Paragon Offshore plc
(in administration)

Quarterly Report

For the period ended: June 30, 2017

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

Report date: August 14, 2017

PARAGON OFFSHORE plc (in administration)
For the Quarter Ended June 30, 2017

TABLE OF CONTENTS

		PAGE
	GLOSSARY OF CERTAIN DEFINED TERMS	3
PART I	**FINANCIAL INFORMATION**	5
Item 1	**Unaudited Condensed Consolidated Financial Statements**	
	Unaudited Condensed Consolidated Statements of Operations for the three and six months ended June 30, 2017 and 2016	5
	Unaudited Condensed Consolidated Statements of Comprehensive Loss for the three and six months ended June 30, 2017 and 2016	6
	Unaudited Condensed Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016	7
	Unaudited Condensed Consolidated Statements of Changes in Equity (Deficit) for the six months ended June 30, 2017 and 2016	8
	Unaudited Condensed Consolidated Statements of Cash Flows for the six months ended June 30, 2017 and 2016	9
	Notes to Unaudited Condensed Consolidated Financial Statements	10
Item 2	**Management’s Discussion and Analysis of Financial Condition and Results of Operations**	33
Item 3	**Quantitative and Qualitative Disclosures About Market Risk**	41
PART II	**OTHER INFORMATION**	
Item 1	**Legal Proceedings**	42
Item 1A	**Risk Factors**	42

GLOSSARY OF CERTAIN DEFINED TERMS

Adjusted EBITDA	Net income (loss) before taxes plus interest expense, depreciation and amortization, losses on impairments, foreign currency losses and reorganization items, less gains on the sale of assets, interest income and foreign currency gains
AOCL	Accumulated Other Comprehensive Loss
ASC	Accounting Standards Codification
ASU	Accounting Standards Update
Bankruptcy cases	The chapter 11 cases commenced by the Debtors filing voluntary petitions for relief under chapter 11 of the Bankruptcy Code in the Bankruptcy Court
Bankruptcy Code	United States Bankruptcy Code
Bankruptcy Court	United States Bankruptcy Court for the District of Delaware
Consensual Plan	Fifth amended plan of reorganization for the Debtors as filed with the Bankruptcy Court on May 2, 2017 which was confirmed on June 7, 2017 and which became effective on July 18, 2017 (as amended and supplemented)
Debt Facilities	Revolving Credit Facility, Term Loan Facility and Senior Notes, collectively
Debtors	Paragon Offshore plc (in administration) and the following subsidiaries: Paragon Offshore Finance Company, Paragon International Finance Company, Paragon Offshore Holdings US Inc., Paragon Offshore Drilling LLC, Paragon FDR Holdings Ltd., Paragon Duchess Ltd., Paragon Offshore (Luxembourg) S.à r.l., PGN Offshore Drilling (Malaysia) Sdn. Bhd., Paragon Offshore (Labuan) Pte. Ltd., Paragon Holding SCS 2 Ltd., Paragon Asset Company Ltd., Paragon Holding SCS 1 Ltd., Paragon Offshore Leasing (Luxembourg) S.à r.l., Paragon Drilling Services 7 LLC, Paragon Offshore Leasing (Switzerland) GmbH, Paragon Offshore do Brasil Ltda., Paragon Asset (ME) Ltd., Paragon Asset (UK) Ltd., Paragon Offshore International Ltd., Paragon Offshore (North Sea) Ltd., Paragon (Middle East) Limited, Paragon Holding NCS 2 S.à.r.l., Paragon Leonard Jones LLC, Paragon Offshore (Nederland) B.V., and Paragon Offshore Contracting GmbH
Distribution	The August 1, 2014 pro rata distribution by Noble to its shareholders of all our issued and outstanding ordinary shares. Noble shareholders received one ordinary share of Paragon for every three shares of Noble owned.
Exchange Act	United States Securities Exchange Act of 1934, as amended
FASB	Financial Accounting Standards Board
LIBOR	London Interbank Offered Rate
New Paragon	Paragon Offshore Limited, an exempted company limited by shares incorporated under the laws of the Cayman Islands and successor of Paragon Offshore plc (in administration)
Noble	Noble Corporation plc

