PARATUS ENERGY SERVICES LTD.

CONSOLIDATED FINANCIAL STATEMENTS

For the year ended December 31, 2023 and 2022

Paratus Energy Services Ltd.

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To the Board of Directors of Paratus Energy Services Ltd.

Independent Auditor's Report

Opinion

We have audited the consolidated financial statements of Paratus Energy Services Ltd. and its subsidiaries ("the Group"), which comprise the consolidated balance sheets as at December 31, 2023 and 2022, the consolidated statements of operations, the consolidated statements of other comprehensive income (loss), the consolidated statements of changes in equity and the consolidated statements of cash flows for each of the years then ended, and notes, including material accounting policies and other explanatory information.

In our opinion, the accompanying consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at December 31, 2023 and 2022, and of its consolidated financial performance and its consolidated cash flows for each of the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with International Standards on Auditing (ISAs). 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 independent of the Group as required by relevant laws and regulations in Norway and the International Ethics Standards Board for Accountants' International Code of Ethics for Professional Accountants (including International Independence Standards) (IESBA Code), and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Consolidated Financial Statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with accounting standards generally accepted in the United States of America, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

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 a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. 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.

- 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.

- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Oslo, Norway June 3, 2024
KPMG AS

Thomas Sørhaug

John Thomas Sørhaug
State Authorized Public Accountant-Norway

Paratus Energy Services Ltd.
CONSOLIDATED STATEMENTS OF OPERATIONS
for the years ended December 31, 2023 and December 31, 2022

(In $ millions, except per share data)		**Note**	**December 31, 2023**	**December 31, 2022**
Operating revenues				
Contract revenues		6,10	167	148
Total operating revenues			**167**	**148**
Operating expenses				
Rig operating expenses	*		(94)	(89)
Depreciation		9	(15)	(15)
Selling, general and administrative expenses	*		(10)	(17)
Settlement of Management Incentive Deed	**	8	(13)	
Expected credit gains/(losses)		4	(1)	21
Total operating expenses			**(133)**	**(100)**
Operating income			**34**	**48**
Financial and other items				
Interest income	*		2	3
Interest expense	*		(85)	(91)
Share in results from associated companies		19	66	47
Gain/(loss) on extinguishment of financial instruments		17	4	(12)
Other financial items			(20)	(10)
Total financial and other items			**(33)**	**(63)**
Income/(Loss) before income taxes			**1**	**(15)**
Income tax (expense)		7	(24)	(21)
Net (loss)			**(23)**	**(36)**
LOSS PER SHARE:	***			
Basic			($0.15)	($0.25)
Diluted			($0.15)	($0.25)

** Includes transactions with related parties. Refer to Note 18 – Related party transactions.*
*** This is a one-off transaction in 2023 which relates to cancellation of Management Incentive Deed in return for equity. Refer to Note 8 – Share capital.*
**** Loss per share is calculated using the share number following subdivision in May 2024. Refer to Note 21 – Subsequent events.*

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

Paratus Energy Services Ltd.
CONSOLIDATED STATEMENTS OF OTHER COMPREHENSIVE INCOME/(LOSS)
for the years ended December 31, 2023 and December 31, 2022

(In $ millions)	December 31, 2023	December 31, 2022
Net loss	**(23)**	**(36)**
Other comprehensive income/(loss), net of tax:		
Share in results from associated companies	(3)	—
Change in fair value of debt component of Archer convertible bond	—	3
Archer convertible bond reclassification	(6)	—
Total other comprehensive income/(loss) for the year	**(32)**	**(33)**

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

Paratus Energy Services Ltd.
CONSOLIDATED BALANCE SHEETS
as at December 31, 2023 and December 31, 2022

(In $ millions)	Note	December 31, 2023	December 31, 2022
ASSETS			
Current assets			
Cash, cash equivalents and restricted cash		115	94
Accounts receivables, net	6	169	114
Amount due from related party current	18	3	56
Favorable contracts	10	31	38
Other current assets	11	34	46
Total current assets		**352**	**348**
Non-current assets			
Investment in associated companies	19	355	311
Drilling units and equipment	9	258	250
Deferred tax assets	7	—	5
Amount due from related party non-current	18	—	19
Favorable contracts	10	38	68
Other non-current assets	12	—	1
Total non-current assets		**651**	**654**
Total assets		**1,003**	**1,002**
LIABILITIES AND EQUITY			
Current liabilities			
Trade accounts payable		19	10
Short-term amounts due to related parties	18	—	2
Other current liabilities	14	29	32
Total current liabilities		**48**	**44**
Non-current liabilities			
Long-term debt	13	655	650
Other non-current liabilities	15	85	74
Deferred non-current tax liability		—	—
Total non-current liabilities		**740**	**724**
Commitments and contingencies (see Note 21)			
Equity			
Common shares	16	—	—
Additional paid in capital	16	1,291	1,278
Accumulated other comprehensive loss		(3)	6
Accumulated deficit		(1,073)	(1,050)
Total equity		**215**	**234**
Total liabilities and equity		**1,003**	**1,002**

