PARATUS ENERGY SERVICES LIMITED

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2021

Paratus Energy Services Limited

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Report of Independent Auditors

To the Board of Directors of Paratus Energy Services Limited

Opinion

We have audited the accompanying consolidated financial statements of Paratus Energy Services Limited and its subsidiaries (the "Company"), which comprise the consolidated balance sheet as of December 31, 2021, and the related consolidated statements of operations, of comprehensive income, of changes in equity and of cash flows for the year then ended, including the related notes (collectively referred to as the "consolidated financial statements").

In our opinion, the accompanying 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 year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (US GAAS). Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are required to be independent of the Company and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of the consolidated financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for one year after the date the consolidated financial statements are available to be issued.

Auditors' Responsibilities for the Audit of the Consolidated Financial Statements

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with US GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the consolidated financial statements.

In performing an audit in accordance with US GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the consolidated financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the consolidated financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the Company's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control-related matters that we identified during the audit.

Restriction of Use

This report, including the opinion, has been prepared for and only for the company's directors in order to fulfil its obligation to Global Loan Agency Services Limited in accordance with the Senior Secured Credit Facility Agreement and Super Senior Term and Revolving Facilities Agreement dated February 22, 2022 in accordance with our engagement letter dated May 17, 2022 and for no other purposes. 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 save where expressly agreed by our prior consent in writing.

PricewaterhouseCoopers LLP

PricewaterhouseCoopers LLP
Watford, United Kingdom
March 31, 2023

Paratus Energy Services Limited
CONSOLIDATED STATEMENT OF OPERATIONS
for the year ended December 31, 2021

(In $ millions)	**Note**	**December 31, 2021**
Operating revenues		
Contract revenues		36
Total operating revenues		**36**
Operating expenses		
Vessel and rig operating expenses	*	(15)
Depreciation	8	(2)
Amortization of favorable contracts	9	(7)
Selling, general and administrative expenses	*	(2)
Total operating expenses		**(26)**
Operating income		**10**
Financial and other items		
Interest income	*	18
Interest expense	*	(77)
Share in results from associated companies	19	17
Gain on derivative financial instruments	*	3
Unrealized gain on marketable securities	*	2
Other financial items		35
Total financial and other items		**(2)**
Income before income taxes		**8**
Income tax benefit	7	4
Net income		**12**

** Includes transactions with related parties. Refer to Note 18 – Related party transactions*

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

Paratus Energy Services Limited
CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME
for the year ended December 31, 2021

(In $ millions)	**December 31, 2021**
Net income	**12**
Other comprehensive income, net of tax:	
Share in results from associated companies	2
Change in fair value of debt component of Archer convertible bond	3
Total comprehensive income for the period	**17**

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

Paratus Energy Services Limited
CONSOLIDATED BALANCE SHEET
as at December 31, 2021

(In $ millions)	Note	December 31, 2021
ASSETS		
Current assets		
Cash and cash equivalents		49
Restricted cash		21
Accounts receivables, net	6	318
Favorable contracts	9	43
Other current assets	10	28
Total current assets		**459**
Non-current assets		
Investment in associated companies	19	239
Drilling units and equipment	8	215
Deferred tax assets	7	5
Amount due from related party non-current	18	69
Favorable contracts	9	121
Other non-current assets	11	1
Total non-current assets		**650**
Total assets		**1,109**
LIABILITIES AND EQUITY		
Current liabilities		
Debt due within twelve months	12	581
Trade accounts payable		7
Short-term amounts due to related parties	18	12
Other current liabilities	13	96
Total current liabilities		**696**
Non-current liabilities		
Long-term debt	12	233
Other non-current liabilities	14	24
Total non-current liabilities		**257**
Commitments and contingencies (see Note 21)		
Equity		
Common shares of par value $1.00 per share: 1,000 shares authorized and issued at December 31, 2021 (December 31, 2020: 1,000)	16	—
Additional paid in capital	16	1,192
Accumulated other comprehensive loss		(18)
Retained earnings		(1,018)
Total equity		**156**
Total liabilities and equity		**1,109**

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

Approved on behalf of the Board of Directors by:

James Ayers, Director

Date: March 31, 2023

Paratus Energy Services Limited
CONSOLIDATED STATEMENT OF CASH FLOWS
for the year ended December 31, 2021

(In $ millions)	**December 31, 2021**
Cash Flows from Operating Activities	
Net income	**12**
Adjustments to reconcile net income to net cash provided by operating activities:	
Depreciation	2
Amortization of favorable contracts	7
Share of results from associated companies	(17)
Gain on realization of marketable securities	(2)
Unrealized gain related to derivative financial instruments	(3)
Deferred income tax	(3)
Change in allowance for credit losses	(64)
Other cash movements in operating activities	
Payment-in-kind-interest	23
Distributions received from associated companies	6
Changes in operating assets and liabilities	
Trade accounts receivable	(1)
Trade accounts payable	4
Related party payables	(4)
Other assets	(5)
Other liabilities	27
Net cash used in operating activities	**(18)**
Cash Flows from Investing Activities	
Additions to drilling units and equipment	(1)
Cash and restricted cash obtained through acquisition of subsidiary	62
Payments received from loans granted to related parties	10
Loans granted to related parties	(48)
Net cash provided by investing activities	**23**
Net increase in cash and cash equivalents, including restricted cash	**5**
Cash and cash equivalents, including restricted cash, at beginning of the period	65
Cash and cash equivalents, including restricted cash, at the end of period	**70**

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

Paratus Energy Services Limited
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY
for the year ended December 31, 2021

(In $ millions)	Share Capital	Additional paid-in capital	Accumulated other comprehensive loss	Retained loss	Total equity
Balance as at December 31, 2020	**—**	**1,192**	**(23)**	**(1,030)**	**139**
Net income	—	—	—	12	**12**
Other comprehensive income	—	—	5	—	**5**
Balance as at December 31, 2021	**—**	**1,192**	**(18)**	**(1,018)**	**156**

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

Note 1 – General information

Company details

Paratus Energy Services Limited (previously "**Seadrill New Finance Limited**" or "**NSNCo**") is a company incorporated under the laws of Bermuda and in accordance with the Bermuda Companies Act 1981.

References to "**PES**", **the** "**Company**," "**we**," "**us**" or "**our**" in this Annual Report relate to Paratus Energy Services Limited, together with its consolidated subsidiaries.

Business

Paratus Energy Services Limited is the principal holding company of a group that holds investments in Seamex (100%), Seabras Sapura (50%), and Archer (15.7%). These investments are described below:

- **Seamex** is a drilling contractor that owns and operates five jack-up drilling units located in Mexico under long-term contracts with Petróleos Mexicanos ("**Pemex**"). Seamex currently owns five jack-up rigs: *West Intrepid*, *West Defender*, *West Courageous*, *West Oberon*, and *West Titania.*

- ***Seabras Sapura*** is a group of related companies that own and operate six pipe-laying service vessels which are under long-term contract in Brazil. PES has a 50% ownership stake in these companies with the remaining 50% interest being owned by Sapura Energy.

- **Archer** is a global oilfield service company that specializes in drilling and well services. PES owns 15.7% of the outstanding common shares of Archer and convertible loan note that has a conversion right into equity of Archer.

Basis of presentation

These Consolidated Financial Statements are presented in accordance with generally accepted accounting principles in the United States of America ("**US GAAP**"). The amounts are presented in United States dollar ("**US dollar**", "**$**" or "**US$**").

The financial information included herein have been prepared solely for the purpose of complying with the agreements as set forth in Section 4.03(a)(i) of the amended and restated 2026 notes indenture dated and effective as of January 20, 2022 in relation to the senior secured notes due 2026.