OTC Pink	Marketplace trading over-the-counter stocks provided and operated by the OTC Markets Group
Old Paragon	Paragon Offshore plc (in administration) and predecessor of Paragon Offshore Limited
Pemex	Petróleos Mexicanos
Petrobras	Petróleo Brasileiro S.A.
Prospector	Prospector Offshore Drilling S.à.r.l.
Revolving Credit Agreement	Old Paragon's senior secured revolving credit agreement entered into with a group of lenders on June 17, 2014
Revolving Credit Facility	Old Paragon's commitments in the amount of $800 million provided by a group of lenders under the Revolving Credit Agreement
Sale-Leaseback Transaction	Sale-leaseback agreement with subsidiaries of SinoEnergy Capital Management Ltd. for two high specification jackup units, *Prospector 1* and *Prospector 5* entered into on July 24, 2015
SEC	United States Securities and Exchange Commission
Senior Notes	Old Paragon's 6.75% senior notes due in 2022 and 7.25% senior notes due in 2024, collectively
Spin-Off	Old Paragon's separation from Noble on August 1, 2014
Tax Sharing Agreement	Agreement entered into with Noble at Spin-Off which governs the parties' respective rights, responsibilities and obligations with respect to tax liabilities and benefits, tax attributes, the preparation and filing of tax returns, the control of audits and other tax proceedings and certain other matters regarding taxes following the Distribution
Term Loan Agreement	Old Paragon's senior secured term loan agreement entered into June 18, 2014
Term Loan Facility	Old Paragon's $650 million term loan debt entered into under the Term Loan Agreement
Total S.A.	Total E&P U.K. Limited and Elf Exploration U.K. Limited
U.K.	United Kingdom
U.S. GAAP	Accounting principles generally accepted in the United States

PART I. FINANCIAL INFORMATION

ITEM 1. UNAUDITED CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

PARAGON OFFSHORE plc
(IN ADMINISTRATION) (DEBTOR-IN-POSSESSION)
CONDENSED CONSOLIDATED STATEMENTS OF OPERATIONS
(In thousands, except per share amounts)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
Operating revenues				
Contract drilling services	$ 57,816	$ 164,464	$ 113,063	$ 399,508
Labor contract drilling services	—	5,485	—	12,233
Reimbursables and other	2,282	14,986	4,478	38,314
	60,098	184,935	117,541	450,055
Operating costs and expenses				
Contract drilling services	42,045	91,631	91,637	204,337
Labor contract drilling services	(629)	4,193	(615)	9,252
Reimbursables	1,540	13,308	3,116	33,092
Depreciation and amortization	30,493	59,556	61,068	131,462
General and administrative	7,118	9,821	15,841	21,995
Loss on impairments	—	—	391	—
(Gain) on sale of assets, net	(1,383)	—	(1,383)	—
	79,184	178,509	170,055	400,138
Operating income (loss) before interest, reorganization items and income taxes	(19,086)	6,426	(52,514)	49,917
Interest expense, net (contractual interest of $36,171 and $31,013 for the three months ended June 30, 2017 and 2016 and $72,250 and $67,119 for six months ended June 30, 2017 and 2016)	(18,005)	(12,836)	(35,921)	(39,853)
Other, net	968	(2,054)	2,719	(1,292)
Reorganization items, net	(20,779)	(17,549)	(39,253)	(39,391)
Loss before income taxes	(56,902)	(26,013)	(124,969)	(30,619)
Income tax benefit (provision)	(14)	904	(2,363)	300
Net loss	$ (56,916)	$ (25,109)	$ (127,332)	$ (30,319)
Loss per share				
Basic and diluted	$ (0.64)	$ (0.29)	$ (1.43)	$ (0.35)
Weighted-average shares outstanding				
Basic and diluted	89,011	87,601	88,880	87,099

See accompanying notes to the unaudited condensed consolidated financial statements.

PARAGON OFFSHORE plc
(IN ADMINISTRATION) (DEBTOR-IN-POSSESSION)
CONDENSED CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(In thousands)
(Unaudited)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	**2016**	**2017**	**2016**
Net loss	$ (56,916)	$ (25,109)	$ (127,332)	$ (30,319)
Other comprehensive income (loss), net of tax				
Foreign currency translation adjustments	932	6,083	1,808	8,151
Adjustments to pension plans	12	199	(86)	386
Total other comprehensive loss, net	944	6,282	1,722	8,537
Total comprehensive loss	$ (55,972)	$ (18,827)	$ (125,610)	$ (21,782)

See accompanying notes to the unaudited condensed consolidated financial statements.