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

Approved on behalf of the Board of Directors by:

Robert Jensen
Robert Jensen (Jun 3, 2024 20:20 GMT+2)

Robert Jensen, Director
Date: June 3, 2024

Paratus Energy Services Ltd.
CONSOLIDATED STATEMENTS OF CASH FLOWS
for the year ended December 31, 2023 and December 31, 2022

(In $ millions)	Note	December 31, 2023	December 31, 2022
Cash Flows from Operating Activities			
Net income/(loss)		**(23)**	**(36)**
Adjustments to reconcile net income to net cash provided by			
Depreciation	9	15	15
Amortization of deferred loan charges		15	8
Amortization of favorable contracts	10	37	58
Share of results from associated companies	19	(66)	(47)
Loss/(gain) on realization of marketable securities		5	7
Unrealized (gain)/loss related to derivative financial instruments		—	1
Unrealized foreign exchange (gain) / loss		15	(3)
Deferred and other income taxes		2	—
Change in allowance for credit losses	4	1	(25)
(Gain)/loss on extinguishment of financial instruments		(4)	12
Share-based compensation		—	—
Settlement of Management Incentive Deed	8	13	—
Other movements in operating activities			
Payment-in-kind-interest and non-cash interest expense		69	62
Distributions received from associated companies		—	—
Payments for long term maintenance	9	(11)	(10)
Changes in operating assets and liabilities			
Trade accounts receivable		(56)	225
Trade accounts payable		9	3
Related party balances		(2)	(2)
Other assets		3	(23)
Other liabilities		(3)	(14)
Net cash from operating activities		**19**	**231**
Cash Flows from Investing Activities			
Additions to drilling units and equipment	9	(12)	—
Cash and restricted cash obtained through acquisition of subsidiary		—	—
Investment in associates		(16)	
Payments received from loans granted to related parties	19	114	—
Loans granted to related parties		—	—
Net cash provided by investing activities		**86**	**—**
Cash Flows from Financing Activities			
Loan costs paid		—	(3)
Repayments of external debt		(49)	(179)
Interest paid on external debt		(35)	(17)
Repayments of debt to related party		—	(8)
Net cash used in financing activities		**(84)**	**(207)**
Net increase in cash and cash equivalents, including restricted	*	**21**	**24**
Cash and cash equivalents, including restricted cash, at beginning of		94	70
Cash and cash equivalents, including restricted cash, at the end	*	**115**	**94**

**Of which restricted cash as at December 31, 2023 is $23 million (December 31, 2022: $22 million).*

Supplementary disclosure of cash flow information		
Interest paid	35	17
Net taxes paid	16	22
Reorganization items, net including loan costs paid	—	6

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

Paratus Energy Services Ltd.
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
for the year ended December 31, 2023 and December 31, 2022

(In $ millions)	Share Capital *	Additional paid-in capital	Accumulated other comprehensive loss	Accumulated deficit	Total equity
Balance as at January 1, 2022	**—**	**1,192**	**3**	**(1,014)**	**181**
Net loss	—	—	—	(36)	**(36)**
Issuance of common shares in connection with debt modification	—	86	—	—	**86**
Other comprehensive income	—	—	3	—	**3**
Balance as at December 31, 2022	**—**	**1,278**	**6**	**(1,050)**	**234**
Net loss	—	—	—	(23)	**(23)**
Issuance of C-shares in connection with termination of MID	—	13	—	—	**13**
Other comprehensive income	—	—	(9)	—	**(9)**
Balance as at December 31, 2023	—	1,291	(3)	(1,072)	**215**

See accompanying notes that are an integral part of these Consolidated Financial Statements.
**Refer to Note 8 – Share capital. Includes Class A and Class C shares in 2023 (2022: Class A and Class B shares).*

Paratus Energy Services Ltd.
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Note 1 – General information

Company details

Paratus Energy Services Ltd. (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 Ltd., together with its consolidated subsidiaries.