Basis of consolidation

Investments in companies that we directly or indirectly hold more than 50% of the voting control are consolidated in the Consolidated Financial Statements. Intercompany transactions and internal sales have been eliminated on consolidation.

Comprehensive restructuring

i. Introduction

The Restructuring Support Agreement ("**RSA**") was implemented through a series of transactions. The first element of the RSA was implemented during the period on November 2, 2021, and resulted in PES acquiring a 100% interest in SeaMex. The second part of the RSA was a debt restructuring that required the use of a pre-packaged chapter 11 process which concluded on January 20, 2022, following the end of the reporting period.

On July 2, 2021, Seadrill Limited ("**Seadrill**"), who at that point held a 100% equity interest in Paratus Energy Services, and holders of senior secured notes issued by the Company ("**NSNCo Noteholders")** agreed to key commercial terms for a comprehensive restructuring of the Company and entered into a restructuring support agreement.

ii. Purchase of Seamex through credit bid

During 2020 and 2021, SeaMex Limited built up a significant accounts receivable balance as a result of delayed payments from its sole customer, Pemex. This led to the Company defaulting on certain obligations under its debt agreements and ultimately culminated in SeaMex Limited being placed under joint provisional liquidation in Bermuda on June 18, 2021.

Prior to filing for joint provisional liquidation SeaMex Limited was a joint venture between PES and an investment fund controlled by Fintech Investment Limited ("**Fintech**"), each having a 50% ownership stake in SeaMex. The agreement governing the joint venture was terminated upon filing for joint provisional liquidation and the former owners lost control over the joint venture at this point.

The joint provisional liquidation provided SeaMex Limited with a stay of proceedings whilst it pursued a comprehensive restructuring. SeaMex Limited had two major debt obligations that it needed to restructure: an external credit facility; and a series of related party loans primarily from PES.

On August 31, 2021, SeaMex issued $219 million of new notes due August 2024 ("**New SeaMex Notes**") to certain NSNCo Noteholders. SeaMex used the net proceeds raised from this issuance to repay the previous debt facility.

On November 2, 2021, SeaMex Limited (in liquidation) sold its interest in the business and assets of the SeaMex group to PES, in exchange for waiver of certain related party loans. To effect the sale, SeaMex Limited first transferred its shares in the operating subsidiaries of the SeaMex Group to a newly incorporated holding company and sold its interest in this company to PES in return for the release of debt.

Following this transaction, PES had a 100% equity interest in SeaMex. Please refer to Note 20 - "Business Combination" for further details.

iii. Pre-packaged chapter 11 process (subsequent event)

On January 20, 2022, PES completed a debt restructuring which was achieved using a nine-day pre-packaged chapter 11 process. The debt restructuring had the following major impacts:

1. Holders of the senior secured notes issued by PES released Seadrill from all guarantees and securities previously provided by Seadrill in respect of the notes;
2. Seadrill sold 65% of its equity interest in PES to the holders of senior secured notes. Seadrill's equity interest thereby decreasing to 35%; and
3. Reinstatement in full of the notes on amended terms. Please refer to Note 22 - "Subsequent events" for further details on the terms of the amended terms.

Note 2 – Significant Accounting Policies

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

Critical Accounting Estimates

The preparation of the Consolidated Financial Statements in accordance with US GAAP requires us to make estimates and assumptions that affect the reported amounts of assets, liabilities, revenues and expenses and related disclosures about contingent assets and liabilities. We base these estimates and assumptions on historical experience and on various other information and assumptions that we believe to be reasonable. Critical accounting estimates are important to the portrayal of both our financial position and results of operations and require us to make subjective or complex assumptions or estimates about matters that are uncertain. Actual results could differ from those estimates.

Critical accounting estimates that are significant for the year ended December 31, 2021 are as follows:

Carrying value of rig assets

Generally, the carrying amount of our drilling units including rigs, vessels and related equipment are recorded at historical cost less accumulated depreciation. However, drilling units acquired through a business combination would be measured at fair value as of the date of acquisition. Our drilling units are subject to various estimates, assumptions, and judgments related to capitalized costs, useful lives and residual values, and impairments.

Our estimates, assumptions and judgments reflect both historical experience and expectations regarding future operations, utilization and performance. At December 31, 2021, the carrying amount of our drilling units was $215 million, representing 33% of our non-current assets.

Business Combination Valuation

When another company is acquired in a business combination, the acquisition method requires us to make certain estimates related to the fair value recognition of identifiable assets acquired and liabilities assumed. As described in Note 1 - "General Information", on November 2, 2021, NSNCo consolidated SeaMex in a business combination. Critical accounting estimates associated with the acquisition included: Off-contract revenue estimates, off-contract operating expense assumptions, contract probabilities and the weighted average cost of capital ("**WACC**") rate used to discount free cash flow projections. Refer to Note 20 - "Business Combination" to our Consolidated Financial Statements included herein for further information.

Useful lives and residual value

The cost of our drilling units less estimated residual value is depreciated on a straight-line basis over their estimated remaining useful lives. The estimated useful life of our jackup rigs, when new, is 30 years.

The useful lives of rigs and related equipment are difficult to estimate due to a variety of factors, including technological advances that impact the methods or cost of oil and gas exploration and development, changes in market or economic conditions, changes in laws or regulations affecting the drilling industry and possible climate change impacts. We re-evaluate the remaining useful lives of our drilling units annually and as and when events occur which may directly impact our assessment of their remaining useful lives. This includes changes in the operating condition or functional capability of our rigs as well as market and economic factors.

No residual value is assumed when depreciating drilling unit assets. Our current position is that though there is the potential that we may recover scrap value at the end of the life of a drilling unit, we are not able to form a reliable estimate of the amount, which may also be reduced by any potential decommissioning costs. Therefore, we have made a prudent estimate that the residual value at retirement is $nil. We re-evaluate residual value annually and as and when events occur which may directly impact our assessment of residual value.

The use of different estimates, assumptions and judgments in establishing estimated useful lives and residual values could result in significantly different carrying values for our drilling units which could materially affect our results of operations.

Impairment considerations (Drilling units)

The carrying values of our long-lived assets are reviewed for impairment when certain triggering events or changes in circumstances indicate that the carrying amount of an asset may no longer be recoverable. Asset impairment evaluations are, by nature, highly subjective. They involve expectations about future cash flows generated by our assets and reflect management's assumptions and judgments regarding future industry conditions and their effect on future utilization levels, dayrates and costs. The use of different estimates and assumptions could result in significantly different carrying values of our assets and could materially affect our results of operations. An impairment loss is recorded in the period in which it is determined that the aggregate carrying amount is not recoverable.

For the year ended December 31, 2021, no indicators of impairment were identified against our drilling units.

Current expected credit losses

We adopted accounting standard update 2016-13 effective January 1, 2020. Under this guidance, we are required to record allowances for the expected future credit losses to be incurred on in-scope receivable balances. We have used a probability-of-default model to estimate expected credit losses for all classes of in-scope receivable balances. Under this methodology we use data such as customer credit ratings, maturity of receivable, security of receivable, and incorporate historical data, to estimate the chance of default and loss given default. We then multiply the balance outstanding by the estimated chance of default and loss given default to calculate the allowance required for the expected credit loss. We monitor the credit quality of receivables by re-assessing credit ratings, assumed maturities and probability-of-default on a quarterly basis.

Uncertain tax positions

We provide for income taxes based on the tax laws and rates in effect in the countries in which our operations are conducted and income is earned. The income tax rates and methods of computing taxable income vary substantially between jurisdictions. Our income tax expense is expected to fluctuate from year to year because our operations are conducted in different tax jurisdictions and the amount of pre-tax income fluctuations.