PARAGON OFFSHORE plc
(IN ADMINISTRATION) (DEBTOR-IN-POSSESSION)
CONDENSED CONSOLIDATED BALANCE SHEETS
(Unaudited)
(In thousands)

	June 30, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 772,084	$ 883,794
Restricted cash	6,819	8,707
Accounts receivable, net of allowance for doubtful accounts (Note 3)	56,235	65,644
Prepaid and other current assets	52,391	69,380
Total current assets	887,529	1,027,525
Property and equipment, at cost	2,329,781	2,336,504
Accumulated depreciation	(1,572,193)	(1,523,732)
Property and equipment, net	757,588	812,772
Restricted cash	41,580	37,880
Other long-term assets	22,982	25,554
Total assets	$ 1,709,679	$ 1,903,731
LIABILITIES AND EQUITY		
Current liabilities		
Current maturities of long-term debt	$ 28,480	$ 29,737
Accounts payable and accrued expenses	64,657	61,853
Accrued payroll and related costs	31,008	43,683
Taxes payable	14,681	33,248
Interest payable	11	497
Other current liabilities	15,703	21,548
Total current liabilities	154,540	190,566
Long-term debt	135,260	165,963
Deferred income taxes	5,269	6,282
Other liabilities	26,795	29,114
Liabilities subject to compromise	2,344,563	2,344,563
Total liabilities	2,666,427	2,736,488
Commitments and contingencies (Note 16)		
Equity		
Ordinary shares, $0.01 par value, 186,457,393 shares authorized; with 89,011,271 and 88,438,804 issued and outstanding as of June 30, 2017 and December 31, 2016, respectively	890	884
Additional paid-in capital	1,439,878	1,438,265
Accumulated deficit	(2,360,580)	(2,233,248)
Accumulated other comprehensive loss	(36,936)	(38,658)
Total shareholders' deficit	(956,748)	(832,757)
Total liabilities and equity	$ 1,709,679	$ 1,903,731

See accompanying notes to the unaudited condensed consolidated financial statements.

PARAGON OFFSHORE plc
(IN ADMINISTRATION) (DEBTOR-IN-POSSESSION)
CONDENSED CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIT)
(In thousands)
(Unaudited)

	Ordinary Shares		Additional Paid-in Capital	Accumulated Deficit	Accumulated Other Comprehensive Income (Loss)	Total Equity (Deficit)
	Shares	Amount				
Balance as of December 31, 2015	86,026	$ 860	$ 1,429,456	$ (1,894,892)	$ (42,014)	$ (506,590)
Net loss	—	—	—	(30,319)	—	(30,319)
Employee related equity activity:						
Amortization of share-based compensation	—	—	4,588	—	—	4,588
Vesting of restricted stock unit awards	1,831	18	(140)	—	—	(122)
Other comprehensive income, net	—	—	—	—	8,537	8,537
Balance as of June 30, 2016	87,857	$ 878	$ 1,433,904	$ (1,925,211)	$ (33,477)	$ (523,906)
Balance as of December 31, 2016	88,439	$ 884	$ 1,438,265	$ (2,233,248)	$ (38,658)	$ (832,757)
Net loss	—	—	—	(127,332)	—	(127,332)
Employee related equity activity:						
Amortization of share-based compensation	—	—	1,644	—	—	1,644
Vesting of restricted stock unit awards	572	6	(31)	—	—	(25)
Other comprehensive income, net	—	—	—	—	1,722	1,722
Balance as of June 30, 2017	89,011	$ 890	$ 1,439,878	$ (2,360,580)	$ (36,936)	$ (956,748)

See accompanying notes to the unaudited condensed consolidated financial statements.

PARAGON OFFSHORE plc
(IN ADMINISTRATION) (DEBTOR-IN-POSSESSION)
CONDENSED CONSOLIDATED STATEMENTS OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Cash flows from operating activities		
Net loss	$ (127,332)	$ (30,319)
Adjustments to reconcile net loss to net cash from operating activities:		
Depreciation and amortization	61,068	131,462
Loss on impairments	391	—
Deferred income taxes	(1,176)	7,461
Share-based compensation	1,348	5,550
Recoveries of doubtful accounts	—	(5,878)
Gain on sale of assets, net	(1,383)	—
Other, net	1,231	314
Net change in other assets and liabilities (Note 17)	(8,767)	99,599
Net cash provided by (used in) operating activities	(74,620)	208,189
Cash flows from investing activities		
Capital expenditures	(5,413)	(29,882)
Change in accrued capital expenditures	(313)	(5,361)
Proceeds from sale of assets	2,800	—
Change in restricted cash	(1,812)	(18,982)
Net cash used in investing activities	(4,738)	(54,225)
Cash flows from financing activities		
Repayments on Sale-Leaseback Financing	(32,327)	(38,323)
Tax withholding on restricted stock units	(25)	(122)
Net cash used in financing activities	(32,352)	(38,445)
Net change in cash and cash equivalents	(111,710)	115,519
Cash and cash equivalents, beginning of period	883,794	773,571
Cash and cash equivalents, end of period	$ 772,084	$ 889,090

Supplemental information for non-cash activities (Note 17)

See accompanying notes to the unaudited condensed consolidated financial statements.

