
| United States | 132.4 | 153.8 |
| Malaysia | 73.4 | 88.2 |
| India | — | 53.9 |
| Canada | 28.4 | 53.8 |
| Aruba | 18.9 | 51.5 |
| Singapore | 7.1 | 27.1 |
| Indonesia | 2.7 | — |
| Sri Lanka | 27.3 | — |
| **Total** | **290.2** | **428.3** |

(1) The fixed assets referred to in the table above include the 9 drilling units at December 31, 2021 (Successor) and 11 drilling units at December 31, 2020 (Predecessor). Revenues are earned based on where the asset was positioned geographically during the period revenue was earned. Asset locations at the end of a period are not necessarily indicative of the geographic distribution of the revenues or operating profits generated by such assets during such period.

**Note 7 – Revenue from contracts with customers**

The following table provides information about receivables and contract liabilities from our contracts with customers:

| (In $ millions) | Successor 2021 | Predecessor 2020 |
|---|---|---|
| Accounts receivable, net | 35.0 | 56.6 |
| Current contract liabilities (deferred revenues) [1] | 5.6 | 0.9 |

(1) Current contract liabilities balances are included in "Other current liabilities" in our Consolidated Balance Sheets at December 31, 2021 (Successor) and are primarily related to deferred mobilization revenues that will be recognized as mobilization revenue over the contract term.

Significant changes in the contract liabilities balances during the period from May 25, 2021 to December 31, 2021 (Successor), the period from January 1, 2021 to May 24, 2021 (Predecessor) and year ended on December 31, 2020 (Predecessor) are as follows:

| (In $ millions) | Successor | Predecessor | |
|---|---|---|---|
| | Period from May 25, 2021 to December 31, 2021 | Period from January 1, 2021 to May 24, 2021 | Year ended December 31, 2020 |
| **Contract liabilities at start of period** | **-** | **0.9** | **3.0** |
| Decrease due to amortization of revenue that was included in the beginning contract liability balance | - | (0.9) | (3.0) |
| Increase due to cash received, excluding amounts recognized as revenue | 5.6 | 0.5 | 0.9 |
| Fresh start accounting adjustments | - | (0.5) | - |
| **Contract liabilities at end of period** | **5.6** | **-** | **0.9** |

The deferred revenues balance of $5.6 million reported in "Other current liabilities" at December 31, 2021 (Successor) is expected to be realized within the next twelve months

**Note 8 – Taxation**

Income taxes consist of the following:

| (In $ millions) | Successor | Predecessor | | |
|---|---|---|---|---|
| | Period from May 25, 2021 through December 31, 2021 | Period from January 1, 2021 through May 24, 2021 | Year ended December 31, 2020 | Year ended December 31, 2019 |
| *Current tax (benefit)/expense:* | | | | |
| U.K. | — | — | — | — |
| Foreign | (2.5) | 5.5 | 28.3 | (39.3) |
| Total current tax (benefit)/expense | (2.5) | 5.5 | 28.3 | (39.3) |
| *Deferred tax (benefit)/expense:):* | | | | |
| U.K | — | — | — | — |
| Foreign | (6.1) | 2.1 | 1.7 | 3.2 |
| **Total income tax (benefit)/expense** | **(8.6)** | **7.6** | **30.0** | **(36.1)** |

Aquadrill LLC is tax resident in the U.K. The Company's controlled affiliates operate and earn income in several countries and are subject to the laws of taxation within those countries. Currently some of the Company's controlled affiliates formed in the Marshall Islands along with all those incorporated in the U.K. (none of whom presently own or operate rigs) are resident in the U.K. and are subject to U.K. tax. Subject to changes in the jurisdictions in which the Company's drilling units operate and/or are owned, differences in levels of income and changes in tax laws, the Company's effective income tax rate may vary substantially from one reporting period to another.

The Company's effective income tax rate for each of the period from May 25, 2021 through December 31, 2021 (Successor), the period from January 1, 2021 through and including May 24, 2021 (Predecessor) and years ended on December 31, 2020 (Predecessor) and 2019 (Predecessor) differs from the U.K. statutory income tax rate as follows:

| | Successor | Predecessor | | |
|---|---|---|---|---|
| | Period from May 25, 2021 through December 31, 2021 | Period from January 1, 2021 through May 24, 2021 | Year ended December 31, 2020 | Year ended December 31, 2019 |
| U.K. statutory income tax rate | 19.0% | 19.0% | 19.0 % | 19.0 % |
| Non-U.K. taxes | (6.9)% | (18.6)% | (19.7) % | (2.8)% |
| **Effective income tax rate** | **12.1%** | **0.4%** | **(0.7) %** | **16.2 %** |

The Company is expected to recognize a tax benefit of $3.0 million during the year ended December 31, 2021 (Successor) by carrying back net operating losses to previous years. Due to the CARES Act in the U.S., the Company recognized a tax benefit of $6.0 million during the year ended December 31, 2020 (Predecessor) by carrying back net operating losses to previous years.

***Deferred Income Taxes***

Deferred income taxes reflect the impact of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes.

Our deferred tax assets consist of the following:

| (In $ millions) | Successor 2021 | Predecessor 2020 |
|---|---|---|
| Provisions | — | 54.9 |
| Net operating losses carryforward | 248.4 | 221.5 |
| Interest carryforward | 74.4 | — |
| Property, plant and equipment | 158.0 | 174.5 |
| Other | 1.7 | 3.6 |
| Gross deferred tax assets | 482.5 | 454.5 |
| Valuation allowance | (474.9) | (451.6) |
| **Deferred tax asset, net of valuation allowance** | **7.6** | **2.9** |

Our deferred tax liabilities consist of the following:

| (In $ millions) | Successor 2021 | Predecessor 2020 |
|---|---|---|
| Unremitted earnings of subsidiaries | 1.1 | 0.6 |
| Gross deferred tax liabilities | 1.1 | 0.6 |
| | | |
| **Net deferred tax asset** | **6.5** | **2.3** |

As of December 31, 2021 (Successor), deferred tax assets related to net operating loss ("NOL") carryforwards were $248.4 million, which can be used to offset future taxable income. NOL carryforwards which were generated in various jurisdictions, include $67.4 million which will not expire and $181.0 million that will expire between 2023 and 2038 if not

utilized. We establish a valuation allowance for deferred tax assets when it is more-likely-than-not that the benefit from the deferred tax asset will not be realized. The amount of deferred tax assets considered realizable could increase or decrease in the near-term if our estimates of future taxable income change. Our valuation allowance primarily consists of $241.7 million on NOL carryforward, $158.0 million on PP&E and $74.4 million on interest carryforward.

***Uncertain tax positions***

As of December 31, 2021 (Successor), the Company had a total amount of unrecognized tax benefit of $41.2 million ($39.2 million at December 31, 2020 (Predecessor)), excluding of interest and penalties included in "Other non-current liabilities" on the Consolidated Balance Sheets. The changes to the Company's balance related to unrecognized tax benefits were as follows:

| | Successor | Predecessor | |
|---|---|---|---|
| *(In $ millions)* | **Period from May 25, 2021 through December 31, 2021** | **Period from January 1, 2021 through May 24, 2021** | **Year ended December 31, 2020** |
| Balance beginning of year | 39.2 | 39.2 | 40.2 |
| Increases as a result of positions taken in prior years | 2.0 | — | — |
| Decreases as a result of positions taken in prior years | — | — | (1.0) |
| Settlements | — | — | — |
| **Unrecognized tax benefits** | **41.2** | **39.2** | **39.2** |

Accrued interest and penalties totaling $7.0 million as of December 31, 2021 (Successor), $5.9 million as of May 24, 2021 (Predecessor) and $5.2 million as of December 31, 2020 (Predecessor)) were included in "Other non-current liabilities" on the Consolidated Balance Sheets. The Company recognized interest and penalty expense of $1.1 million as "Income tax (expense)/benefit" in the Consolidated Statements of Operations the period from May 25, 2021 through December 31, 2021 (Successor), $0.7 million expense for the period from January 1, 2021 through and including May 24, 2021 (Predecessor) ($1.2 million expense as of December 31, 2020 (Predecessor) and $12.4 million benefit as of December 31, 2019 (Predecessor)).