The determination and evaluation of our annual group income tax provision involves the interpretation of tax laws in the various jurisdictions in which we operate and requires significant judgment and the use of estimates and assumptions regarding significant future events, such as amounts, timing and the character of income, deductions and tax credits. There are certain transactions for which the ultimate tax determination is unclear due to uncertainty in the ordinary course of business. We recognize tax liabilities based on our assessment of whether our tax positions are more likely than not sustainable, based solely on the technical merits and considerations of the relevant taxing authorities widely understood administrative practices and precedence. Changes in tax laws, regulations, agreements, treaties, foreign currency exchange restrictions or our levels of operations or profitability in each jurisdiction may impact our tax liability in any given year.

While our annual income tax provision is based on the information available to us at the time, a number of years may elapse before the ultimate tax liabilities in certain tax jurisdictions are determined. 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. Our deferred tax expense or benefit represents the change in the balance of deferred tax assets or liabilities as reflected on the balance sheet. To determine the amount of deferred tax assets and liabilities, as well as valuation allowances, we must make estimates and certain assumptions regarding future taxable income, including where our drilling units are expected to be deployed. A change in such estimates and assumptions, along with any changes in tax laws, could require us to adjust the amount of deferred taxes. In addition, our uncertain tax positions are estimated and presented within other current liabilities, other liabilities, and as reductions to our deferred tax assets within our Consolidated Balance Sheets. Refer to Note 7 - "Taxation" to our Consolidated Financial Statements included herein for further information.

Foreign currencies

The majority of our revenues and expenses are denominated in U.S. dollars and therefore the majority 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.

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. Refer to Note 18 - "Related Party Transactions".

Business Combinations

We account for business combinations in accordance with ASC 805 - Business Combinations. As described in Note 1 - "General Information", on November 2, 2021, NSNCo consolidated SeaMex in a business combination. Management determined that the Transaction qualified as a business combination under ASC 805 because (i) SeaMex as the acquiree met the definition of a business and (ii) NSNCo as the acquirer obtained control of SeaMex. As a result, the acquisition method was applied, and the identifiable assets acquired and liabilities assumed were recognized at fair value on the acquisition date.

i. Accounts receivable, net

SeaMex's CECL model estimates the allowance using a “probability-of-default” model. Refer to Allowance for Credit Losses section below.

ii. Drilling units and equipment

The fair value of drilling units and equipment are estimated through the DCF approach. The DCF approach derives values of rigs from the cash flows associated with the remaining useful life of the rig. Forecasted revenues used in the DCF model are derived from a "general pool" whereby the rigs receive a global dayrate assumption and a contract probability factor. All future cash flows are discounted using a WACC. Key assumptions used in the DCF include contracted dayrate and utilization forecasts.

iii. Contracts

Management values the favorable intangible drilling contracts by comparing the signed contract rates against the expected rates achievable for the rig type in the market, both adjusted for economic utilization and taxes. The gain or loss on the signed contract compared to the market rates are then discounted using an adjusted WACC.

iv. Convenience date

Where a business combination does not occur on a natural period end reporting date, the Company assesses the use of a convenience date based on materiality.

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. 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.

We recognize consideration for activities that correspond to a distinct time increment 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, 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 6 - "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 it relates to within the contract term, and therefore, recognized in line with the contractual rate billed for the services provided for any given hour.

Contract Balances - Accounts receivable are recognized when the right to consideration becomes unconditional based upon contractual billing schedules. Contract asset balances consist primarily of demobilization revenues which have been recognized during the period but are contingent on future demobilization activities. Contract liabilities include payments received for mobilization as well as rig preparation and upgrade activities which are allocated to the overall performance obligation and recognized ratably over the initial term of the contract.

Local Taxes - Taxing authorities may assess taxes on our revenues. Such taxes may include sales taxes, use taxes, value-added taxes, gross receipts taxes and excise taxes. We generally record tax-assessed revenue transactions on a net basis.

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, and include the remuneration of offshore crews and related costs, supplies, insurance costs, expenses for repairs and maintenance as well as costs related to onshore personnel and are expensed 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 the contract location. We recognize the expense for such mobilization costs over the expected contract term.

We incur costs to transfer a drilling unit to a safe harbor or different geographic area at the end or during the 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 under drilling units 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. Amortization costs for periodic overhauls are included in depreciation and amortization expense. Costs for other repair and maintenance activities are included in vessel and rig operating expenses and are expensed as incurred.

Income taxes

PES is a Bermudan company that has a number of subsidiaries and affiliates in various jurisdictions. Currently, the Company and its Bermudan subsidiary are not required to pay taxes in Bermuda on ordinary income or capital gains as they qualify as exempt companies. The Company has received written assurance from the Minister of Finance in Bermuda that it will be exempt from taxation until March 2035. 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.

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. There are certain transactions for which the ultimate tax determination is unclear due to uncertainty in the ordinary course of business. We recognize tax liabilities based on our assessment of whether our tax positions are more likely than not sustainable, based solely on the technical merits and considerations of the relevant taxing authority's widely understood administrative practices and precedence.

Changes in tax laws, regulations, agreements, treaties, foreign currency exchange restrictions or our levels of operations or profitability in each jurisdiction may impact our tax liability in any given year. While our annual tax provision is based on the information available to us at the time, a number of years may elapse before the ultimate tax liabilities in certain tax jurisdictions are determined. 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 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 by relevant tax authorities, 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.

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 Consolidated Balance Sheets. 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.

Current and non-current classification

Generally, assets and liabilities (excluding deferred taxes and 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 derivatives financial instruments as current.

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.

Cash and cash equivalents

Cash and cash equivalents consist of cash, bank deposits and highly liquid financial instruments with original maturities of three months or less.

Restricted cash

Restricted cash represents cash collateral supporting performance guarantees issued to Pemex.

Receivables

Receivables, including accounts receivable, are recorded in the Consolidated Balance Sheets at their nominal amount less an allowance for doubtful accounts. We establish reserves for doubtful accounts on a case-by-case basis when it is unlikely that required payments of specific amounts will occur. In establishing these reserves, we consider the financial condition of the customer as well as specific circumstances related to the receivable such as customer disputes. Receivable amounts determined as being unrecoverable are written off. Interest income on receivables is recognized as earned. Refer to Note 6 – "Revenue from contracts with customers".

Allowance for credit losses

In 2020 we adopted the current expected credit loss ("**CECL**") model which replaced the “incurred loss” model required under the guidance for FY 2019. The CECL model requires recognition of expected credit losses over the life of a financial asset upon its initial recognition. Periods prior to adoption 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 contemplates a broader range of information to estimate expected credit losses over the contractual lifetime of an asset. It also requires 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).

Equity investments

Investments in common stock are accounted for using the equity method if we have the ability to significantly influence, but not control, the investee. Significant influence is presumed to exist if our ownership interest in the voting stock of the investee is between 20% and 50%. We also consider other factors such as representation on the investee’s board of directors and the nature of commercial arrangements, We classify our equity investees as "Investments in Associated Companies". We recognize our share of earnings or losses from our equity method investments in the Consolidated Statements of Operations as “Share in results from associated companies”. Refer to Note 19 – "Investment in associated companies".

We assess our equity method investments for impairment at each reporting period when events or circumstances suggest that the carrying amount of the investments may be impaired. We record an impairment charge for other-than-temporary declines in value when the value is not anticipated to recover above the cost within a reasonable period after the measurement date. We consider: (1) the length of time and extent to which fair value is below carrying value, (2) the financial condition and near-term prospects of the investee, and (3) our intent and ability to hold the investment until any anticipated recovery. If an impairment loss is recognized, subsequent recoveries in value are not reflected in earnings until sale of the equity method investee occurs.