PARAGON OFFSHORE plc
(DEBTOR-IN-POSSESSION)
NOTES TO CONDENSED CONSOLIDATED FINANCIAL STATEMENTS
(Unaudited)

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

Paragon Offshore plc (in administration) (together with its subsidiaries, "Old Paragon") is the predecessor of Paragon Offshore Limited ("New Paragon"), a leading provider of standard specification offshore drilling services. Reference to "we," "us" or "our" throughout the document is intended to mean the contract drilling operations and business conducted by Old Paragon and New Paragon. Our fleet includes 32 jackups, including two high specification heavy duty/harsh environment jackups, four drillships and one semisubmersible. Our primary business is contracting our rigs, related equipment and work crews to conduct oil and gas drilling and workover operations for exploration and production customers on a dayrate basis around the world.

We currently operate in significant hydrocarbon-producing geographies throughout the world, including the North Sea, the Middle East and India. As of June 30, 2017, our contract backlog was $214 million and included contracts with national, international and independent oil and gas companies.

Old Paragon is a public limited company registered under the Companies Act 2006 of England. In July 2014, Noble Corporation plc ("Noble") transferred to Old Paragon the assets and liabilities (the "Separation") constituting most of Noble's standard specification drilling units and related assets, liabilities and business. On August 1, 2014, Noble made a pro rata distribution to its shareholders of all of Old Paragon's issued and outstanding ordinary shares (the "Distribution" and, collectively with the Separation, the "Spin-Off"). On July 18, 2017, New Paragon acquired substantially all of Old Paragon's assets pursuant to the Consensual Plan that was confirmed by the Bankruptcy Court on June 7, 2017.

All financial information presented in this report represents the consolidated results of operations, financial position and cash flows of Old Paragon.

Unaudited Interim Information

The interim consolidated financial statements of Old Paragon and its subsidiaries are unaudited. However, they include all adjustments of a normal recurring nature that, in the opinion of management, are necessary for a fair statement of Old Paragon's consolidated financial position as of June 30, 2017 and the results of its operations and cash flows for the three and six months ended June 30, 2017 and 2016.

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

Old Paragon Chapter 11 Filing

On February 14, 2016, the Debtors commenced their chapter 11 cases (the "Bankruptcy cases") by filing voluntary petitions for relief under chapter 11 of the Bankruptcy Code in the Bankruptcy Court. Upon filing the Bankruptcy cases, Old Paragon's shares began trading on the OTC Pink.

Upon filing the Bankruptcy cases, the Debtors operated their business as "debtors-in-possession". Under the Bankruptcy cases, the Debtor's trade creditors and vendors were being paid in full in the ordinary course of business. Certain subsidiaries of Old Paragon were not party to the chapter 11 filing (the "Non-Filing entities"). The Non-Filing entities continued to operate in the ordinary course of business.

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

On May 17, 2017, the board of directors of Old Paragon filed an administration application with the High Court of Justice, Chancery Division, Companies Court of England and Wales (the "English Court") for the appointment of two partners of Deloitte LLP, as joint administrators of Old Paragon, and on May 23, 2017, the English Court granted an order, pursuant to paragraph 13

of Schedule B1 to the Insolvency Act 1986 appointing these partners as joint administrators (the "Joint Administrators") of Old Paragon. The power to manage the affairs, business and property of Old Paragon is vested in the Joint Administrators. The appointment of the Joint Administrators was a necessary component of the Consensual Plan.

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

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

On the Effective Date, in connection with the effectiveness of, and pursuant to the terms of, the Consensual Plan, Old Paragon, New Paragon, certain of the reorganized Debtors and the Joint Administrators entered into a Litigation Trust Agreement (the "Litigation Trust Agreement") with Drivetrain, LLC, as Litigation Trust Management, and certain members of a litigation trust committee, pursuant to which a trust (the "Litigation Trust") was established for the benefit of certain holders of allowed claims under the Consensual Plan. Pursuant to the Consensual Plan and the Confirmation Order, Old Paragon and the reorganized Debtors transferred to the Litigation Trust certain claims against Noble relating to Old Paragon's separation from Noble (the "Noble Claims"). In addition, Noble may assert damages against Old Paragon for indemnification amounts that would have been owed to Noble pursuant to the Noble Separation Agreements (as defined in Note 16, *"Commitments and Contingencies"*).