As of December 31, 2021 (Successor), $48.2 million of our unrecognized tax benefit, including penalties and interest, would have a favorable impact to the Company's effective tax rate if recognized.

***Tax examinations***

The Company is subject to taxation in various jurisdictions. The Ghana tax authorities have issued a series of assessments with respect to our returns for certain years up to 2018 in respect of indirect and direct taxes. The assessments are for an aggregate amount of $17.9 million as of the date of this report. These assessments are being robustly contested including filing relevant appeals. An adverse outcome on these proposed assessments could result in a material adverse impact on our Consolidated Balance Sheets, Statement of Operations or Statement of Cash Flows.

The following table summarizes the earliest tax years that remain subject to examination by the major taxable jurisdictions in which the Company operates:

| **Jurisdiction** | **Earliest Open Year** |
|---|---|
| United States | 2017 |
| Nigeria | 2012 |
| Ghana | 2013 |

**Note 9 – Other revenues**

Other revenues comprise the following items:

| | Successor | Predecessor | | |
|---|---|---|---|---|
| *(In $ millions)* | **Period from May 25, 2021 through December 31, 2021** | **Period from January 1, 2021 through May 24, 2021** | **Year ended December 31, 2020** | **Year ended December 31, 2019** |
| Early termination revenue | — | — | — | 41.0 |
| Related party other revenues | — | — | 1.1 | 1.8 |
| **Total** | — | — | **1.1** | **42.8** |

Early termination revenue for the year ended December 31, 2019 (Predecessor) was $41.0 million, relating to termination fees recognized for the *Capricorn* and *Vencedor.*

Related party other revenues primarily relate to revenue from the sale of inventories and spare parts to Seadrill Limited, which was a related party prior to the Effective Date. Please refer to Note 21 – "Related party transactions" for further detail on related party other revenues.

**Note 10 – Other operating items**

Other operating items comprise the following:

| | Successor | Predecessor | | |
|---|---|---|---|---|
| *(In $ millions)* | **Period from May 25, 2021 through December 31, 2021** | **Period from January 1, 2021 through May 24, 2021** | **Year ended December 31, 2020** | **Year ended December 31, 2019** |
| Gain on sale of assets | 0.8 | — | — | — |

| | | | | |
|---|---|---|---|---|
| Revaluation of contingent consideration | — | — | — | 0.7 |
| Impairment of long-lived assets | — | — | (4,210.4) | — |
| **Total** | **0.8** | — | **(4,210.4)** | **0.7** |

During the period from May 25, 2021 to December 31, 2021 (Successor), we recognized a gain on sale of assets of $0.8 million. This gain resulted from the sale of inventories and spare parts to Seadrill Limited, a former related party.

During the year ended December 31, 2020 (Predecessor), we recognized an impairment against our long-lived assets of $4,210.4 million. For further information refer to Note 11 - "Impairment of long-lived assets".

There was a gain on revaluation of contingent consideration of $0.7 million for the year ended December 31, 2019 (Predecessor). This gain resulted from a decrease in the fair value of contingent liabilities to Seadrill Limited relating to the purchase of the *Polaris* in 2015.

**Note 11 - Impairment of long-lived assets**

We review the carrying value of our long-lived assets for impairment whenever events or changes in circumstances indicate that the carrying amount of an asset may no longer be appropriate. In the first quarter of 2020, as a result of the deteriorating market due to COVID-19 and oil price declines, there was an impairment triggering event and we recognized an impairment of $922.9 million in respect of certain idle drilling units. Additionally, during the fourth quarter of 2020, our view was that the challenging market conditions were likely to persist for a sustained period and that certain of our cold stacked units were unlikely to return to the working fleet. As such, at that time we concluded there was a further impairment triggering event for our drilling unit fleet and we recognized an impairment of $3,287.5 million.

On assessment of asset recoverability through an estimated undiscounted future net cash flow we calculated the value to be lower than the carrying value for all of our rigs, of which we recognized full impairments of the *Sirius* and *Leo* and partial impairments for all other rigs. This resulted in impairment expenses of $4,210.4 million during 2020 which were classified within “Impairment of long-lived assets” on our Consolidated Statement of Operations for the year ended December 31, 2020 (Predecessor).

During 2021, no impairment triggering events were identified and as such the Company determined no impairments necessary for the period.

**Note 12 - Interest expense**

Interest expense consists of the following:

| | Successor | Predecessor | | |
|---|---|---|---|---|
| *(In $ millions)* | **Period from May 25, 2021 through December 31, 2021** | **Period from January 1, 2021 through May 24, 2021** | **Year ended December 31, 2020** | **Year ended December 31, 2019** |
| Interest on debt facilities (1) | — | — | 189.2 | 246.3 |
| Loan fee amortization (2) | — | — | 44.2 | 12.3 |
| Other (3) | — | — | 1.9 | 3.9 |
| **Total interest expense** | — | — | **235.3** | **262.5** |

(1) Prior to the Effective Date, we were charged interest on our debt facilities at rates explained in Note 17 - "Debt". As a result of filing for Chapter 11, no interest was recognized from December 1, 2020. Contractual interest that would have been accrued in the Company’s Consolidated Statements of Operations was $21.3 million for the period from the Petition Date through December 31, 2020 (Predecessor) and $77.9 million for the period from January 1, 2021 through the Effective Date (Predecessor). For further details refer to Note 4 - "Chapter 11 Proceedings".

(2) Prior to the Effective Date, we incurred loan fees on our debt facilities that were amortized over the term of the loan. The increase in 2020 was due to commitment and exit fees incurred on the new super senior loans. For further details refer to Note 17 - "Debt". As a result of filing for Chapter 11, no loan fee amortization occurred.

(3) Other interest expense primarily related to the discount on contingent consideration payable to Seadrill Limited, which was a related party prior to the Effective Date. For further details refer to Note 21 - "Related party transactions".

**Note 13 - Restricted cash**

Restricted cash at December 31, 2021 (Successor) consists of $2.5 million for cash held as collateral for a guarantee with DNB Bank ASA to provide security for the payment, discharge and performance of secured obligations, $9.8 million for cash held as collateral for a guarantee with Danske Bank to provide security for the payment, discharge and performance of secured obligations, $9.0 held in the Segregated Account related to the MSA Settlement Order, $2.3 million for bankruptcy related costs, $0.6 million for cash that has been frozen in Nigeria for the ongoing tax audit for services provided by the *Capella* and $0.5 million related to the Energy Drilling MSA. Restricted cash consisted of $16.4 million at December 31, 2020 (Predecessor) for cash held as collateral for a guarantee with Danske Bank to provide security for the payment, discharge and performance of secured obligations.

**Note 14 – Accounts receivable**

Accounts receivable are held at their nominal amount less an allowance for expected credit losses. The adoption of ASC 326 Financial Instruments – Credit Losses on January 1, 2020 did not have a material impact on our third-party accounts receivable balances either on transition or at the year end. In calculating the expected credit losses we assumed that the accounts receivable are performing, mature within three months and have a Baa3 credit rating. The major risk characteristics relevant to the receivable portfolio include volatility in the markets in which we operate, potentially inhibiting our ability to collect on our receivables. For the period from May 25, through December 31, 2021 (Successor), the period from January 1, 2021 through May 24, 2021 (Predecessor) and the year ended December 31, 2020 (Predecessor), no significant purchases nor disposals of financial assets occurred.