All other equity investments including investments that do not give us the ability to exercise significant influence and investments in equity instruments other than common stock, are accounted for at fair value, if readily determinable. We classify our other equity investments as "marketable securities" with gains or losses on remeasurement to fair value recognized as "loss on marketable securities". If we cannot readily ascertain the fair value, we record the investment at cost less impairment. We perform a qualitative impairment analysis for our equity investments recorded at cost at each reporting period to evaluate whether an event or change in circumstances has occurred that indicates that the investment is impaired. We record an impairment loss to the extent that the carrying amount of the investment exceeds its estimated fair value.

Drilling units

Rigs, vessels and related equipment are recorded at historical cost less accumulated depreciation. The cost of these assets, less estimated residual value (currently assumed to be $nil) is depreciated on a straight-line basis over their estimated remaining economic useful lives. The estimated economic useful life of our jack-up rigs, 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. 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.

Leases

When we enter into a new contract, or modify an existing contract, we identify whether that contract has a finance or operating lease component. We do not have, nor expect to have any leases classified as finance leases. We determine the lease commencement date by reference to the date the leased asset is available for use and transfer of control has occurred to the lessee. At the lease commencement date, we measure and recognize a lease liability and a right of use ("**ROU**") asset in the financial statements. The lease liability is measured at the present value of the lease payments not yet paid, discounted using the estimated incremental borrowing rate at lease commencement. The ROU asset is measured at the initial measurement of the lease liability, plus any lease payments made to the lessor at or before the commencement date, minus any lease incentives received, plus any initial direct costs incurred by us.

After the commencement date, we adjust the carrying amount of the lease liability by the amount of payments made in the period as well as the unwinding of the discount over the lease term using the effective interest method. After commencement date, we amortize the ROU asset by the amount required to keep total lease expense including interest constant (straight-line over the lease term).

Absent of an impairment of the ROU asset, the single lease cost is calculated so that the remaining cost of the lease is allocated over the remaining lease term on straight-line basis. Seadrill assesses a ROU asset for impairment and recognizes any impairment loss in accordance with the accounting policy on impairment of long-lived assets.

We applied the following significant assumptions and judgments in accounting for our leases.

- We apply judgment in determining whether a contract contains a lease or a lease component as defined by Topic 842.
- We have elected to combine leases and non-lease components. As a result, we do not allocate our consideration between leases and non-lease components.
- The discount rate applied to our operating leases is our incremental borrowing rate. We estimated our incremental borrowing rate based on the rate for our traded debt.

Impairment of long-lived assets

We review the carrying value of our long-lived assets for impairment whenever certain triggering events or changes in circumstances indicate that the carrying amount of an asset may no longer be appropriate. We assess recoverability of the carrying value of the asset by estimating the undiscounted future net cash flows expected to result from the asset, including eventual disposition. If the undiscounted future net cash flows are less than the carrying value of the asset, an impairment loss is recorded equal to the difference between the asset's carrying value and fair value.

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 Statement 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

We record derivative financial instruments at fair value. None of our derivative financial instruments have been designated as hedging instruments. Therefore, changes in their fair value are recognized in the Consolidated Statement of Operations each period.

We classify the gain or loss on derivative financial instruments as a separate line item within financial items in the Consolidated Statement of Operations. We classify the asset or liability for derivative financial instruments as an "other current asset" or "other current liability" in our Consolidated Balance Sheets. We offset assets and liabilities for derivatives that are subject to legally enforceable master netting agreements.

Deferred charges

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

Debt

We have 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 make the initial drawdown on a revolving debt arrangement, we will incur a liability for the principal to be repaid. Refer to Note 12 - "Debt".

Note 3 - Recent Accounting Standards

1) Recently adopted accounting standards

We recently adopted the following accounting standard updates ("**ASUs**"):

a) ASU 2019-12 Income Taxes (Topic 740): Simplifying the accounting for income taxes

In December 2019, the FASB issued ASU 2019-12. The amendments in this Update simplify the accounting for income taxes by removing certain exceptions to the general principles in Topic 740. The amendments also improve consistent application of and simplify GAAP for other areas of Topic 740 by clarifying and amending existing guidance. We adopted ASU 2019-12 effective January 1, 2021. The adoption of this guidance did not have a material impact on our consolidated financial statements.

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

We early adopted ASU 2021-08 effective January 1, 2021. Requires contract assets and liabilities (i.e., deferred revenue) acquired in a business combination to be recognized and measured on the acquisition date in accordance with ASC 606. This did not have a material impact on our financial statements.

c) ASU 2016-13 - Financial Instruments - Measurement of Credit Losses (Also 2018-19, 2019-04 and 2019-11)

In June 2016, the Financial Accounting Standards Board (the “FASB”) issued ASU 2016-13 Financial Instruments - Credit Losses (Topic 326): Measurement of Credit Losses on Financial Instruments and subsequent amendments, including ASU 2018-19, ASU 2019-04 and ASU 2019-11: Codification Improvements to Topic 326 “Financial Instruments-Credit Losses”. Topic 326 replaces the incurred loss impairment methodology (that recognizes losses when a probable threshold is met) with a requirement to recognize lifetime expected credit losses (measured over the contractual life of the instrument) immediately, based on information about past events, current conditions and forecasts of future economic conditions. Under the CECL measurement financial assets are reflected at the net amount expected to be collected from the financial asset, CECL measurement is applicable to financial assets measured at amortized cost as well as off-balance sheet credit exposures not accounted for as insurance (including financial guarantees).

PES adopted the requirements of Topic 326 in FY 2020. Reporting periods beginning after January 1, 2020 are presented under Topic 326 while comparative periods continue to be reported in accordance with previously applicable GAAP and have not been restated. The allowance for credit losses is presented as a deduction from the asset’s amortized cost (or liability for off-balance sheet exposures) and the net balance shown on the Consolidated Balance Sheet with associated credit loss expense in the Consolidated Statement of Operations.

d) Other accounting standard updates

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

- *ASU 2020-01 - Clarifying the interactions between Topic 321, Topic 323 and Topic 815*
- *ASU 2020-08 - Codification Improvements to Subtopic 310-20, Receivables—Nonrefundable Fees and Other Costs*
- *ASU 2020-9 - Debt (Topic 470): Amendments to SEC Paragraphs Pursuant to SEC Release No. 33-10762*
- *ASU 2020-10 - Codification Improvements*
- *ASU 2020-11 - Financial Services—Insurance (Topic 944): Effective Date and Early Application*

2) 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:

a) ASU 2020-04 Reference Reform (Topic 848): Facilitation of the Effects of Reference Rate Reform on Financial Reporting

In March 2020, the FASB issued ASU 2020-04. The amendments provide temporary optional expedients and exceptions for applying U.S. GAAP to contracts, hedging relationships, and other transactions affected by reference rate reform if certain criteria are met. The applicable expedients for us are in relation to modifications of contracts within the scope of Topics 310, Receivables, 470, Debt, and 842, Leases. This optional guidance may be applied prospectively from any date beginning March 12, 2020 and cannot be applied to contract modifications that occur after December 31, 2022. We are in the process of evaluating the impact of this standard update on our consolidated financial statements and related disclosures.

b) ASU 2021-04 Issuer's Accounting for Certain Modifications or Exchanges of Freestanding Equity-Classified Written Call Options

The FASB issued this update to clarify and reduce diversity in an issuer's accounting for modifications or exchanges of freestanding equity-classified written call options (for example, warrants) that remain equity classified after modification or exchange. We do not anticipate this will have a material impact on our financial statements.

c) ASU 2021-05 Leases (Topic 842) Lessors-Certain Leases with Variable Lease Payments

The amendments in this Update affect lessors with lease contracts that (1) have variable lease payments that do not depend on a reference index or a rate and (2) would have resulted in the recognition of a selling loss at lease commencement if classified as sales-type or direct financing. We do not anticipate this will have a material impact on our financial statements.

d) ASU 2021-10 Government Assistance (Topic 832): Disclosures by Business Entities about Government Assistance.