Pursuant to the terms of the Litigation Trust Agreement, a subsidiary of New Paragon agreed to provide the Litigation Trust with an interest-free delayed draw term loan of up to $10 million in cash to fund the reasonable costs and expenses associated with the administration of the Litigation Trust (the "Litigation Trust Term Loan"). The Litigation Trust may prosecute the Noble Claims and conduct such other action as described in and authorized by the Consensual Plan, make timely and appropriate distributions to the beneficiaries of the Litigation Trust and otherwise carry out the provisions of the Litigation Trust Agreement. None of Old Paragon, New Paragon or any of the reorganized Debtors is a beneficiary to the Litigation Trust.

In connection with the Bankruptcy cases and the Consensual Plan, on and prior to the Effective Date, Old Paragon and certain of its subsidiaries effectuated certain restructuring transactions, pursuant to which Old Paragon formed New Paragon, as a wholly-owned subsidiary of Old Paragon. On the Effective Date, Old Paragon transferred to New Paragon certain direct and indirect subsidiaries and certain other assets of Old Paragon (excluding Prospector Offshore Drilling S.à r.l. ("Prospector Offshore") and its direct and indirect subsidiaries (collectively, the "Prospector Group")). New Paragon and its subsidiaries will constitute the ongoing operational business after the Effective Date. In accordance with the Consensual Plan, Old Paragon and its subsidiaries (excluding the Prospector Group) will, in due course, be wound down and dissolved by the Joint Administrators in accordance with applicable law.

On the Effective Date, New Paragon, Old Paragon, and the Joint Administrators entered into a management agreement (the "Management Agreement"), pursuant to which New Paragon has the economic benefit of and operational control over the Prospector Group subject to certain restrictions in the existing share pledges over Prospector Offshore. In addition, New Paragon agreed to continue to procure the provision of management services to the Prospector Group while the Prospector Group remains held by Old Paragon. Further, pursuant to the Management Agreement, Old Paragon undertook to transfer the Prospector Group to New Paragon at such time as New Paragon obtains the consents required by the Sale-Leaseback Transaction to such transfer or such consent is no longer required.

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

Pursuant to the terms of, the Consensual Plan, Old Paragon issued a distribution, pro rata, to each of the Secured Lenders (the "Secured Lender Distribution") and to each of the the Bondholders (the "Bondholder Distribution"). The Secured Lender Distribution consisted of: (i) approximately $410 million in cash, (ii) 50% of the equity of New Paragon, (iii) 50% of certain Class A interests in the Litigation Trust, which are entitled to a preferential right of recovery from the first $10 million of assets of the Litigation Trust (after giving effect to the repayment of the Litigation Trust Loan) (the "Class A Litigation Trust Interests") and (iv) 25% of certain Class B interests in the Litigation Trust, which are entitled to distribution of the remaining assets of the Litigation Trust (the "Class B Litigation Trust Interests"). The Bondholder Distribution consisted of: (i) approximately $105 million in cash, (ii) 50% of the equity of New Paragon, (iii) 50% of the Class A Litigation Trust Interests, (iv) 75% of the Class B Litigation Trust Interests, (v) payment of certain Bondholders' professionals' fees and expenses and (vi) payment of up to $850,000 of reasonable and documented fees and expenses of the indentured trustee for the Bondholders.

Following the consummation of the transactions executed in connection with the effectiveness of, and pursuant to the terms of, the Consensual Plan, Old Paragon holds approximately $11 million of cash on trust to discharge the fees, expenses and disbursements of the administration of Old Paragon, including the fees and expenses of the Joint Administrators, and the wind down of Old Paragon's remaining subsidiaries, excluding the Prospector Group.

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

Prospector Chapter 11 Filing

The Prospector Group has an interest in two high specification jackup units, *Prospector 1* and *Prospector 5* (collectively, the "Prospector Rigs") pursuant to two sale-leaseback agreements executed with subsidiaries of SinoEnergy Capital Management Ltd. (the "Lessors"). In connection with the sale-leaseback agreements, Old Paragon's shares in Prospector Offshore Drilling S.à r.l. (the "Prospector Shares") are pledged in favor of the Lessors. In order to transfer the Prospector Group to New Paragon as contemplated by the Consensual Plan, New Paragon must obtain a consent to the transfer from the Lessors. We have been in negotiations with the Lessors since May 2017 with respect to the transfer, but have been unable to reach a mutually agreeable solution.