Business

Paratus Energy Services Ltd. is the principal holding company of a group that holds investments in Fontis (100%), Seabras Sapura (50%), and Archer (24.2%). These investments are described below:

- **Fontis** (previously "**Seamex"**) is a drilling contractor that owns and operates five jack-up drilling units located in Mexico under primarily long-term contracts with Pemex-Exploración y Producción ("**Pemex**"). Fontis currently owns five jack-up rigs: *West Intrepid*, *West Defender*, *West Courageous*, *West Oberon*, and *West Titania.*
- **Seabras Sapura ("Seabras")** is a group of related companies that own and operate six multipurpose pipe-laying service vessels ("PLSV") which are under long-term contract in Brazil. PES has a 50% ownership stake in these companies with the remaining 50% interest being ultimately owned by Sapura Energy Berhad.
- **Archer** is a global oilfield service company that specializes in drilling and well services. PES owns 24.2% of the outstanding common shares 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**", "**$**" or "**US$**").

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.

Chapter 11 Emergence

On July 2, 2021, Seadrill Limited ("**Seadrill**"), who at that point held a 100% equity interest in Seadrill New Finance Limited ("**NSNCo**"), now Paratus Energy Services Ltd., 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 ("**RSA**").

Paratus Energy Services Ltd. ("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 consisted 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 provided 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's post emergence and current activities are to focus on maximizing value for all stakeholders from its portfolio of investments including the Seabras JV and the Fontis group.

The key terms of the plan, which are included for historical context, included:

1. 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);
2. 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 assets and the Fontis group) from the consolidated Seadrill group;
3. the issuance of new notes pro rata to Noteholders on amended terms including:
    a. total amount of reinstated new notes: $620,148,899;
    b. maturity date: July 15, 2026;
    c. interest: either (a) 9.0% per annum, consisting of (i) 3.00% cash interest plus (ii) 6.00% payment in kind ("PIK") interest, or (b) 10.0% PIK per annum, in each case payable quarterly;
    d. call protection: redemption price:
        i. prior to July 15, 2022: 105%;
        ii. on or after July 15, 2022: 102%; and
        iii. on July 15, 2023 and thereafter: 100%;
4. the Noteholders will have a first priority right to fund any additional liquidity needs of the Issuer or its affiliates; and
5. Seadrill or its subsidiaries will continue to provide certain management services to the Issuer's group.

The Notes were the only liabilities modified as part of the plan. The Company determined that the modification was not a troubled debt restructuring or an extinguishment of the Notes. Accordingly, the fair value of the equity issued to Noteholders and the fees related to modifying the Notes are treated as a discount from their notional amounts and recognized as an adjustment to interest expense using the effective interest rate through maturity.

On February 24, 2023, Seadrill sold its entire remaining 35% shareholding in PES and its management incentive fee, documented under the management incentive deed ("MID"), whereby Seadrill would be entitled to receive a 5% fee on any proceeds arising out of a liquidity event above certain level. In connection with the sale of PES shares, on March 14, 2023, Seadrill issued each of the Company and Fontis with a termination notice in respect of the master service agreements under which Seadrill provides management services. The terminations were effective late 2023.

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, 2023 and 2022 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.

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, 2023 and 2022, no indicators of impairment were identified against our drilling units.

Current expected credit losses

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.

Class C shares

From time to time, we issue equity securities in connection with transactions which require us to estimate the fair value of our equity securities as they are not traded actively in a public market. When we estimate fair value of equity securities we consider all available information and primarily use a discounted cash flow model which requires us to determine key assumptions, such as the discount rates and the underlying cash flows of our investments which is subject to uncertainty. In order to determine fair value of Class C shares issued in 2023 we prepared valuation of the company using the free discounted cash flow (“DCF”). The most sensitive judgements are described in Note 8.

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".

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. The Company's current contracts with its customer includes a termination option exercisable at the discretion of the client up to 12 months in advance of the contract end date.

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. Our contracts provide for escalations in the dayrate to be included to reflect market conditions. Such escalations are only recognized as revenue when we receive written approval from the customer. 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. The amortization of favorable revenue contract assets is recognized as an adjustment to revenues over the contract term.

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.

Rig Operating Expenses

Rig operating expenses are costs associated with operating a drilling unit 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/cost 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, cash equivalents and restricted cash

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

Restricted cash represents cash collateral supporting performance guarantees issued to a large national oil company in Mexico.

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 6 – “Revenue from contracts with customers”.