The FASB issued this Update to increase the transparency of government assistance including the disclosure of (1) the types of assistance, (2) an entity's accounting for the assistance, and (3) the effect of the assistance on an entity's financial statements. We do not anticipate this will have a material impact on our financial statements.

e) Other accounting standard updates issued by the FASB

As of the financial statements issuance date, 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 – Current Expected Credit Losses

We have used a probability-of-default model to estimate expected credit losses for all classes of in-scope receivable balances. Under this methodology we use data such as customer credit ratings, maturity of loan, security of loan, and incorporate historical data published by credit rating agencies, to estimate the chance of default and loss given default. We then multiply the balance outstanding by the estimated chance of default and loss given default to calculate the allowance required for the expected credit loss. We monitor the credit quality of receivables by re-assessing credit ratings, assumed maturities and probability-of-default on a quarterly basis.

The following table summarizes the movement in the allowance for credit losses for the year ended December 31, 2021:

(In $ millions)	**Allowance for credit losses - trade receivables**	**Allowance for credit losses - related party ST**	**Allowance for credit losses - related party LT**	**Total Allowance for credit losses**
As at January 1, 2021	**—**	**21**	**135**	**156**
Write-off [(1)(2)]	—	(21)	(65)	**(86)**
Net credit loss reversal	—	—	(64)	**(64)**
Acquisition of SeaMex [(3)]	60	—	—	**60**
As at December 31, 2021	**60**	**—**	**6**	**66**

Changes in allowances for external trade receivables are included in operating expenses.

(1) In April, 2021 we signed a settlement agreement with Aquadrill (formerly Seadrill Partners) which waived all claims on pre-petition positions held, as such $21 million of loans was written-off.

(2) Write-off of $65 million ECL on sellers credit on acquisition of SeaMex.

(3) Consolidation of SeaMex's ECL allowance on receivables due from Pemex.

Note 5 – Segment information

Operating segments

Our performance is reviewed by the Board, which represents the Chief Operating Decision Maker, as one single business segment, drilling units. In the year ended December 31, 2021, we had one customer with external contract revenues, Pemex.

Geographic segment data

For the year ended December 31, 2021, all of our revenues were generated in one geographic location, Mexico. During the same periods all of our operating drilling units were located in one geographic location, Mexico.

Note 6 – Revenue from contracts with customers

We have accounts receivables from Pemex, net of ECL allowance, of $318 million in the year ended December 31, 2021.

Accounts receivable are held at their nominal amount less an allowance for expected credit losses. In calculating the expected credit losses we assumed that the accounts receivable are forborne, mature within the next one to two years, and have a Ba3 credit rating. Refer to Note 4 - "Current expected credit losses" for further information.

Note 7 – Taxation

Income taxes consist of the following:

(In $ millions)	**December 31, 2021**
Current tax expense:	
Foreign	(1)
Deferred tax expense:	
Foreign	(3)
Total tax benefit	**(4)**
Effective tax rate	50.0 %

The Company, including its subsidiaries, is taxable in several jurisdictions based on its rig operations. A loss in one jurisdiction may not be offset against taxable income in another jurisdiction. Thus, the Company may pay tax within some jurisdictions even though it might have an overall loss at the consolidated level.

Income taxes for the year ended December 31, 2021 differed from the amount computed by applying the statutory income tax rate in Bermuda of 0% as follows:

(In $ millions)	**December 31, 2021**
Effect of taxable income in various countries	(4)
Total	**(4)**

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.

The net deferred tax asset consists of the following:

(In $ millions)	**December 31, 2021**
Property, plant and equipment	(1)
Provisions	6
Net operating losses carried forward	10
Gross deferred tax asset	**15**
Valuation allowance related to net operating losses carried forward	(10)
Net deferred tax asset	**5**

Future taxable income justifies the inclusion of tax loss carry-forwards in the calculation of net deferred taxes. As at December 31, 2021, deferred tax assets related to net operating loss ("NOL") carryforward was $10 million which can be used to offset against future taxable income. NOL carryforwards which were generated in various jurisdictions, include $2 million that will not expire and $8 million that will expire between 2024 and 2031 if not utilised.

Uncertain tax positions

As of December 31, 2021, the Company had uncertain tax positions of $22 million. Included in the uncertain tax position is accrued interest and penalties totaling $8 million as of December 31, 2021. The uncertain tax provision is included in "Other non-current liabilities" on the Consolidated Balance Sheets. The changes to the Company's liabilities related to uncertain tax positions were as follows:

(In $ millions)	**December 31, 2021**
Balance at the beginning of the year	—
Acquisition of SeaMex (Note 20)	19
Increase as a result of positions taken in prior periods	2
Increase as a result of positions taken in the current year	2
Decrease as a result of a lapse of the applicable statute of limitation	(1)
Uncertain tax position	**22**

Note 8 – Drilling units and equipment

The gross carrying value and accumulated depreciation included in drilling units in the Consolidated Balance Sheet are as follows:

(In $ millions)	**Gross carrying value**	**Accumulated depreciation**	**Net carrying value**
As at January 1, 2021	**—**	**—**	**—**
Acquisition of SeaMex (Note 20)	216	—	216
Additions	1	—	1
Depreciation	—	(2)	(2)
As at December 31, 2021	**217**	**(2)**	**215**

Note 9 - Favorable contracts

The gross carrying value and accumulated amortization included in favorable contracts in the Consolidated Balance Sheet are as follows:

(In $ millions)	**Gross carrying value**	**Accumulated amortization**	**Net carrying value**
As at January 1, 2021	**—**	**—**	**—**
Acquisition of SeaMex (Note 20)	171	—	171
Amortization	—	(7)	(7)
As at December 31, 2021	**171**	**(7)**	**164**

This is present on the Consolidated Balance Sheet as follows:

(In $ millions)	**December 31, 2021**
Current assets	43
Non-current assets	121
Total other current assets	**164**

The amortization is recognized in the Consolidated Statements of Operations under "Amortization of intangibles". The weighted average remaining amortization period for the favorable contracts is 48 months.

The table below shows the amounts relating to favorable contracts that is expected to be amortized over the following periods:

	Period ended December 31					
(In $ millions)	**2022**	**2023**	**2024**	**2025**	**2026 and thereafter**	**Total**
Amortization of favorable contracts	43	43	41	28	9	164

Note 10 – Other current assets

Other current assets consist of the following:

(In $ millions)	December 31, 2021
Prepaid expenses	4
Marketable securities	10
Taxes receivable	11
Right of use asset	1
VAT	2
Total other current assets	**28**

Note 11 – Other non-current assets

Other non-current assets consist of the following:

(In $ millions)	December 31, 2021
Right of use asset	1
Total other non-current assets	**1**

Note 12 – Debt

As of December 31, 2021 we had the following debt amounts outstanding:

(In $ millions)	December 31, 2021
Notes:	
$880m Senior Secured Notes	581
$219m New SeaMex Notes	221
Total external credit facilities	**802**
Add: debt premium and fees	12
Carrying value	**814**

This was presented in our consolidated balance sheet as follows:

(In $ millions)	December 31, 2021
Debt due within twelve months	581
Long-term debt	233
Total debt principal	**814**

The outstanding external debt as at December 31, 2021 is repayable as follows:

(In $ millions)	$880m Senior Secured Notes	$219m New SeaMex Notes	Total
2022	581	—	581
2024	—	221	221
Total debt principal	**581**	**221**	**802**

The key terms relating to our debt in the year ended December 31, 2021 are explained below.