On July 20, 2017, Old Paragon, Prospector Offshore, Prospector Rig 1 Contracting Company S.à.r.l, and Prospector Rig 5 Contracting Company S.à.r.l (collectively, the "Prospector Debtors") commenced their chapter 11 cases (the "Prospector Bankruptcy cases") by filing voluntary petitions for relief under chapter 11 of the Bankruptcy Code in the Bankruptcy Court.

During these proceedings, the Prospector Rigs will continue to be operated by New Paragon under the Management Agreement. Old Paragon does not expect any impact to customers, suppliers, or employees.

Going Concern

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

Fresh-Start Accounting

As required by FASB ASC 852, *Reorganizations* ("ASC 852"), we will adopt fresh-start accounting as of the Effective Date. We qualified for fresh-start accounting because (1) the reorganization value of our assets immediately prior to confirmation was less than the post-petition liabilities and allowed claims and (ii) the holders of existing voting shares of the predecessor company received less than 50% of the voting shares of the post-emergence successor entity. Fresh-start accounting will result in Old Paragon becoming a new entity for financial reporting purposes. Upon adoption of fresh-start accounting, our assets and liabilities will be recorded at their fair values as of the Effective Date. The Effective Date fair values of New Paragon's assets and liabilities may differ materially from the recorded values of the assets and liabilities as reflected in the Old Paragon's historical consolidated balance sheets, including those contained in this June 30, 2017 Quarterly Report.

The effects of the Consensual Plan and the application of fresh-start accounting have not been reflected in the unaudited consolidated financial statements included in this June 30, 2017 Quarterly Report. The effects of the Consensual Plan and the application of fresh-start accounting will be reflected in our consolidated balance sheet as of July 18, 2017 and the related adjustments thereto will be recorded in our consolidated statements of operations as reorganization items for the period from January 1 to July 18, 2017, both to be included in the September 30, 2017 Quarterly Report. New Paragon's consolidated balance sheets and consolidated statement of operations subsequent to the effective date will not be comparable to Old Paragon's consolidated balance sheets and statement of operations prior to the effective date.

NOTE 2—NEW ACCOUNTING PRONOUNCEMENTS

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

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

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

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

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

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

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

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

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

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

NOTE 3— SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

The unaudited condensed consolidated financial statements include our accounts, those of our wholly-owned subsidiaries and entities in which we hold a controlling financial interest. All significant intercompany accounts and transactions have been eliminated in consolidation.

Reorganization Accounting

In connection with filing chapter 11 of the Bankruptcy Code on February 14, 2016, we are subject to the requirements of ASC 852. ASC852 is applicable to companies under bankruptcy protection and requires amendments to the presentation of key financial statement line items. ASC 852 generally does not change the manner in which financial statements are prepared. However, it does require that the financial statements for periods subsequent to the filing of the Bankruptcy cases distinguish transactions and events that are directly associated with the reorganization from the ongoing operations of the business.

Revenues, expenses, realized gains and losses, and provisions for losses that can be directly associated with the reorganization of the business must be reported separately as reorganization items in the consolidated statements of operations for the three and six months ended June 30, 2017 and 2016. The balance sheet must distinguish pre-petition liabilities subject to compromise from both those pre-petition liabilities that are not subject to compromise and from post-petition liabilities. Liabilities subject to compromise are pre-petition obligations that are not fully secured and that have at least a possibility of not being repaid at the full claim amount by the plan of reorganization. Liabilities subject to compromise must be reported at the amounts expected to be allowed by the Bankruptcy Court, even if they may be settled for lesser amounts as a result of the plan of reorganization. See Note 9 - *"Reorganization Items"* for cash paid for reorganization items in the consolidated statements of cash flows.

Revenue Recognition

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

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

Deferred revenues from drilling contracts totaled $1.4 million and $2.1 million as of June 30, 2017 and December 31, 2016, respectively. Such amounts are included in either "Other current liabilities" or "Other liabilities" in our Condensed Consolidated Balance Sheets, based upon the expected time of recognition of such deferred revenues. Deferred costs associated with deferred revenues from drilling contracts totaled $2 million at June 30, 2017 as compared to $3 million as of December 31, 2016. Such amounts are included in either "Prepaid and other current assets" or "Other assets" in our Condensed Consolidated Balance Sheets, based upon the expected time of recognition of such deferred costs.