Allowance for credit losses

The CECL model requires recognition of expected credit losses over the life of a financial asset upon its initial recognition. 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 326).

Equity investments

Equity investments 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.

Lease as a lessee

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. PES 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.

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 using the effective interest method, the amortization is included in "interest expense" within the Consolidated Statement of Operations.

Stock options and other share-based compensation

The company issues stock options and other share-based compensation to certain employees. For equity awards, such as stock options and warrants, total compensation cost is based on the grant date fair value. The fair value of stock option awards is estimated using a Black-Scholes-Merton option-pricing model. The company recognizes stock-based compensation expense for stock-options over the service period required to earn the award, which is the time period from the grant date to the vesting date of the award, at which point employee becomes eligible to maintain it. The company amortizes these awards on a straight-line basis. The Company has made a policy election to estimate the number of stock-based compensation awards that will ultimately vest to determine the amount of compensation expense recognized each reporting period.

Compensation expense for performance based awards granted is recognized as the fair value of the award in the reporting period in which certain performance criteria is achieved. Refer to Note 16.

Note 3 – 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 2023-06 – Disclosure Improvements: Codification Amendments in Response to the SEC's Disclosure Update and Simplification Initiative

We do not currently expect any of these updates to affect our Consolidated Financial Statements and related disclosures. The amendments in this update should be applied prospectively and for all non-SEC registered entities will be effective in two years.

ASU 2023-07 - Segment Reporting (Topic 280): Improvements to Reportable Segment Disclosures

The amendments in this update are effective for fiscal years beginning after December 15, 2023, and interim periods within fiscal years beginning after December 15, 2024. The Board is issuing this update to improve the disclosures about a public entity's reportable segments and address requests from investors for additional, more detailed information about a reportable segment's expenses. As a result of this update, reporting entities will need to consider adding other measures used by the CODM to assess performance to its segment note. The amendments will not have material impact on PES Consolidated Financial Statements.

ASU 2023-09 - Income Taxes (Topic 740): Improvements to Income Tax Disclosures

In December 2023, the FASB issued ASU No. 2023-09, Income Taxes (Topic 740): Improvements to Income Tax Disclosures. The standard requires disaggregated information about a reporting entity's effective tax rate reconciliation and information on income taxes paid. The new requirement is effective for annual periods beginning after December 15, 2024. The guidance will be applied on a prospective basis with the option to apply the standard retrospectively, with early adoption permitted. Upon adoption, this standard will require additional disclosures to be included in our financial statements. The impacts are not expected to be material.

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 balance sheet movement in the allowance for credit losses for the years ended December 31, 2023 and 2022:

(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, 2022	**60**	**—**	**6**	**66**
Additional credit loss for customer credit notes	10	—	—	**10**
Write-off [(1)]	(34)	—	—	**(34)**
Net credit loss reversal	(31)	—	(4)	**(35)**
As at December 31, 2022	**5**	**—**	**2**	**7**
Write-off	(2)	—	—	(2)
Net credit loss addition/(reversal)	3	**—**	(2)	1
As at December 31, 2023	**6**	**—**	—	6

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

(1) The specific allowance on billed receivables related to a credit note granted to the customers as part of negotiations. This was netting off against the gross receivables in April 2022.

In accordance with the adopted accounting policy, contract escalations are only recognized when written approval from the customer is received. Unrecognized unbilled escalations from November 2021 (date of Fontis acquisition) to December 2023 amounted to $46 million (December 31, 2022: $19 million).

Note 5 – Segment information

Operating segments

Our performance is reviewed by the Board, which represents the Chief Operating Decision Maker. In the year ended December 31, 2023 and December 31, 2022, we had one customer with external contract revenues.

Geographic segment data

For the year ended December 31, 2023 and December 31, 2022, 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 customer

We have accounts receivables from the customer net of ECL allowance, of $169 million in the year ended December 31, 2023 (December 31, 2022: $114 million).

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 B1 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, 2023	December 31, 2022
Current tax expense:		
Foreign	19	20
Deferred tax expense:		
Foreign	5	1
Total tax expense	**24**	**21**
Effective tax rate	2400%	140%

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, 2023 and 2022 differed from the amount computed by applying the statutory income tax rate in Bermuda of 0% as follows:

(In $ millions)	**December 31, 2023**	**December 31, 2022**
Effect of taxable income in various countries	24	21
Total	**24**	**21**

Effect of taxable income mainly arises from withholding taxes and uncertain tax provisions in Mexico.