We extend credit on an unsecured basis to most of our customers. Our exposure to expected credit losses depends on the financial condition of our customers and other macroeconomic factors beyond our control, such as deteriorating conditions in the world economy or in the industries we serve, changes in oil prices and political instability. While we actively manage our credit exposure and work to respond to both changes in our customers’ financial conditions or macroeconomic events, there can be no guarantee we will be able to mitigate all of these risks successfully.

Our payment terms with customers are generally 30 to 60 days, although certain markets and other customer-specific factors may warrant longer payment terms. Accounts receivable balances that are not paid within the terms of the sales agreement may be subject to finance fees based on the outstanding balance. Although we analyze customers’ payment history and expected creditworthiness, since we extend credit on an unsecured basis to most of our customers, there is a possibility that any accounts receivable not collected may ultimately need to be written off.

We had accounts receivable of $35.0 million as of December 31, 2021, respectively. Such receivables were the result of payments due under long-term contracts with a limited number of counterparties, all of which are investment grade and have no history of default under the current contracts. We assess the credit risk associated with these counterparties based on the default rates of similarly rated companies. Based on the analysis performed we concluded that any allowance for credit losses was immaterial to the financial statements at December 31, 2021.

Refer to Note 2 - "Accounting policies" for further information.

Our major categories of receivables as of December 31, 2021 (Successor) and December 31, 2020 (Predecessor) are as follows:

| | Successor | Predecessor |
|---|---|---|
| *(In $ millions)* | **2021** | **2020** |
| Receivables from customers | 35.0 | 56.6 |
| Allowance for expected credit losses | — | (0.1) |
| **Total** | **35.0** | **56.5** |

The movement in our allowance for expected credit losses is as follows:

| *(In $ millions)* | |
|---|---|
| **Allowance for Credit Losses at December 31, 2019 (Predecessor)** | **0.3** |
| Provision for allowance | (0.2) |
| Write-off of receivables | — |
| Recoveries collected | — |
| **Balance at December 31, 2020 (Predecessor)** | **0.1** |
| Provision for allowance | (0.1) |
| Write-off of receivables | — |
| Recoveries collected | — |
| **Balance at May 24, 2021 (Predecessor)** | — |
| Provision for allowance | — |
| Write-off of receivables | — |
| Recoveries collected | — |
| **Balance at December 31, 2021 (Successor)** | — |

**Note 15 – Other assets**

Other assets include the following:

| | Successor | Predecessor |
|---|---|---|
| *(In $ millions)* | **2021** | **2020** |
| Prepaid expenses | 31.4 | 26.7 |
| Income taxes receivable | 18.3 | 13.0 |
| VAT receivable | — | 5.7 |
| Deferred mobilization costs | 2.0 | 3.0 |
| Reimbursable amounts due from customers | 0.9 | 1.5 |
| Current assets held for sale | 8.0 | — |
| Operating lease right-of-use assets | 0.6 | — |
| Other | 0.9 | 3.1 |
| **Total other assets** | **62.1** | **53.0** |

Other assets are presented in our Consolidated Balance Sheet as follows:

| | Successor | Predecessor |
|---|---|---|
| *(In $ millions)* | **2021** | **2020** |
| Other current assets | 55.8 | 45.0 |
| Other non-current assets | 6.3 | 8.0 |
| **Total other assets** | **62.1** | **53.0** |

***Mobilization revenue receivables***

Under our contracts for the *Auriga* and *Vela,* we are paid for mobilization activities over the contract term. We recorded a financial asset equal to the fair value of this future stream of payments when we acquired these drilling units from Seadrill Limited. We collected these amounts over the term of the drilling contracts which completed in October 2020 and November 2020, respectively.

A new contract for the *Vela* commenced in November 2021, under which $2.1 million in mobilization revenue and $2.2 million in demobilization revenue will be earned over the contract term.

***Favorable contracts***

Favorable drilling contracts are recorded as intangible assets at fair value on the date of acquisition less accumulated amortization. The amounts recognized represent the net present value of the existing contracts at the time of acquisition compared to the current market rates at the time of acquisition, discounted at the weighted average cost of capital. The estimated favorable contract values have been recognized and amortized on a straight-line basis over the terms of the contracts, ranging from two to five years.

Favorable contracts to be amortized relate to the favorable contracts acquired with the *Auriga* and the *Vela* from Seadrill Limited at December 31, 2020 (Predecessor). These were fully amortized in October 2020 and November 2020, respectively. The gross carrying amounts and accumulated amortization included in "Other current asset"' and "Other non-current assets" in the Consolidated Balance Sheets were as follows:

| *(In $ millions)* | Gross carrying amount | Accumulated amortization | Net carrying amount |
|---|---|---|---|
| ***Intangible assets- Favorable contracts*** | | | |
| **Opening balance at January 1, 2020 (Predecessor)** | **357.3** | **(316.9)** | **40.4** |
| Amortization of favorable contracts | — | (40.4) | (40.4) |
| **Balance at December 31, 2020 (Predecessor)** | **357.3** | **(357.3)** | **—** |
| Fresh start accounting adjustment | (357.3) | 357.3 | — |
| **Balance at May 24, 2021 (Predecessor)** | **—** | **—** | **—** |

Note that as part of the application of fresh start accounting the gross carrying amount and accumulated amortization related to favorable contracts was written-off from the with no net impact on the Company's Consolidated Balance Sheet or Statement of Operations. See Note 5- Fresh Start Accounting. Note that there were no favorable or unfavorable contracts in the Successor period as of December 31, 2021.

**Note 16 – Drilling units**

The below table shows the gross value and net book value of our drilling units at December 31, 2021 (Successor) and December 31, 2020 (Predecessor).

| *(In $ millions)* | Cost | Accumulated depreciation | Net Book Value |
|---|---|---|---|
| **Opening balance at January 1, 2020 (Predecessor)** | **6,825.1** | **(1,984.3)** | **4,840.8** |
| Additions | 28.7 | — | 28.7 |
| Impairment | (4,210.4) | — | (4,210.4) |
| Depreciation | — | (230.8) | (230.8) |
| **Closing balance at December 31, 2020 (Predecessor)** | **2,643.4** | **(2,215.1)** | **428.3** |
| Additions | 8.1 | — | 8.1 |
| Depreciation | — | (8.6) | (8.6) |
| Fresh start accounting adjustments | (2,372.6) | 2,223.7 | (148.9) |
| **Closing balance at May 24, 2021 (Predecessor)** | **278.9** | **—** | **278.9** |
| Additions | 31.5 | — | 31.5 |
| Sale of the *Sirius* | (5.7) | — | (5.7) |
| The *Leo* transferred to asset held for sale | (8.0) | — | (8.0) |
| Depreciation | — | (6.5) | (6.5) |
| **Closing balance at December 31, 2021 (Successor)** | **296.7** | **(6.5)** | **290.2** |

Depreciation related to our drilling units was $6.5 million, $8.6 million, $230.8 million and $275.9 million during the period from May 25, 2021 to December 31, 2021 (Successor), the period from January 1, 2021 to May 24, 2021 (Predecessor) and the years ended December 31, 2020 (Predecessor) and 2019 (Predecessor) respectively.

Prior to the Effective Date, each of our drilling units had been pledged as collateral under our debt agreements. Please refer to Note 17 – "Debt" for further details. Subsequent to the Effective Date all of our debt has been relieved, and as such our drilling units are no longer pledged as collateral.