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

Restricted Cash

Restricted cash consists of both cash held to satisfy the requirements of our Sale-Leaseback Transaction (as described in Note 7 - *"Debt"*), which was executed in 2015 and cash collateral for an outstanding performance bond.

Under the terms of the Lease Agreements (as defined in Note 7 - *"Debt"*) we are required to maintain three cash reserve accounts: a capital expenditure reserve account, an operating reserve account and a rental reserve account.

The capital expenditure reserve is available specifically for special survey costs (3-5 year surveys) provided that we replenish any amount withdrawn within twelve months from the date of the withdrawal. This cash is available to us, for a designated purpose, in the short-term, and therefore the restricted cash balance is included in short-term "Restricted cash" on our Condensed Consolidated Balance Sheet. The short-term restricted cash balance also includes funds accumulated in an operating reserve account used for payment of monthly operating expenses under the terms of the Lease Agreements. Our short-term restricted cash was $7 million and $9 million as of June 30, 2017 and December 31, 2016, respectively.

The rental reserve account is the minimum amount established under the Lease Agreements which we are required to maintain on reserve at all times during the lease period. The balance in the account increases with periodic deposits of operating revenue in excess of allowed operating expenses. Any amount of cash in the account in excess of the minimum balance required on reserve is to be used repay our long-term debt obligation related to the Sale-Leaseback Transaction. In addition to the Sale-Leaseback Transaction rental reserve account, the long-term restricted cash balance as of June 30, 2017 and December 31, 2016 also includes $9 million cash collateral for an outstanding performance bond. Our long-term restricted cash was $42 million and $38 million as of June 30, 2017 and December 31, 2016, respectively.

Allowance for Doubtful Accounts

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

Our allowance for doubtful accounts was $25 million as of both June 30, 2017 and December 31, 2016. We had an immaterial amount of bad debt expense and no recoveries for the three and six months ended June 30, 2017, respectively. We had $6 million of bad debt recoveries for the three and six months ended June 30, 2016. Bad debt expense and recoveries are reported as a component of "Contract drilling services operating costs and expenses" in our Condensed Consolidated Statements of Operations.

Long-lived Assets and Impairments

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

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

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

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

The amount of depreciation expense we record is dependent upon certain assumptions, including an asset's estimated useful life, rate of consumption and corresponding salvage value. We periodically review these assumptions and may change one or more of these assumptions. Changes in our assumptions may require us to recognize, on a prospective basis, increased or decreased depreciation expense.

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

NOTE 4—PROPERTY AND EQUIPMENT AND OTHER ASSETS

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

(In thousands)	June 30, 2017	December 31, 2016
Drilling rigs	$ 1,457,147	$ 1,463,199
Drilling rigs under Sale-Leaseback Transaction	470,307	469,018
Drilling machinery and equipment	343,038	345,172
Other	59,289	59,115
Property and equipment, at cost	2,329,781	2,336,504
Less: Accumulated depreciation	(1,534,766)	(1,496,006)
Less: Accumulated amortization under Sale-Leaseback Transaction	(37,427)	(27,726)
Property and equipment, net	$ 757,588	$ 812,772

Depreciation expense was $30 million and $61 million for the three and six months ended June 30, 2017, respectively, and $60 million and $131 million for the three and six months ended June 30, 2016, respectively. This includes depreciation expense for underwater inspection in lieu of drydocking costs ("UWILD") of $1 million and $2 million for the three and six months ended June 30, 2017, respectively, and $2 million and $6 million for the three and six months ended June 30, 2016, respectively. UWILD costs are capitalized in "Other assets" on the Condensed Consolidated Balance Sheet. Amortization of our leased drilling rigs under the Sale-Leaseback Transaction is recorded in depreciation expense. Amortization related to our leased drilling rigs was $5 million and $10 million for the three and six months ended June 30, 2017, respectively, and $5 million and $10 million for the three and six months ended June 30, 2016, respectively.

Our capital expenditures totaled $5 million and $30 million for the six months ended June 30, 2017 and 2016, respectively. Included in accounts payable were $2 million of capital accruals as of both June 30, 2017 and December 31, 2016.

Loss on Impairment

For the six months ended June 30, 2017, we recognized an impairment loss of $0.4 million in our Condensed Consolidated Statements of Operations. No impairment loss was recognized for the three and six months ended June 30, 2016.