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, 2023**	**December 31, 2022**
Property, plant and equipment	(10)	(5)
Provisions	9	8
Net operating losses carried forward	31	19
Gross deferred tax asset	**30**	**22**
Valuation allowance related to net operating losses carried forward and other	(30)	(17)
Net deferred tax asset	**0**	**5**

Future taxable income justifies the inclusion of tax loss carry-forwards in the calculation of net deferred taxes. As at December 31, 2023, deferred tax assets related to net operating loss ("NOL") carry-forwards was $31 million (December 31, 2022: $19 million) which can be used to offset against future taxable income. NOL carry-forwards which were generated in various jurisdictions, include $2 million that will not expire and $29 million that will expire between 2024 and 2033 if not utilized. Valuation allowances related to net operating losses carried forward as at December 31, 2023 was $30 million (December 31, 2022: $17 million).

Uncertain tax positions

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, 2023**	**December 31, 2022**
Balance at the beginning of the year	73	61
Increase as a result of positions taken in the current year	5	6
Decrease as a result of 2016 settlement	(9)	—
Increase as a result of positions taken in previous years*	16	6
Uncertain tax position	**85**	**73**

**Increase includes additional interest and penalties as well as currency revaluation in the period as the provision is carried in Mexican pesos. The foreign currency translation impact is included as an increase resulting from positions taken in previous years which in 2023 is $11 million (2022: $4 million).*

The Mexican tax authorities (SAT) are conducting wide ranging audits covering several years through 2019 and have questioned the deductibility of certain costs including the sufficiency of documentation to support the deductions taken for subsidiaries of Fontis.

The issues are complex, time consuming to resolve, subject to interpretation and therefore uncertainty. As a result, the Company has engaged external advisers to assist in discussions with SAT and in developing estimates for the provisions recorded in the consolidated financial statements. In 2023 as a result of audit work completed by SAT, 2016 tax audit was resolved, for approximately $9 million. For the tax years that are currently open or have not yet been audited, the Company's estimate is based on the best of our knowledge available at the time of making the estimate, work performed by the tax advisors and upon the results from the concluded tax audit as it has been assumed similar facts and circumstances apply to all periods. Actual amounts may differ from those provided for given the uncertainty. Of the liability above, $41 million represents interest and penalties as of December 31, 2023 (December 31, 2022: $34 million).

Note 8 – Share capital

The Company had 1,000 common shares outstanding as of December 31, 2021, all of which were owned by Seadrill. In connection with emergence from bankruptcy on January 20, 2022, the Company's share capital was modified, and 185,700 Class A ordinary shares were issued to the holders of the Notes and 100,000 Class B ordinary shares were issued to Seadrill. The ordinary shares have similar rights and par value of $0.01. All Class B ordinary shares were terminated in 2023 and replaced with class A ordinary shares.

In 2022, as part of the agreement reached in bankruptcy the Company entered into a management incentive deed (“MID”) with Seadrill, which entitled Seadrill to receive a 5% fee on any proceeds arising out of a liquidity event above certain level. MID arrangement was put in place, to incentivize Seadrill to perform well under the management agreements. On February 24, 2023, Seadrill disposed its remaining 35% ownership in the Company to the existing shareholders.

On May 25, 2023, the Company issued 22,332 C shares to existing shareholders as consideration for the termination of the MID. C shares do not hold voting rights and have a par value of $0.01. No cash proceeds were received from the issuance of shares. On the date of issue, the fair value of C shares was estimated as $13 million using the DCF model and Level 3 inputs and amount was recognized as an expense in 2023. Significant unobservable inputs used in the valuation are presented below:

Unobservable input	**May 25, 2023**
Weighted average cost of capital	15.5%
Private company discount[a]	35%

(a) Represents additional discount on the share price given absence of voting rights and lack of marketability

As of December 31, 2023 the company had total of 285,700 Class A shares and 22,332 Class C shares outstanding (December 31, 2022: Class A shares – 285,700; Class C shares – nil).