We recognized an impairment expense of $4,210.4 million which was classified within "Impairment of long-lived assets" on our Consolidated Statement of Operations for the year ended December 31, 2020 (Predecessor). Please refer to Note 11 - "Impairment of long-lived assets" for further details.

On October 25, 2021, the Company entered into an agreement for the sale of a semi-submersible drilling unit, the *Leo*, with a subsidiary of BW Energy for $14.0 million. The rig is expected to be repurposed as a Floating Production Unit, thereby removing the rig from the drilling market. Under the terms of the agreement, if the unit is used to perform drilling services in the future, liquidated damages of $50 thousand for each day the unit is used to perform such services will apply, up to a maximum of $6.0 million. Additionally, if within the first two years of closing the unit is sold on terms which do not exclude the use of the unit for drilling purposes, and the resale price exceeds $15.0 million, BW Energy will be obligated to pay the Company 50% of the amount by which the resale price exceeds $15.0 million. Certain pieces of capital equipment belonging to the unit have been excluded from the sale including but not limited to the blowout preventer ("BOP"), top drive and travelling block, which will become part of the Company's capital spares inventory. . Closing of the transaction is subject to customary closing procedures and conditions. On February 2, 2022, the Company completed the sales transaction of the *Leo* to BW Energy. As the sale occurred in fiscal year 2022, there is no gain or loss recognized in the statement of operations for the year ended December 31, 2021 (Successor). At December 31, 2021, the carrying value of the *Leo* was $8.0 million.

The drilling unit balance is inclusive of furniture and fixtures, vehicles, and equipment with a carrying value of $0.2 million (cost of $0.5 million and accumulated depreciation of $0.3 million) at December 31, 2021 (Successor) and a carrying value of $0.1 million (cost of $0.6 million and accumulated depreciation of $0.5 million) at December 31, 2020 (Predecessor).

**Note 17 – Debt**

As of December 31, 2021 (Successor) and December 31, 2020 (Predecessor), we had the following debt amounts outstanding:

| *(In $ millions)* | Successor 2021 | Predecessor 2020 |
|---|---|---|
| ***External debt agreements*** | | |
| Term Loan B | — | 2,727.1 |
| **Total external debt** | — | **2,727.1** |
| Less: Debt balance held as subject to compromise | — | (2,727.1) |
| **Debt balance not subject to compromise** | — | — |

***Chapter 11 Proceedings***

We filed for Chapter 11 bankruptcy protection on December 1, 2020 which triggered an event of default under the Term Loan B. As a result, the outstanding balance on this loan was classified within "Liabilities subject to compromise" in our Consolidated Balance Sheets at December 31, 2020 (Predecessor). For further information on our bankruptcy proceedings refer to Note 4 - "Chapter 11 Proceedings" and Note 5 – "Fresh Start Accounting".

On filing for Chapter 11, $42.9 million of unamortized debt issuance costs on the Term Loan B were expensed and recognized within "Gain/(loss) on Reorganization items, net" in the Consolidated Statement of Operations and no further interest was recorded on the Term Loan B from that point. Note that as of the Effective Date, all debt instruments were settled. Please see Note 4 – "Chapter 11 Proceedings" and Note 5 – "Fresh Start Accounting" for additional information.

***Term Loan B***

Our Term Loan B facilities ("TLB") initially consisted of a term loan and a linked $100 million revolving credit facility. We initially borrowed $1.8 billion under the term loan on February 21, 2014 and then a further $1.1 billion on June 26, 2014. This loan was subject to a 1% per year ($29.0 million) amortization payment with the balance of the loan then being repayable in February 2021. The revolving credit facility matured in February 2019 (Predecessor).

We agreed with the TLB lenders to amend the TLB agreement in July and October 2020 respectively, whereby the majority of the TLB interest that was due on June 30, 2020 and September 30, 2020 was converted into super senior loans ($8 million of TLB interest was cash settled to lenders that withheld consent). As a result, $63.7 million and $63.3 million super senior loans, maturing in February 2021 were created. These loans each included a non-cash $20 million commitment fee and an exit fee of 10% in addition to the interest settled through issuance of the loans.

We had a total of $2,727.1 million on the TLB at December 31, 2020 (Predecessor). Note that on the Effective Date, the TLB was settled. Please see Note 4 – "Chapter 11 Proceedings" and Note 5 – "Fresh Start Accounting" for additional information.

During the year ended December 31, 2020 (Predecessor), we paid interest of LIBOR + 6% on the original term loan and LIBOR + 10% on the super senior loans. LIBOR was subject to a 1% floor. As of the date of filing for Chapter 11 we were subject to an additional 2% default interest, however we discontinued recording interest expense. For further information refer to Note 4 - "Chapter 11 Proceedings".

***Presentation in Consolidated Balance Sheets***

We present external debt net of debt issuance costs. The below table shows how the above balances for the Predecessor period were presented in the Consolidated Balance Sheets. Note that on the Effective Date all debt had been relieved and no outstanding debt remained on our Consolidated Balance Sheets.

| | Outstanding debt as at December 31, 2020 (Predecessor) | | |
|---|---|---|---|
| *(In $ millions)* | Principal outstanding | Debt Issuance Costs [1] | Total Debt |
| Debt held as subject to compromise | 2,727.1 | | 2,727.1 |
| **Total interest-bearing debt** | **2,727.1** | | **2,727.1** |

(1) On filing for Chapter 11 on December 1, 2020 (Predecessor), $42.9 million of unamortized debt issuance costs on under secured debt were written off to "Gain/(loss) on Reorganization items, net" in our Consolidated Statement of Operations. For further details refer to Note 4 - "Chapter 11 Proceedings".

**Note 18 – Other liabilities**

Other liabilities are comprised of the following:

| *(In $ millions)* | Successor 2021 | Predecessor 2020 |
|---|---|---|
| Uncertain tax position | 48.2 | 44.4 |
| Accrued expenses | 13.0 | 13.1 |
| Taxes payable | 26.0 | 31.8 |
| Employee and business withheld taxes, social security and vacation payment | 3.5 | 8.3 |
| VAT payable | 0.1 | 2.2 |
| Deferred mobilization/demobilization revenues (see Note 7 - "Revenue from contracts with customers") | 5.6 | 0.9 |
| Current lease liability | 0.2 | - |
| Long-term lease liability | 0.3 | - |
| **Total other liabilities** [1] | **96.9** | **100.7** |

Other liabilities are classified in our Consolidated Balance Sheets as follows:

| | Successor | Predecessor |
|---|---|---|

| *(In $ millions)* | 2021 | 2020 |
|---|---|---|
| Other current liabilities | 48.4 | 56.3 |
| Other non-current liabilities | 48.5 | 44.4 |
| **Total other liabilities** [1] | **96.9** | **100.7** |

(1) Balances held at December 31, 2020 (Predecessor) excluded liabilities that were subject to compromise, which were reclassified to "Liabilities subject to compromise" on our Consolidated Balance Sheets at December 31, 2020 (Predecessor). This represented our estimate of known or potential pre-petition claims to be resolved in connection with the Chapter 11 Proceedings. For further information refer to Note 1 - "General information".

**Note 19 – Share based compensation**

On the Effective Date, we established the Aquadrill LLC 2021 Long-Term Incentive Plan (the "2021 LTIP"). At the Effective Date, an aggregate of 1,052,631 common units were authorized and reserved for issuance pursuant to the 2021 LTIP. On May 21, 2021, our Board of Directors approved the issuance of 27,359 Restricted Stock Units ("RSUs") to each of the four Company directors to vest over a three year period. $0.6 million in compensation expense related to these awards is recognized in "Selling, general and administrative expenses" on our Consolidated Statements of Operations, for the period from May 25, 2021 to December 31, 2021 (Successor).