$880m Senior Secured Notes

The outstanding balance of $581 million relates to the Senior Secured notes of $633 million offset by the notes held within the PES group of $52 million. We have classified this balance as current on our Consolidated Balance Sheet, as the facility was refinanced in January 2022. Please refer to Note 20 - "Business Combination" for further details on this restructuring.

$219 million New SeaMex Notes

The SeaMex notes, consolidated into the group from November 2, 2021, are comprised of $192 million refinanced credit facilities, a $27 million capitalized upfront fee and capitalized interest of $2 million. The notes have a maturity of August 31, 2024, bearing a fixed interest of 12% per annum, on a "pay-if-you-can" basis, depending on agreed liquidity available. No amortization payments are due until maturity.

The new notes were recognized at fair value, which was at a premium to the principal value as a result of the 12.0% interest being above the estimated market yield applicable to SeaMex. The debt premium is amortized over the term of the facility.

The debt is secured on a senior basis by substantially all assets of SeaMex and its subsidiaries.

Note 13 – Other current liabilities

Other current liabilities comprised the following:

(In $ millions)	**December 31, 2021**
Taxes payable	19
VAT	26
Employee withheld taxes and social security	2
Withheld business taxes	7
Lease liability	1
Accrued interest expense	35
Other current liabilities	6
Total other current liabilities	**96**

Note 14 – Other non-current liabilities

Other non-current liabilities consist of the following:

(In $ millions)	**December 31, 2021**
Uncertain tax position	22
Lease liability	1
Other non-current liabilities	1
Total other non-current liabilities	**24**

Note 15 - Leases

The Company has operating leases relating to premises, the most significant being its offices in Ciudad del Carmen, Mexico.For operating leases where we are the lessee, our future undiscounted cash flows are as follows:

(In $ millions)	**As at December 31, 2021**
2022	1
2023 and thereafter	1
Total	**2**

The following table gives a reconciliation between the undiscounted cash flows and the related operating lease liability recognized in our Consolidated Balance Sheet as at December 31, 2021:

(In $ millions)	**December 31, 2021**
Total undiscounted cash flows	2
Operating lease liability	**2**
Of which:	
Current	1
Non-current	1

The following table gives supplementary information regarding our lease accounting at December 31, 2021:

(In $ million)	**Year ended December 31, 2021**
Other information:	
Cash paid for amounts included in the measurement of lease liabilities	1
Weighted-average remaining lease term in months	24
Weighted-average discount rate	34 %

Note 16 – Common shares and additional paid in capital

Common shares consisted of the following:

Number of shares	**December 31, 2021**
Authorized share capital (*)	1,000
Issued and fully paid share capital (*)	1,000
Outstanding common shares in issue	**1,000**

(*) All shares are common shares of $1.00 par value each.

Additional paid-in capital consisted of the following:

($ millions)	**December 31, 2021**
Additional paid in Capital	1,192

Note 17 – 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.

Foreign exchange risk management

The Company and all of its subsidiaries use the US dollar as their functional currency because the majority of their revenues and expenses are denominated in US dollars. Our reporting currency is US dollars. In certain circumstances we incur expenses in other currencies and there is thus a risk that currency fluctuations could have an adverse effect on the value of our cash flows.

Our foreign currency risk arises from:

- the measurement of monetary assets and liabilities denominated in foreign currencies converted to US Dollars, with the resulting loss recorded as “Impairment of convertible bond from related party”; and
- the impact of fluctuations in exchange rates on the reported amounts of our revenues and expenses which are denominated in foreign currencies.

Although we complete some transactions in the local currency of the operating entities, Mexican Peso, this does not amount to a sufficient foreign exchange exposure to warrant a foreign exchange hedging instrument. 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. In the normal course of business, we do not demand collateral from our counterparties.

Concentration of Credit Risk

There is a concentration of credit risk with respect to revenue as we generate all of our revenue from one customer. Ongoing credit evaluations of this customer are performed and it was determined that we do not require collateral in our business agreements. Reserves for potential credit risk is considered as part of our expected credit loss provision. For details on how we estimate expected credit losses, refer to Note 4 - "Current expected credit losses".

We do not have significant concentration of credit risk towards any single financial institution and we have policies that limit the amount of credit exposure to individual institutions.

Insurance

a) Physical Damage Insurance

SeaMex has purchased hull and machinery insurance to cover physical damage to its drilling units and those of the Company. We are charged for the cost of insuring our drilling units. We retain the risk for the deductibles relating to physical damage insurance on our fleet. The deductible is currently a maximum of $5 million per occurrence.

b) Protection and Indemnity Insurance

SeaMex purchases protection and indemnity insurance and excess liability insurance for personal injury liability for crew claims, non-crew claims and third-party property damage including oil pollution from the drilling units to cover claims of up to $500 million per event and in the aggregate. We retain the risk for the deductible of up to $0.5 million per occurrence relating to protection and indemnity insurance.

Fair values of financial instruments

The carrying value and estimated fair value of the Company's financial instruments were as follows:

	December 31, 2021	
(In $ millions)	**Fair value**	**Carrying value**
Assets		
Marketable securities (Level 1)	10	10
Related party loans receivables - Seabras loans receivables (Level 2)	51	51
Related party receivables (Level 2)	—	—
Related party loans receivables - Archer convertible debt (Level 3)	18	18
Liabilities		
$880m of Senior Secured Notes (Level 1) (*)	476	581
$219m New SeaMex Notes (Level 2) (*)	233	233

(*) These instruments are at a fixed interest rate.

US GAAP emphasizes that fair value is a market-based measurement, not an entity-specific measurement, and should be determined based on the assumptions that market participants would use in pricing the asset or liability. As a basis for considering market participant assumptions in fair value measurements, US GAAP establishes a fair value hierarchy that distinguishes between market participant assumptions based on market data obtained from sources independent of the reporting entity (observable inputs that are classified within levels 1 and 2 of the hierarchy) and the reporting entity's own assumptions about market participant assumptions (unobservable inputs classified within level 3 of the hierarchy).

The carrying value of cash and cash equivalents, restricted cash, accounts receivable (net of ECL), related party payables and accounts payable are by their nature short-term. As a result, the carrying values included in the Consolidated Balance Sheets approximate fair value

Level 1

The carrying value of cash and cash equivalents and restricted cash, which are highly liquid, is a reasonable estimate of fair value and categorized at level 1 of the fair value hierarchy. Quoted market prices are used to estimate the fair value of marketable securities, which are valued at fair value on a recurring basis.

The fair value of the senior secured notes were derived using market traded value. We have categorized this at level 1 on the fair value measurement hierarchy. Refer to Note 12 – Debt for further information.

Level 2

On August 31, 2021, we entered into a Note Purchase Agreement ("**NPA**") with some of the Noteholders. The NPA has a maturity of August 31, 2024 and consists of a $190 million term new loan facility and a $26.9 million upfront fee, bearing interest at a margin of 12% per annum.

The NPA is not freely tradable and cannot be purchased by the Company at prices other than the outstanding balance plus accrued interest. For the year ended December 31, 2021 the fair value of the debt facility was derived using the DCF model. A cost of debt of 10.3% was used to estimate the present value of the future cash flows. We have categorized this at level 2 on the fair value measurement hierarchy.