Note 9 – 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, 2022	**257**	**(2)**	**255**
Additions	10	—	**10**
Depreciation	—	(15)	**(15)**
As at December 31, 2022	**267**	**(17)**	**250**
Additions	23	—	23
Depreciation	—	(15)	(15)
As at December 31, 2023	**290**	**(32)**	**258**

Note 10 – 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, 2022	**171**	**(7)**	**164**
Amortization	—	(58)	**(58)**
As at December 31, 2022	**171**	**(65)**	**106**
Amortization	—	(37)	**(37)**
As at December 31, 2023	**171**	**(102)**	**69**

This is presented on the Consolidated Balance Sheet as follows:

(In $ millions)	December 31, 2023	December 31, 2022
Current assets	31	38
Non-current assets	38	68
Total other current assets	**69**	**106**

The amortization is recognized in the Consolidated Statements of Operations an adjustment to revenue of favorable contracts. The average remaining amortization period for the favorable contracts is 28 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)	**2024**	**2025**	**2026**	**Total**
Amortization of favorable contracts	31	29	9	69

Note 11 – Other current assets

Other current assets consist of the following:

(In $ millions)	December 31, 2023	December 31, 2022
VAT	21	25
Taxes receivable	11	11
Marketable securities	—	8
Prepaid expenses	2	2
Total other current assets	**34**	**46**

Note 12 – Other non-current assets

Other non-current assets consist predominantly of right of use assets.

Note 13 – Debt

As of December 31, 2023 and December 31, 2022 we had the following debt amounts outstanding:

(In $ millions)	December 31, 2023	December 31, 2022
Notes:		
$620m Senior Secured Notes plus PIK interest	716	681
$219m New Fontis Notes	—	46
Total external credit facilities	716	**727**
Deduct net discount and fees	(61)	(77)
Carrying value	**655**	**650**

This was presented in our consolidated balance sheet as follows:

(In $ millions)	December 31, 2023	December 31, 2022
Debt due within twelve months	—	—
Long-term debt	655	650
Total debt principal	**655**	**650**

The outstanding external debt as at December 31, 2023 is repayable as follows:

(In $ millions)	$620m Senior Secured Notes
2024	—
2025 and thereafter	655
Total debt principal	**655**

The key terms relating to our debt in the year ended December 31, 2023 and December 31, 2022 are explained below.

$620m Senior Secured Notes

Secured Notes due July 15, 2026 were issued on January 20, 2022 pursuant to Amended Secured Notes Indenture as the result of NSNCo's emergence from Chapter 11 bankruptcy and the Plan of Reorganization. Refer to Note 1 – General information for further on the terms of the notes. Secured Notes are in an aggregate principal amount of $620 million and Paid-in kind ("PIK") Notes. As at December 31, 2023, the outstanding notional balance of $716 million comprises Senior Secured Notes principal of $620 million and $96 million accrued PIK interest. The Senior Secured Notes are presented net of an amortized discount and have a carrying amount of $655 million at December 31, 2023.

The Company amended the facility with a series of supplemental indentures in 2023. A supplemental indenture signed in May 2023 waived failure to comply in full with Reporting Covenant and Compliance Covenant for the fiscal year ending December 31, 2022.The company is in compliance with Reporting and Covenant requirements as at December 31, 2023.

$219 million New Fontis Notes

During 2022, Fontis made voluntary debt repayments of $177 million. The payments were comprised of principal and capitalized interest payments of $152 million and $25 million in July 2022 and August 2022 respectively.

During 2023, interest payments of $3 million were made on the $219m New Fontis Notes**.** The Notes were fully repaid in July 2023. We recognized a loss as the result of the call premium paid on the early redemption of $3 million and recorded as Gain/(loss) on extinguishment of financial instruments in our Consolidated Statement of Comprehensive Income.

Note 14 – Other current liabilities

Other current liabilities comprised the following:

(In $ millions)	**December 31, 2023**	**December 31, 2022**
VAT	11	12
Taxes payable	8	7
Employee withheld taxes and social security	4	5
Other current liabilities	6	8
Total other current liabilities	**29**	**32**

Note 15 – Other non-current liabilities

Other non-current liabilities consist of the following:

(In $ millions)	December 31, 2023	December 31, 2022
Uncertain tax position	85	73
Other non-current liabilities	—	1
Total other non-current liabilities	**85**	**74**

Note 16 – Stock Options and Other Share-Based Compensation

In April 2023, the Company approved establishment of incentive plans to provide selected participants with a financial incentive, which recognizes long-term corporate, organization and individual performance and accomplishments. Directors and management of the Company and/or its subsidiaries can be awarded from time to time. Establishment and implementation of the incentive plan is determined by the Board of Directors for the Company. No broad incentive plan was established or implemented as at December 31, 2023.

In April 2023, the Company issued warrants and stock options to the directors of the Company as compensation for the services performed. The Warrants issued are performance-based awards and require achievement of certain performance criteria, which is predefined by the Board of Directors at the time of grant. Stock option awards expire 4 years after the grant date and vest based upon the passage of time.