The RSUs are valid for one common unit of the Company. A majority of the awards were determined to be equity classified, however a portion of these awards were initially able to be cash settled, resulting in liability classification. On September 21, 2021, the Board approved an amendment to certain RSU Award Agreements issued under the 2021 LTIP such that the form of settlement is at the discretion of the Committee rather than at the discretion of the grantee. The amendment removes the optionality for cash or equity settlement and requires all awards to be settled in Company common units, or in cash at the option of the Committee. Upon the Board's approval of the amendment, the awards were remeasured at the modification-date fair value and will be accounted for as an equity-classified award going forward, so long as there are no further changes to the award. The previously liability-classified RSUs were reclassified to equity as part of the modification.

The fair value of the awards is based on the fair value of the underlying common units on the Effective Date (the "Award Date") as well as September 21, 2021 (the "Modification Date"). The fair value of the equity awards issued was $2.0 million on the Award Date, and the fair value of the liability awards was $1.3 million on the Award Date. Note that the incremental compensation cost due to the modification was less than $0.1 million. The fair value of the awards is based on the fair value of the underlying common units at a 1 to 1 ratio, and as such the fair value of one award equals the fair value of one common unit. The fair value of the common units was calculated at the Award Date and the Modification Date utilizing the income approach of valuation, plus cash on hand to determine the Company's total Enterprise Value, divided by the total common units outstanding to arrive at a per unit fair value. As part of the utilization of the income method of valuation, the Company utilized a risk-free rate equal to the yield of the US Treasury composite with 20-years to maturity. As the fair value of the awards relies on the underlying value of our common units, the volatility of our common units will affect the fair value of the awards. The volatility of the common units is closely related to our operations, which the Company estimates utilizing expected volatility in the analysis of the fair value of the common units. On the Modification Date the liability awards were remeasured as equity awards and had a fair value of $1.3 million. The weighted average remaining term of these awards is 2.4 years as of December 31, 2021.

The following table summarizes unvested activity during the period from May 25, 2021 to December 31, 2021 (Successor) and the period from January 1, 2021 to May 24, 2021 (Predecessor) for RSUs under our 2021 LTIP:

| | Director RSUs |
|---|---|
| **Nonvested awards at December 31, 2020 (Predecessor)** | — |
| Awards granted | — |
| **Nonvested awards at May 24, 2021 (Predecessor)** | **—** |
| Awards granted (Successor) | 109,436 |
| Awards vested | — |
| Awards forfeited (recognized as forfeited) | — |
| **Nonvested awards at December 31, 2021 (Successor)** | **109,436** |

**Note 20 - Non-controlling interest**

Changes in non-controlling interests for the periods presented in this report were as follows:

| *(In $ millions)* | Non-controlling interest |
|---|---|
| **December 31, 2019 (Predecessor)** | **1,288.7** |
| Share of net loss allocated to the non-controlling interest | (2,038.0) |
| **December 31, 2020 (Predecessor)** | **(749.3)** |
| Share of net income allocated to the non-controlling interest | 941.6 |
| Cancellation of Predecessor equity | (192.3) |
| **Balance at May 24, 2021 (Predecessor)** | **—** |

Until the Effective Date, our non-controlling interest consisted of Seadrill Limited's 42% interest in Seadrill Operating LP and 49% interest in Seadrill Capricorn Holdings LLC. Of which, we held the following:

(1) a 51% limited liability company interest in Seadrill Capricorn Holdings LLC. Seadrill Capricorn Holdings LLC owned 100% of the entities that owned and operated the *Capricorn*, *Sirius*, *Auriga* and *Vela*.

(2) a 58% limited partner interest in Seadrill Operating LP, as well as the non-economic general partner interest in Seadrill Operating LP through our 100% ownership of its general partner, Seadrill Operating GP LLC. Seadrill Operating LP owned: (a) 100% interest in the entities that owned the *Aquarius, Leo, Polaris* and the *Vencedor,* (b) approximately 56% interest in Seadrill Deepwater Drillship that owned and operated the *Capella* and (c) a 51% limited liability interest in Seadrill Mobile Units (Nigeria).

On the Effective Date, all non-controlling interests were cancelled and no such interests remain at December 31, 2021 (Successor).

**Note 21 – Related party transactions**

The below table provides a summary of revenues and expenses for transactions with Seadrill Limited for the period from January 1, 2021 through May 24, 2021 (Predecessor) and the years ended on December 31, 2020 (Predecessor) and 2019 (Predecessor). On the Effective Date, all previously outstanding equity interests in the Company and its subsidiaries were cancelled, and all outstanding interests between Aquadrill and Seadrill Limited were settled. As such, Seadrill Limited is no longer considered a related party, and the Company no longer has any related parties transactions.

| | Successor | Predecessor | | |
|---|---|---|---|---|
| *(In $ millions)* | **Period from May 25, 2021 through December 31, 2021** | **Period from January 1, 2021 through May 24, 2021** | **Year ended December 31, 2020** | **Year ended December 31, 2019** |
| Related party inventory sales (a) | — | — | 1.1 | 1.8 |
| **Total related party operating revenues** | — | **—** | **1.1** | **1.8** |
| | | | | |
| Management and technical support fees (b) (c) | — | 10.4 | 60.1 | 70.5 |
| Related party inventory purchases (a) | — | 0.1 | 1.4 | 1.1 |
| **Total related party operating expenses** | — | **10.5** | **61.5** | **71.6** |
| | | | | |
| Interest expense recognized on deferred contingent consideration (e) | — | — | (2.0) | (3.3) |
| **Total related party financial items** | — | — | **(2.0)** | **(3.3)** |

The below table provides a summary of amounts due to or from Seadrill Limited at December 31, 2020 (Predecessor). Note that subsequent to the Effective Date the Company no longer had any related parties and as such no related party balances existed at December 31, 2021 (Successor).

| | Successor | Predecessor |
|---|---|---|
| *(In $ millions)* | **2021** | **2020** |
| Trading balances due from Seadrill Limited and subsidiaries (d) | — | 7.6 |
| **Total related party receivables** | — | **7.6** |

| | Successor | Predecessor |
|---|---|---|
| *(In $ millions)* | **2021** | **2020** |
| Trading balances due to Seadrill Limited and subsidiaries (d) | — | 78.9 |
| Deferred and contingent consideration to related party - short term portion (e) | — | 2.8 |
| **Total related party payables** | — | **81.7** |
| Less: Related party payables held as subject to compromise | — | (74.3) |
| **Related party payables not subject to compromise** | — | **7.4** |

***Chapter 11 proceedings***

At the Petition Date, our pre-petition related party payables were transferred to "Liabilities subject to compromise" in our Consolidated Balance Sheets at December 31, 2020 (Predecessor). For further information on our bankruptcy proceedings refer to Note 4 - "Chapter 11 Proceedings" and Note 5 – "Fresh Start Accounting" of our Consolidated Financial Statements included herein.

*(a) Related party inventory sales and purchases*

Revenue and expenses from the sale and purchase of inventories and spare parts from Seadrill Limited which occurred prior to the Effective Date.

*(b) Management and administrative services agreement*

Prior to the Effective Date, Seadrill Limited provided us with services covering functions including general management, information systems, accounting & finance, human resources, legal and commercial. We were charged an allocation for these services on a cost plus mark-up basis. During the year ended December 31, 2020 (Predecessor), the mark-up we were charged for these services ranged from 4.85% to 8%. The agreements for certain rigs were terminated after the year ended December 31, 2020 (Predecessor).