We estimate the fair value of the related party loans receivable from Seabras Sapura to be equal to the carrying value after adjusting for expected credit losses. The debt is not freely tradable and cannot be recalled by us at prices other than specified in the loan note agreements. The loans were entered into at market rates. The loans are categorized as level 2 on the fair value hierarchy. Other trading balances with related parties are not shown in the table above and are covered in Note 18 – Related party transactions. The fair value of other trading balances with related parties are also assumed to be equal to their carrying value after adjusting for expected credit losses on the receivables.

Level 3

The Archer convertible debt instrument is bifurcated into two elements. The fair value of the embedded derivative option is calculated using a modified version of the Black-Scholes formula for a currency translated option. Assumptions include Archer's share price in NOK, NOK/USD FX volatility and dividend yield. The fair value of the debt component is derived using the discounted cash flow model including assumptions relating to cost of debt and credit risk associated with the instrument. We have categorized this at level 3 of the fair value hierarchy. Refer to Note 18 – Related party transactions for further information.

The gain on derivatives reported in our consolidated statement of operations included the following:

(In $ millions)	**Year ended December 31, 2021**
Archer convertible debt instrument	3
Gain on derivative financial instruments	**3**

This represents gains and losses on the conversion option included within an $18 million convertible bond issued to us by Archer. Please see Note 18 – Related party transactions for further details.

Note 18 – Related party transactions

We have entered into certain agreements with affiliates of Seadrill to provide certain management and administrative services, as well as technical and commercial management services.

Both Seadrill and Fintech, the former joint venture ("**JV**") Partners, have also provided financing arrangements as described within this note below.

Net expense with related parties consist of the following:

(In $ millions)	**December 31, 2021**
Management and administrative fees from Seadrill Management Ltd. [(a)]	(2)
Total related party expenses	**(2)**

(Payables)/receivables with related parties consist of the following:

(In $ millions)	**December 31, 2021**
Short-term other payables [(a)]	(4)
$16 million JV partner loan facility [(b)]	(8)
Short-term amounts due to related parties	**(12)**
$250 million Seller's credit [(b)]	—
$45 million loan facility [(b)]	—
Seabras loan receivable [(c)]	51
Convertible bond [(d)]	18
Long-term amounts due from related parties	**69**

(a) Management and administrative service agreements 1 *short-term other payables*- Short-term other payables are primarily comprised of payables to Seadrill Limited for related party management and crewing fees. SeaMex received management, administrative, and operational support services from Seadrill Limited. The expenses incurred for these services are reported within either "Vessel and rig operating expenses" or "Selling, general and administrative expenses" on the Consolidated Statement of Operations, depending on the nature of the service provided.

(b) On November 2, 2021, SeaMex Limited contributed its assets to a newly incorporated subsidiary that was intended to become the new holding company of the SeaMex Group, SeaMex Finance Limited. Subsequently, on November 2, 2021, SeaMex Limited sold its equity interest in SeaMex Finance Limited to Paratus Energy Services Limited ("PES") in return for the extinguishment the outstanding balance of loans. Please see below the movements in the period on SeaMex loans:

(In $ millions)	**$250m Sellers credit [1]**	**Seadragon and working capital loans [2]**	**JV partners loans [3]**	**Total**
Balance as at January 1, 2021	**(379)**	**(65)**	**(17)**	**(461)**
Additional working capital loans	—	(48)	—	**(48)**
Interest accretion	(14)	(3)	(1)	**(18)**
Balance as at November 1, 2021	**(393)**	**(116)**	**(18)**	**(527)**
Loan written off through restructuring	290	—	—	**290**
Deconsolidated on restructuring	103	—	9	**112**
Balance as at November 2, 2021	**—**	**(116)**	**(9)**	**(125)**
Repayment of related party loans	—	—	9	**9**
Loans capitalized	—	116	—	**116**
Balance as at December 31, 2021	**—**	**—**	**—**	**—**

(1) Sellers credit and loan facilities - $250 million Seller credit - On November 2, 2021, SeaMex Limited sold its equity interest in SeaMex Finance Limited to PES in return for the extinguishment of the outstanding balance of $393 million on the “sellers credit loan”, which was owed by SeaMex Limited to a subsidiary of SeaMex Holdings Limited. Refer to Note 1 – "General information" for further information.

(2) Seadragon and working capital loans - On November 2, 2021, the loan facility was transferred to PES, for which the balance was subsequently forgiven.

(3) During December 2021, $9 million of the JV partner loan facility was settled, with the remaining balance fully settled during March 2022.

(c) Seabras loan receivable - this includes a series of loan facilities that we extended to Seabras Sapura between May 2014 and December 2016. The $51 million balance shown in the table above includes (i) $41 million of loan principal; (ii) $16 million of accrued interest and (iii) allowance for expected credit loss $6 million. The loans are repayable on demand, subject to restrictions on Seabras Sapura's external debt facilities.

(d) *Convertible bond* - On March 13, 2020, Archer announced completion of a refinancing, which included agreed renegotiated terms on the convertible loan. The updated terms amended the loan balance to $13 million that bears interest of 5.5%, matures in April 2024 and an equity conversion option. The renegotiated terms resulted in a $29 million impairment recognized following a reduction in the loan balance and an increase to the discount rate. The fair value of the convertible debt instrument as at December 31, 2021 was $18 million, of which the split between debt and embedded derivative option was $12 million and $6 million respectively.

Note 19 – Investment in associated companies

Our investments in associated companies as at December 31, 2021 were comprised of:

Ownership percentage	**December 31, 2021**
Seabras Sapura [a]	50.0 %
SeaMex Ltd. ("SeaMex") [a]	100.0 %

Seabras Sapura

Seabras Sapura is a group of related companies that own and operate six pipe-laying service vessels in Brazil. We have a 50% ownership stake in each of these companies. The remaining 50% interest is owned by Sapura Energy Berhad ("**Sapura Energy**").

SeaMex

SeaMex own and operate five jack-up drilling units located in Mexico under contract with Pemex. As of December 31, 2021, we have a 100% ownership stake in SeaMex. As at December 31, 2020 we had a 50% ownership stake in SeaMex with the remaining 50% interest owned by an investment fund controlled by Fintech Investment Limited, ("**Fintech**"). On November 2, 2021 we obtained the remaining 50% equity interest in SeaMex, resulting in the consolidation of SeaMex into PES in a business combination. Refer to Note 20 – Business Combination for further details.

Fresh start accounting

On emergence from bankruptcy in 2018, our equity method investments were measured at fair value which resulted in a different basis from the underlying carrying values of the investees' net assets at the date of emergence. The basis differences comprise of (i) drilling unit basis differences which are depreciated over the remaining useful life of the associated asset and (ii) contract basis differences which are amortized over the remaining term of the contract. The unwinding of the basis difference is recognized as a "Share in results from associated companies" in the Consolidated Statement of Operations.

Share in results from associated companies

Our share in results of our associated companies (net of tax) were as follows:

(In $ millions)	**Year ended December 31, 2021**
Aquadrill	—
Seabras Sapura	17
SeaMex	—
Total share in results from associated companies (net of tax)	**17**

Summary of Consolidated Statements of Operations for our equity method investees

The results of the Seabras Sapura companies and our share in those results (net of tax) were as follows:

(In $ millions, unless otherwise stated)	**Year ended December 31, 2021**
Operating revenues	342
Net operating income	95
Net income	62
PES ownership percentage	50 %
Share of net income	**31**
Amortization of basis differences	(14)
Share in results from Seabras Sapura (net of tax)	**17**

The results of the SeaMex companies and our share in those results (net of tax) were as follows:

(In $ millions, unless otherwise stated)	**Period ended November 1, 2021**
Operating revenues	189
Net operating income	32
Net loss	(58)
PES ownership percentage	50 %
Share of net loss *	**—**
Amortization of basis differences	—
Share in results from SeaMex (net of tax)	**—**

* No further equity pick up of SeaMex results after investment value decreased to zero.