The grant date fair value of stock options and warrants granted were measured using the Black-Scholes option-pricing model with the following weighted average assumptions:

	2023
Expected term in years[a]	4
Volatility[b]	50%
Risk-free interest rate based on zero coupon U.S. treasury note	3.58%
Weighted average fair value per option/warrant granted	$127

(a) Expected term is based on post-vesting cancellation data.
(b) Volatility is assumed based on the general profile of the company, change in volatility does not have a material impact.

A summary of option activity during 2023 is presented below:

	2023	Weighted-Average Exercise Price	Average Remaining Contractual Term (Years)
Outstanding at January 1, 2023	—	—	—
Granted	1,250	$1,930	4
Exercised	—	—	—
Outstanding at December 31, 2023	1,250	$1,930	4
Exercisable at December 31, 2023	150	$1,000	4

Compensation expense recognized for stock options in 2023 of $62 thousand was recorded in the line item selling, general and administrative expenses in our consolidated statement of income. The fair value of stock options expected to vest and be released is expensed on a straight-line basis over the vesting period. No expense was recognized in the period in relation to performance-based awards.

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 in the "Other financial items" line on the Consolidated Statements of Operations; 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, 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 our banks, and we have policies that limit the amount of credit exposure to individual institutions.

Fair values of financial instruments

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

	December 31, 2023		December 31, 2022	
(In $ millions)	Fair value	Carrying value	Fair value	Carrying value
Assets				
Marketable securities (Level 1)	—	—	8	8
Related party loans receivables – Seabras loans receivables (Level 2)	3	3	56	56
Related party loans receivables – Archer convertible debt (Level 3)	—	—	19	19
Liabilities				
$620m of Senior Secured Notes (Level 1) (*)	699	655	644	650
$219m New Fontis Notes (Level 3) (*)	—	—	47	47

(*) 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 13 – Debt for further information.

Level 2

We estimate the fair value of the related party loans receivable from Seabras 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

a) 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. 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 3 on the fair value measurement hierarchy. The balance was repaid in 2023 with no amounts outstanding at December 31,2023. Refer to Note 13 – Debt for further information.

b) The Archer convertible debt instrument was 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. The debt was converted in 2023 and there was no balance outstanding at December 31, 2023. Refer to Note 19 – Investment in associated companies for further information.

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.

Related party expenses include:

(In $ millions)	**December 31, 2023**	**December 31, 2022**
Management and administrative fees from Seadrill Management Ltd. [(a)]	(10)	(14)
Total related party expenses	**(10)**	**(14)**

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

(In $ millions)	**December 31, 2023**	**December 31, 2022**
Short-term other payables [(a)]	—	(2)
Short-term amounts due to related parties	—	**(2)**
Seabras loan receivable [(b)]	3	56
Short-term amounts due from related parties	**3**	**56**
Seabras loan receivable [(b)]	—	—
Convertible bond [(c)]	—	19
Long-term amounts due from related parties	—	**19**

(a) Management and administrative service agreements and short-term other payables- Short-term other payables are primarily comprised of payables to Seadrill Limited for related party management and crewing fees. Fontis 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. Amounts disclosed above relate to the twelve-month period and include the time after Seadrill stopped provision of services on termination of TSA and MSA agreements.

(b) *Seabras loan receivable* - this includes a series of loan facilities that we extended to Seabras between May 2014 and December 2016. The $3 million balance shown in the table above includes only $3 million of loan principal. Nil accrued interest and allowance for expected credit loss. The loans are repayable on demand, subject to restrictions on Seabras's external debt facilities. In 2023 PES received $56 million to settle the loan receivable from Seabras. The payment includes $38 million for loan principal and $18 million for accumulated interest.

(c) *Convertible bond* - Convertible bond is represented by the Archer Limited ("Archer") convertible loan issued in 2020. The convertible loan has a principal balance of $13 million and bears interest of 5.5%. The loan matures in April 2024 and an includes an equity conversion option. On April 20, 2023, PES received 208,000,000 new common shares of Archer in connection with the conversion of the convertible loan. On the date of conversion, the fair value of the convertible debt instrument was $22 million, of which the split between debt and embedded derivative option was $16 million and $6 million respectively. The value of shares received on conversion date was estimated as $20 million and was based on quoted market prices. We recognized gain on conversion of the loan in the amount of $7.1 million in Gain/(loss) on extinguishment of financial instruments in 2023 in our Consolidated Statement of Comprehensive Income. Prior to conversion gains and losses on the conversion option included within the convertible bond reported in our consolidated statement of operations included the following:

(In $ millions)	**December 31, 2023**	**December 31, 2022**
Archer convertible debt instrument	2	1
Gain/(loss) on derivative financial instruments	**2**	**1**

Note 19 – Investment in associated companies

Our investment in associated companies as at December 31, 2023 and December 31, 2022 was comprised of:

Ownership percentage	**December 31, 2023**	**December 31, 2022**
Seabras	50.0 %	50.0%
Archer	24.2%	15.7%

Seabras 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**").