*(c) Operations and technical supervision agreements*

Prior to the Effective Date, certain subsidiaries of Seadrill Partners had advisory, technical and/or administrative services agreements with subsidiaries of Seadrill Limited. An allocation of these services were charged at cost plus service fee equal to approximately 5% of costs and expenses incurred in connection with providing these services. These agreements had been terminated after the year ended December 31, 2020 (Predecessor).

*(d) Trading balances*

Prior to the Effective Date, receivables and payables with Seadrill Limited and its subsidiaries were comprised of management fees, advisory and administrative services, and certain other amounts due. Receivables and payables were generally settled quarterly in arrears for those balances that were not held as liabilities subject to compromise. Trading balances to Seadrill Limited and its subsidiaries were unsecured.

*(e) Deferred consideration to related party*

Prior to the Effective Date, we had deferred and contingent consideration liabilities to Seadrill Limited from the acquisition of the *Vela* remaining which was held within "Liabilities subject to compromise" in our Consolidated Balance Sheets at December 31, 2020 (Predecessor).

On the *Vela* we were required to pay to Seadrill Limited $42k per day for mobilization and a further $40k per day adjusted for utilization over the remaining contract term with BP, which completed in November 2020.

On the *Polaris* we agreed to pay Seadrill Limited 100% of dayrate earned above $450k per day for the remainder of the contract with ExxonMobil and 50% of the dayrate earned above $450k per day on any subsequent contract until March 2025.

The below table sets out the fair value of the liabilities at December 31, 2020 (Predecessor). Note these were all settled at the Effective Date and no such amounts remain outstanding at December 31, 2021 (Successor).

| | Successor | Predecessor |
|---|---|---|
| *(In $ millions)* | **2021** | **2020** |
| ***Vela*** | | |
| Mobilization due to Seadrill Limited | — | 2.8 |
| **Total** | — | **2.8** |

These liabilities are presented in our Consolidated Balance Sheets as follows:

| | Successor | Predecessor |
|---|---|---|
| *(In $ millions)* | **2021** | **2020** |
| Liabilities subject to compromise | — | 2.8 |
| **Total** | — | **2.8** |

*Guarantees*

Seadrill Limited provided performance guarantees to certain of our customers on our behalf for contracts that matured in 2020 and had no balance at December 31, 2020 (Predecessor).

*Omnibus agreement*

In 2012 we entered into an Omnibus Agreement with Seadrill Limited. The agreement outlined the following provisions: (i) a non-competition agreement with Seadrill Limited for any drilling rig operating under a contract for five or more years; (ii) rights of first offer on any proposed sale, transfer or other disposition of drilling rigs; (iii) rights of first offer on any proposed transfer, assignment, sale or other disposition of any equity interest in Seadrill Operating LP, Seadrill Capricorn Holdings LLC and Seadrill Operating LLC (the "OPCO"); and (iv) indemnification – Seadrill Limited agreed to indemnify Seadrill Partners against certain environmental and toxic tort liabilities with respect to the assets contributed or sold to Seadrill Partners, and also certain tax liabilities. This agreement was terminated after December 31, 2020 (Predecessor) as part of the bankruptcy proceedings, refer to Note 4 – “Chapter 11 Proceedings” of our Consolidated Financial Statements included herein for more information on the Seadrill Limited Global Settlement.

**Note 22 – Risk management and financial instruments**

We are exposed to various market risks, including interest rate, foreign currency exchange and concentration of credit risks. We may enter into a variety of derivative instruments and contracts to maintain the desired level of exposure arising from these risks.

Subsequent to the Petition Date, interest was no longer incurred on our debt facilities, and as of the Effective Date, the Company no longer had any outstanding debt. Prior to filing for Chapter 11, we entered into a derivative agreement to mitigate the risk of interest rate fluctuations. We defaulted on payments due on the interest rate swaps on November 23, 2020 in preparation for the Chapter 11 filing.

As a result, our counterparties terminated all outstanding transactions governed by the International Swaps and Derivatives Association, Inc. ("ISDA"). The derivative transactions were recognized at the recoverable amount under the ISDA's as agreed with our lenders. At December 31, 2020 (Predecessor) we had $20.8 million in estimated derivative instrument settlements payable, reflected as "Liabilities subject to compromise" in our Consolidated Balance Sheets.

***Interest rate swap agreements***

At November 23, 2020, we had interest rate swaps for a combined outstanding principal amount of $2,714.1 million, swapping floating rate for an average fixed rate of 2.49% per annum. The fair value of the interest rate swaps outstanding as of December 31, 2020 (Predecessor) was a liability of $20.8 million. The collateral vessels under the TLB had been pledged as collateral against the interest rate swap liabilities and were secured on a pari passu basis with the TLB lenders. The swap providers ranked lower on the payment waterfall with regards to the super senior loan. Note that upon the Effective Date, all debt was settled and as such the interest rate swaps were cancelled. As such, no swaps existed at December 31, 2021 (Successor).

During 2020, we recorded interest rate swaps on a net basis where netting is allowed under ISDA Master Agreements. We classified the net asset or liability within “Other current assets” or “Current liabilities” in the Consolidated Balance Sheets. We did not designate any interest swaps as hedges and accordingly any changes in the fair values of the swap agreements were included in the Consolidated Statements of Operations under "Loss on derivative financial instruments" for the year ended December 30, 2020.

On December 1, 2020, the interest rate swaps were terminated under the ISDA and an adjustment for credit risk on the interest rate swap position was reversed to "Other financial expenses" in the Consolidated Statement of Operations, totaling $7.1 million. The residual liability represented the counterparty claimed value of $20.8 million, which was reclassified to "Liabilities subject to compromise" in our Consolidated Balance Sheets at December 31, 2020 (Predecessor) and were written off as part of the settlement of liabilities subject to compromise on the Effective Date.

The total realized and unrealized loss recognized under "Loss on derivative financial instruments" in the Consolidated Statements of Operations relating to interest rate swap agreements for 2020 was a loss of $16.1 million, and a loss of $27.7 million for 2019.

Our interest rate swap agreements at November 23, 2020, were as follows:

| Maturity date | Outstanding principal at November 23, 2020 | Receive rate | Pay rate |
|---|---|---|---|

| | (In $ millions) | | | |
|---|---|---|---|---|
| February 21, 2021 | 2,714.1 | 3 month LIBOR | 2.45% to 2.52% | *(1) (2)* |
| **Total outstanding principal** | **$ 2,714.1** | | | |

(1) *The outstanding principal of these amortizing swaps falls with each capital repayment of the underlying loans.*

(2) *The Company had a LIBOR floor of 1% whereby the Company received 1% when LIBOR was below 1%.*

Following the defaults on our debt and the termination of our derivatives in 2020 we no longer have any net exposure to short term fluctuations in interest rates.

The credit exposure of interest rate swap agreements was represented by the fair value of contracts with a positive fair value at the end of each period, reduced by the effects of master netting agreements, adjusted for counterparty non-performance credit risk assumptions. It was our policy to enter into ISDA Master Agreements, with the counterparties to derivative financial instrument contracts, which gave us the legal right to discharge all or a portion of amounts owed to a counterparty by offsetting them against amounts that the counterparty owed us.

***Foreign currency risk***

We use the U.S. Dollar as the functional currency of all our subsidiaries because the majority of our revenues and expenses are denominated in U.S. Dollars. Therefore, we also use U.S. Dollars as our reporting currency.