Book value of our investments in associated companies

At the year end, the book values of our investments in our associated companies were as follows:

(In $ millions)	**December 31, 2021**
Seabras Sapura	124
Seabras Sapura Holding GmbH - shareholder loans held as equity	115
SeaMex Ltd	—
Total	**239**

Quoted market prices for all of our investments are not available.

Summarized Consolidated Balance sheets for our equity method investees

The summarized balance sheets of the Seabras Sapura companies and our share of recorded equity in those companies was as follows:

(In $ millions, unless otherwise stated)	**December 31, 2021**
Current assets	179
Non-current assets	1,466
Current liabilities	(546)
Non-current liabilities	(308)
Net Assets	**791**
PES ownership percentage	50 %
PES share of book equity	396
Shareholder loans held as equity [1]	115
Basis difference allocated to rigs	(333)
Basis difference allocated to contracts	61
Total adjustments	**(157)**
Book value of PES investment	**239**

[1] In 2021, Seabras Sapura repaid $6 million of shareholder loans, with the cash proceeds held in escrow against a future redemption of Senior Secured Notes.

Note 20 – Business Combination

On August 31, 2021, SeaMex entered into a restructuring implementation deed with PES and the JPLs and refinanced SeaMex senior secured bank debt by the issuance of new senior secured notes (the “**New SeaMex Notes**”).

On September 2, 2021, the parties entered into a share purchase agreement to sell the assets of SeaMex out of provisional liquidation to a newly incorporated wholly owned subsidiary of PES in return for the extinguishment of $0.4 billion of the various forms of debt instruments owed to PES, gross of expected credit loss allowances previously recognized totaling $65 million. On November 2, 2021 the SPA closed and PES obtained the remaining 50% equity interest in SeaMex, resulting in the consolidation of SeaMex into PES in a business combination.

We have used a convenience date for this transaction and concluded that SeaMex is consolidated into the PES group effective November 1, 2021. Prior to this date it was accounted for as a joint venture on the PES Consolidated Balance Sheet.

The following is a summary of SeaMex's identifiable assets acquired and liabilities assumed as at acquisition date:

(In $ millions)	**As at acquisition**
Carrying amounts of major classes of assets	
Cash and cash equivalents	41
Restricted cash	21
Accounts receivable, net	316
Intangible drilling contracts	171
Drilling units and equipment	216
Other assets	18
Total assets	**783**
Carrying amounts of major classes of liabilities	
Amounts due to related parties	133
Long-term debt	234
Other liabilities	88
Total liabilities	**455**
Net asset acquired	**328**

Prior to November 2021, 50% of the net income or loss from SeaMex was recognized as a share in results from associated companies in PES's Consolidated Statement of Operations. From November 2021 onwards, 100% of SeaMex's results from operations form part of PES's consolidated results.

The following is a summary of SeaMex's operation results since the acquisition date included in PES's consolidated results for the reporting period:

(In $ millions)	**Period November 2, 2021 until December 31, 2021**
Results from business combination	
Operating revenues	
Contract revenues	36
Total operating revenues	**36**
Operating expenses	
Vessel and rig operating expenses	(25)
Selling, general and administrative expenses	(2)
Total operating expenses	**(27)**
Operating profit	**9**
Financial and non-operating items	
Interest expense	(4)
Others	(1)
Total financial items	**(5)**
Income before tax	**4**
Income tax benefit	5
Net income	**9**

Note 21 – Commitments and contingencies

From time to time we are a party, as plaintiff or defendant, to lawsuits in various jurisdictions for demurrage, damages, off-hire and other claims and commercial disputes arising from the construction or operation of our drilling units, in the ordinary course of business or in connection with our acquisition or disposal activities. We believe that the resolution of such claims will not have a material impact individually or in the aggregate on our operations or financial condition. Our best estimate of the outcome of the various disputes has been reflected in our Consolidated Financial Statements as at December 31, 2021.

Note 22 – Subsequent Events

Chapter 11 emergence

Paratus Energy Services Limited (previously "Seadrill New Finance Limited")("the Issuer") announced on January 12, 2022 that it had successfully received approval from the U.S. Bankruptcy Court for the Southern District of Texas (the “Court”) for its “one-day” Chapter 11 restructuring under the plan, which it emerged from on January 20, 2022.

In accordance with the plan, post emergence the board of directors of the Issuer shall consist of between three and five members, up to four of which shall be appointed by the Issuer’s noteholders, with the remaining director to be appointed by Seadrill Limited.

The plan provides the Issuer with financial and strategic flexibility and stability. Benefiting from both the new ownership structure and the continuity provided by the Seadrill group, the Issuer expects to continue to focus on maximizing value for all stakeholders from its portfolio of investments including the Seabras Sapura JV and the SeaMex group.

The key terms of the plan included:

- the release by the holders of the Issuer’s pre-existing 12.0% Senior Secured Notes due 2025 (the “Noteholders” and the “Notes”, respectively) of all existing guarantees and security and claims (if any) with respect to Seadrill and its subsidiaries (excluding the Issuer and certain of its subsidiaries);
- the Noteholders, receiving 65% of pro forma equity in the Issuer, with Seadrill Investment Holding Company (a subsidiary of Seadrill) retaining the remaining 35% of pro forma equity in the Issuer, effecting a separation of the Issuer and its subsidiaries (including the Seabras Sapura assets and the SeaMex group) from the consolidated Seadrill group;
- the issuance of new notes pro rata to Noteholders on amended terms including:
    - total amount of reinstated new notes: $620,148,899;
    - maturity date: July 15, 2026;
    - interest: either (a) 9.0%, consisting of (i) 3.00% cash interest plus (ii) 6.00% PIK interest, or (b) 10.0% PIK, in each case payable quarterly;
    - call protection: redemption price:
        - prior to July 15, 2022: 105%;
        - on or after July 15, 2022: 102%; and
        - on July 15, 2023 and thereafter: 100%;
- the Noteholders will have a first priority right to fund any additional liquidity needs of the Issuer or its affiliates; and
- Seadrill or its subsidiaries will continue to provide certain management services to the Issuer's group.

The plan also provided for the satisfaction of all trade, customer, and other non-funded debt claims in full in the ordinary course of business.

West Titania

On March 16, 2022 we received an early termination notice from Pemex regarding the *West Titania*, which will come off contract in March 2023 rather than October 2024, resulting in a $72 million decrease in contract backlog.

Pemex bond exchange

Pemex issued unsecured notes (the “**Pemex notes**”), due June 2, 2029, and carrying an 8.75% coupon and, in June, 2022, exchanged a nominal value of $196m of these notes, in lieu of cash settlement, for an equivalent amount of outstanding SeaMex accounts receivable. The notes were recognized on the SeaMex balance sheet as a marketable security and were subject to a remarketing plan. During 2022, SeaMex sold the Pemex notes for $186 million.

SeaMex payments under debt facility

During 2022, SeaMex made voluntary debt repayments of $198 million. The payments were comprised of principal payments of $152 million and $25 million in July 2022 and August 2022 respectively, $19 million of debt premium and $2 million in accrued interest.

Seadrill disposal of PES

On February 24, 2022, Seadrill sold its entire remaining 35% shareholding in PES.

*Termination of Seadrill management service arrangements ("**MSA**")*

In connection with the disposal of Seadrill's entire 35% shareholding in Paratus Energy Services Ltd, on March 14, 2023, Seadrill provided each of PES and SeaMex with a termination notice regarding (i) the Paratus MSA and (ii) the SeaMex MSA, respectively. The Paratus MSA will terminate effective July 12, 2023; and the SeaMex MSA will terminate effective September 10, 2023.