On April 20, 2023, the Company exchanged the Archer Convertible debt prior to maturity in exchange for new common shares issued. The debt and conversion option resulted in a gain of $7.1 million in our consolidated statement of income. This gain includes the difference between the fair value of the new shares received and the net carrying value of the convertible debt extinguished, including the impact of the related fair value movements in the period. The gain includes $6 million realized gain as a result of the reclassification of related changes in fair value from AOCI into income.

As the result of conversion of the convertible loan described above and additional share subscription to 161 million shares for $16 million in March 2023 PES's holding in Archer increased to 392,305,324 shares, representing 24.2% of the total number of share and voting rights in Archer. There were no additional costs associated with acquisition of additional shareholding.

Prior to the conversion date, the investment in Archer was recognized as Marketable Securities included in "Other Current Assets" in the Consolidated Balance Sheets. From April 2023, the investment in Archer is accounted for as an equity method investee. Archer is a publicly quoted global oilfield service company that specializes in drilling and well services.

Our equity method investments were measured at fair value at the time we obtained significant influence 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) basis differences on vessels and equipment 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 differences 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)	December 31, 2023	December 31, 2022
Seabras	67	47
Archer	(1)	—
Total share in results from associated companies (net of tax)	**66**	**47**

Summary of Consolidated Statements of Operations for our equity method investees

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

	Period ended December 31, 2023	
(In $ millions)	**Seabras**	**Archer ***
Operating revenues	433	695
Net operating income	207	48
Net income / (loss)	148	(7)
PES ownership percentage	50 %	24 %
Share of net income	**74**	**(2)**
Amortization of basis differences	(7)	1
Share in results from associates (net of tax)	**67**	**(1)**

	Period ended December 31, 2022
(In $ millions)	**Seabras**
Operating revenues	407
Net operating income	190
Net income	122
PES ownership percentage	50%
Share of net income	**61**
Amortization of basis differences	(14)
Share in results from Seabras (net of tax)	**47**

*Archer results are shown for the period from April 20, 2023 to December 31, 2023.

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, 2023	December 31, 2022
Seabras Sapura	255	196
Seabras Sapura Holding GmbH - shareholder loans held as equity	58	115
Archer	42	—
Total	**355**	**311**

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

Summarized Consolidated Balance sheets for our equity method investees

The summarized balance sheets of our equity method investees and our share of recorded equity in those companies was as follows:

	December 31, 2023		December 31, 2022	
(In $ millions)	Seabras	Archer	Seabras	Archer
Current assets	192	355	175	—
Non-current assets	1,305	551	1,364	—
Current liabilities	(309)	(278)	(486)	—
Non-current liabilities	(126)	(432)	(134)	—
Net Assets	**1,062**	**196**	**919**	—
PES ownership percentage	50%	24 %	50 %	—
PES share of book equity	531	47	460	—
Shareholder loans held as equity	58	—	115	—
Basis difference allocated to PPE	(282)	(5)	(295)	—
Basis difference allocated to contracts	6	—	31	—
Total adjustments	**(218)**	**(5)**	**(149)**	—
Book value of PES investment	**313**	**42**	**311**	—

Note 20 – Commitments and contingencies

From time to time we are a party, as plaintiff or defendant, to lawsuits in various jurisdictions for construction 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, 2023.

Note 21 – Subsequent Events

On May 21, 2024, the Company, with the approval of its shareholders, has undertaken and completed a subdivision of existing A-shares into 500 class A-shares, via the following steps:

i. with effect from March 15, 2024, the Class C shares of US $0.01 each in the Company were redesignated to Class A shares of US $0.01 each in the Company; and
ii. with effect from May 21, 2024, each of the Class A shares of US$0.01 each in the Company, were sub-divided into 500 A shares of US$0.00002 each.

Following this subdivision, Paratus had total Class A common shares of 154,015,990 at par value of US $0.00002 each.

The loss per share per share has been retroactively restated for this change in the Consolidated Statement of Operations. No other share or per share information has been restated.