Our foreign currency risk arises from:

- the measurement of monetary assets and liabilities denominated in foreign currencies converted to U.S. Dollars, with the resulting gain or loss recorded as "Foreign currency exchange loss"; and
- the impact of fluctuations in exchange rates on the reported amounts of the Company's revenues and expenses which are denominated in foreign currencies.

We do not use foreign currency forward contracts or other derivative instruments related to foreign currency exchange risk.

***Credit risk***

We have financial assets which expose us to credit risk arising from possible default by a counterparty. Our counterparties primarily include our customers, which are international oil companies, national oil companies or large independent companies. We consider these counterparties to be creditworthy and do not expect any significant loss due to credit risk. We do not demand collateral from our counterparties in the normal course of business. Credit risk is also considered as part of our expected credit loss provision. Refer to Note 2 - "Accounting policies" for further information.

***Concentration of credit risk***

There is a concentration of credit risk with respect to revenue as 2 of our customers represent all of our total revenues. Refer to Note 6 - "Segment information" for an analysis of our revenue by customer. The market for our services is the offshore oil and gas industry, and our customers consist primarily of major oil and gas companies, independent oil and gas producers and government-owned oil companies. We perform ongoing credit evaluations of our customers and generally do not require collateral from them. Reserves for potential credit losses are maintained when necessary.

There is a concentration of credit risk with respect to cash and cash equivalents as most of the amounts are deposited with Citigroup Inc. and Danske Bank A/S. We consider these risks to be remote given the investment grade credit rating of these banks.

***Off balance sheet credit exposure***

The Company does not have any off-balance sheet credit exposure for the twelve months ended December 31, 2021 (Successor) or 2020 (Predecessor).

**Note 23 – Fair value measurement**

***Fair value of financial assets and liabilities measured at amortized cost***

The carrying value and estimated fair value of our financial instruments that are measured at amortized cost as of December 31, 2021 (Successor) and December 31, 2020 (Predecessor) are as follows:

| | Successor | | Predecessor | |
|---|---|---|---|---|
| | 2021 | | 2020 | |
| *(In $ millions)* | Fair Value | Carrying Value | Fair Value | Carrying Value |
| Assets | | | | |
| Cash and cash equivalents | 203.2 | 203.2 | 362.0 | 362.0 |
| Restricted cash | 24.7 | 24.7 | 16.4 | 16.4 |
| | | | | |
| Liabilities | | | | |
| Term Loan B | — | — | 380.3 | 2,727.1 |
| Other external debt facilities | — | — | — | — |

***Fresh Start Valuation***

As part of the application of Fresh Start Accounting, we adjusted our assets and liabilities to reorganization value as of the Effective Date. The income statement impact of the adjustment was recognized in “Gain/(loss) on Reorganization Items, net” on our Consolidated Statements of Operations. See Note 4 – “Chapter 11 Proceedings” and Note 5 – “Fresh Start Accounting” for more information.

***Level 1***

The carrying value of cash and cash equivalents and restricted cash, which are highly liquid, is a reasonable estimate of fair value.

At December 31, 2020 (Predecessor), we had loans under the Term Loan B with a carrying value of $2,727.1 million, all of which is held within "Liabilities subject to compromise" in our Consolidated Balance Sheets. At December 31, 2020 (Predecessor) the Term B loan was freely tradable and its fair value was set equal to the price at which they were traded on this date. It was settled at the Effective Date and was not outstanding at December 31, 2021 (Successor).

***Level 2***

***Financial instruments measured at fair value on a recurring basis***

At December 31, 2020 (Predecessor), we had $20.8 million of interest rate swaps and $2.8 million of related party deferred and contingent consideration payable to Seadrill Limited relating to the purchase of the *Vela* and the *Polaris*, all of which is held within "Liabilities subject to compromise" in our Consolidated Balance Sheets at the expected value of the allowable claim. The interest rate swaps balance reflects the terminated value at November 23, 2020 (Predecessor) following the decision to default on payments in preparation for Chapter 11 filing. For further information on our bankruptcy proceedings refer to Note 4 - "Chapter 11 Proceedings".

***Fair value considerations on non-recurring transactions***

Certain of our assets and liabilities are required to be measured at fair value on a nonrecurring basis in accordance with U.S. GAAP. Generally, we record assets at fair value on a nonrecurring basis as a result of impairment charges. Refer to Note 11 - "Impairment of long-lived assets" for details of impairment charges relating to our drilling units, which were measured at fair value on a nonrecurring basis in 2020 (Predecessor) and have presented the aggregate loss in “Impairment of long-lived assets” in our Consolidated Statements of Operations for the year ended December 31, 2020 (Predecessor).

***Level 3***

The drilling units were impaired during the first and fourth quarters of 2020 (Predecessor). We estimated the fair values of the impaired drilling units using an income approach, whereby the fair value of each rig was estimated based on a calculation of the rig’s future net cash flows. These calculations utilized significant unobservable inputs, including management’s assumptions related to long-term future dayrates, contract probabilities, long-term economic utilization, capital and operating expenditures, reactivation costs and timing for the cold stacked rigs, recycling probabilities, applicable tax rates and asset lives. Our fair value estimates were representative of Level 3 fair value measurements due to the significant level of estimation involved and the lack of transparency as to the inputs used.

**Note 24 –Commitments and contingencies**

**Legal Proceedings**

From time to time the Company is a party, as plaintiff or defendant, to lawsuits in various jurisdictions in the ordinary course of business or in connection with its acquisition or disposal activities. Our best estimate of the outcome of the various disputes has been reflected in these financial statements as of December 31, 2020 (Predecessor) and as of December 31, 2021 (Successor).

***BP arbitration***

In 2019, an arbitration entitled Seadrill US Gulf LLC, Seadrill Gulf Operations Vela LLC, and Seadrill Gulf Operations Auriga, LLC v. BP Exploration & Production, Inc., ICDR Case No. 01-19-003-0191 (the “Arbitration”), which was commenced by Seadrill US Gulf LLC, Seadrill Gulf Operations Vela, LLC, and Seadrill Gulf Operations Auriga LLC (collectively, the “Arbitration Debtors”) against BP Exploration & Production, Inc. (“BP”). On July 12, 2021 a three-arbitrator tribunal appointed by the International Centre for Dispute Resolution (the “Tribunal”), an affiliate of the American Arbitration Association (“AAA”) ruled in favor of BP. The Company appealed the ruling and on November 15, 2021 our appeal was denied and had no impact on our consolidated financial statements.

The Arbitration Debtors and BP were parties to long-term contracts (the “Contracts”) worth $4.4 billion under which the Arbitration Debtors provided drilling rigs to BP. The Arbitration involved a dispute over the meaning of change-in-law provisions contained in the Contracts (the “Change-in-Law Provisions”). The Arbitration Debtors sought a total of $51.0 million for BP’s refusal to fully compensate their increased U.S. federal income tax costs incurred pursuant to the 2017 enactment of a Base Erosion Anti-Abuse Tax (“BEAT”).

***Nigerian Cabotage Act litigation***

Aquadrill Mobile Units (Nigeria) Limited (Successor), formerly known as Seadrill Mobile Units Nigeria Ltd (“SMUNL”) (Predecessor) commenced proceedings in May 2016 against the Honourable Minister for Transportation, the Attorney General of the Federation and the Nigerian Maritime Administration and Safety Agency with respect to interpretation of the Coastal and Inland Shipping (Cabotage) Act 2003 (the "Act"). On June 28, 2019, the Federal High Court of Nigeria delivered a judgement finding that: (1) Drilling operations fall within the definition of "Coastal Trade" or "Cabotage" under the Act and (2) Drilling Rigs fall within the definition of "Vessels" under the Act. The impact of this decision is that the Nigerian Maritime Administration and Safety Agency ("NIMASA") may impose a 2% surcharge on contract revenue from offshore drilling operations in Nigeria as well as requiring SMUNL register for Cabotage with NIMASA and pay all fees and tariffs as may be published in the guidelines that may be issued by the Minister of Transportation in accordance with the Act. However, on July 22, 2019, SMUNL filed an appeal to the Court of Appeal challenging the decision of the Federal High Court. Due to the volume of cases currently being handled by the Court of Appeal sitting in Lagos we anticipate a decision within three to five years.

Although we intend to strongly pursue this appeal, we cannot predict the outcome of this case. We do not believe that it is probable that the ultimate liability, if any, resulting from this litigation will have a material effect on our financial position. Accordingly, no loss contingency has been recognized within the Consolidated Financial Statements.

***Other claims or legal proceedings***

We are not aware of any other legal proceedings or claims that we expect to have, individually or in the aggregate, a material adverse effect on the Company.

**Commitments**

We had no material lease commitments or unconditional purchase obligations at December 31, 2021 (Successor) and 2020 (Predecessor).

**Guarantees**

We have issued performance guarantees under our bank guarantee facility with Danske Bank and DNB Bank ASA in favor of third parties as beneficiaries totaling $12.3 million. As of December 31, 2021 (Successor) we have not recognized any liabilities for these guarantees, as we do not consider it is probable for the guarantees to be called.

**Note 25 - Supplementary cash flow information**

The table below summarizes the non-cash financing activities relating to the periods presented:

| | Successor | Predecessor | | |
|---|---|---|---|---|
| *(In $ millions)* | **Period from May 25, 2021 through December 31, 2021** | **Period from January 1, 2021 through May 24, 2021** | **Year ended December 31, 2020** | **Year ended December 31, 2019** |
| **Non-cash financing activities** | | | | |

| | | | | |
|---|---|---|---|---|
| Recognition of super senior loan and related fees (1) | — | — | 141.5 | — |
| Reclassification of prepaid advisory fees (2) | — | — | 19.8 | — |

(1) In the year ended December 31, 2020 (Predecessor), unpaid TLB interest of $87.0 million was converted into a super senior loan, carrying a $40.0 million commitment fee, $13.3 million exit fee and $1.2 million compounded interest. For more information refer to Note 17 – "Debt".

(2) $19.8 million prepaid refinancing advisory fees incurred up until July 2020 (Predecessor) were reclassified from prepaid expenses to loan fees.

**Note 26 – Subsequent events**

**Sale of the Leo -** On October 25, 2021, the Company entered into an agreement for the sale of a semi-submersible drilling unit, the *Leo,* with BW Kudu Limited, a subsidiary of BW Energy for $14.0 million. The rig is expected to be repurposed and as such will be removed from the drilling market. Under the agreement, in the even the unit is used to perform drilling services, liquidated damages of $50 thousand per day will apply. The sale was completed on February 2, 2022. See Note 16 – Drilling Units for further information.

**2022 Phantom Equity Plan -** On March 1, 2022, pursuant to the terms of the 2021 LTIP, we adopted and established an unfunded bonus plan for employees and contractors of the Company by offering long term incentives which is known as the Aquadrill LLC 2022 Phantom Equity Plan (the "Phantom Equity Plan"). The Phantom Equity Plan is designed to attract and retain highly qualified employees and contractors by aligning the interests of those employees and contractors with the financial success of the Company. The Phantom Equity Plan involves the payment of cash or consideration in the currency of a future change of control of the Company based on the type of Distribution Event (as defined in the Phantom Equity Plan) and elections made by the Company's common unitholders and is based on value of the Phantom Equity of the Company as of the applicable Distribution Event. Total awards granted under the Phantom Equity Plan were 675,700 and the awards vest over a period of five years or upon a change in control of the Company and are payable on the Payment Date (as defined in the Phantom Equity Plan).

**Sale of the Capricorn** – On April 8, 2022, the Company entered into a memorandum of understanding for the sale of a semi-submersible drilling unit, the *Capricorn*, with Petro Rio S.A. for $40.0 million. The memorandum is subject to an Exclusivity Period, under which Aquadrill agrees that it shall not enter into any negotiations or binding agreement with any other party for the sale of the rig for a period of seventy-five days. The parties entered into a Sale and Purchase Agreement for the rig on May 2, 2022. The sale is expected to be completed in 2022.

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

EXHIBIT 8.1

**Subsidiaries of the Company**

The following table lists the Company's significant subsidiaries and their purpose that are included in the Consolidated Financial Statements as of December 31, 2021 (Successor).

| Name of the Company | Jurisdiction of Incorporation | Principal Activities |
|---|---|---|
| Aquadrill Auriga Hungary Kft | Hungary | Rig owner |
| Aquadrill Canada Operations ULC | Canada | Operating company |
| Aquadrill Capricorn Holdings LLC | Marshall Islands | Holding company |
| Aquadrill China Operations Ltd S.a.r.l | Luxembourg | Rig owner |
| Aquadrill Deepwater Services Ltd | Bermuda | Rig owner |
| Aquadrill Ghana Operations Ltd | Bermuda | Operating company |
| Aquadrill Gulf Operations Auriga LLC | U.S.A. | Operating company |
| Aquadrill Gulf Operations Sirius LLC | U.S.A. | Operating company |
| Aquadrill Gulf Operations Vela LLC | U.S.A. | Operating company |
| Aquadrill Hungary Kft | Hungary | Rig owner |
| Aquadrill International Ltd | Hong Kong | Operating company |
| Aquadrill Leo Ltd | Bermuda | Rig owner |
| Aquadrill Mobile Units (Nigeria) Ltd | Nigeria | Service company |
| Aquadrill Operating LP | Marshall Islands | Holding company |
| Aquadrill Operating LLC | Marshall Islands | Holding company |
| Aquadrill Malaysia Sdn Bhd | Malaysia | Operating company |
| Aquadrill Polaris Ltd. | Bermuda | Rig Owner |
| Aquadrill T-15 Ltd | Bermuda | Rig owner |
| Aquadrill T-16 Ltd | Bermuda | Rig owner |
| Aquadrill US Gulf LLC | U.S.A. | Operating company |
| Aquadrill Vela Hungary Kft | Hungary | Rig owner |
| Aquadrill Vencedor Ltd | Bermuda | Rig owner |
| Aquadrill Operating GP LLC | Marshall Islands | Rig owner |
| Aquadrill B.V. | Netherlands | Holding company |
| Aquadrill Auriga UK Ltd | United Kingdom | Intra-charterer |
| Aquadrill Vela UK Ltd | United Kingdom | Inactive |
| Aquadrill Rig Holdco Kft. | Hungary | Operating company |
| Aquadrill Texas LLC[1] | Texas | Terminated |
| Aquadrill Capricorn Ltd | United Kingdom | Inactive |
| Aquadrill Sirius UK Ltd. | United Kingdom | Inactive |
| Aquadrill Servicos de Perfuracao Ltda | Brazil | Operating company |
| Aquadrill Contracting Ltd | Bermuda | Operating company |
| Aquadrill Opco Sub LLC | Marshall Islands | Holding company |
| Aquadrill Finco LLC[2] | Delaware | Terminated |
| Aquadrill Canadian Holdco Limited | United Kingdom | Holding company |
| Aquadrill Deepwater Drillship Ltd. | Cayman Islands | Rig owner |
| Aquadrill Ireland Ltd. | Ireland | Inactive |
| Aquadrill Labuan Ltd. | Labuan | Operating company |

(1) Aquadrill Texas LLC was terminated on November 5, 2021

(2) Aquadrill Finco LLC was terminated on October 12, 2021