NOTE 5—SHARE-BASED COMPENSATION

In conjunction with the Spin-Off, we adopted new equity incentive plans for our employees and directors, the Paragon Offshore plc 2014 Employee Omnibus Incentive Plan (the "Employee Plan") and the Paragon Offshore plc 2014 Director Omnibus Plan (the "Director Plan"). The Employee Plan and Director Plan include replacement awards of Paragon time-vested restricted stock units ("TVRSU's") and performance-vested restricted stock units ("PVRSU's"), granted in connection with the Spin-Off, as well as, new share-settled and cash-settled awards ("CS-TVRSU's") which have been granted since Spin-Off. No awards were granted during three and six months ended June 30, 2017.

Shares available for issuance and outstanding restricted stock units under our two equity incentive plans as of June 30, 2017 are as follows (excluding the impact of cash-settled awards):

(In shares)	Employee Plan	Director Plan
Shares available for future awards or grants	5,598,517	434,048
Outstanding unvested restricted stock units	1,440,236	—

In prior years, we have awarded both TVRSU's and PVRSU's under our Employee Plan and TVRSU's under our Director Plan. The total compensation for TVRSU's that ultimately vests is recognized using a straight-line method over a three-year service period. The CS-TVRSU's under our Employee Plan are accounted for as liability-based awards and are valued at the end of each reporting period at our underlying share price. The total compensation for CS-TVRSU's that ultimately vests is recognized using a straight-line method over three-year service period. The number of PVRSU's which vest under our Employee Plan will depend on the degree of achievement of specified company-based, return on capital employed ("ROCE"), and market-based, total shareholder return ("TSR"), performance criteria over the service period.

A summary of restricted stock activity for the six months ended June 30, 2017 is as follows:

	TVRSU's Outstanding	TVRSU Weighted Average Grant-Date Fair Value	CS-TVRSU's Outstanding	Share Price (1)	PVRSU's Outstanding (2)	PVRSU Weighted Average Grant-Date Fair Value
Outstanding as of December 31, 2016	1,910,893	$ 5.31	1,292,601		602,219	$ 5.39
Vested	(845,107)	5.20	(530,604)		—	—
Forfeited (3)	(36,295)	9.22	(284,831)		(191,474)	11.00
Outstanding as of June 30, 2017	1,029,491	$ 5.27	477,166	$ 0.01	410,745	$ 2.78

(1) The share price represents the closing price of our shares on June 30, 2017 at which our CS-TVRSU's are measured.

(2) In the six months ended June 30, 2017, 191,474 PVRSU's were forfeited as a result of Old Paragon not achieving the thresholds for vesting based on annualized ROCE performance over the term of the awards. For the remaining 410,745 PVRSU's outstanding, the share amount equals the units that would vest if the "target" level of performance is achieved based on the degree of achievement of Old Paragon's TSR, relative to a peer group of companies. The minimum number of units is zero and the "maximum" level of performance is 200% of the target amount.

(3) In accordance with ASU No. 2016-09, *Improvements to Employee Share-Based Payment Accounting*, Old Paragon has elected to account for forfeitures when they occur. This election had no impact on our financial statements for the six months ended June 30, 2017.

Equity and liability-based award amortization recognized during the three and six months ended June 30, 2017 totaled $0.7 million and $1.3 million. As of June 30, 2017, we had $1 million of total unrecognized compensation cost related to our TVRSU's. Old Paragon expects to recognize this cost over a remaining weighted-average period of 0.4 years or expense immediately upon emergence. As of June 30, 2017, we had $4 thousand of total unrecognized compensation cost related to our CS-TVRSU's. Old Paragon expects to recognize this cost over a remaining weighted-average period of 0.6 years or expense immediately upon emergence.

As of June 30, 2017, we had $0.1 million of total unrecognized compensation cost related to our PVRSU's. Old Paragon expects to recognize this cost over a remaining weighted-average period of 0.5 years or expense immediately upon emergence. The total potential compensation for the 410,745 PVRSU's based on TSR is recognized over the service period regardless of whether the TSR performance thresholds are ultimately achieved since vesting is based on market conditions.

On the Effective Date, all TVRSU's, CS-TVRSU's and PVRSU's were extinguished and deemed cancelled.

NOTE 6—LOSS PER SHARE

On August 1, 2014, approximately 85 million of Old Paragon's ordinary shares were distributed to Noble's shareholders in conjunction with the Spin-Off. Weighted average shares outstanding, basic and diluted, have been computed based on the weighted average number of ordinary shares outstanding during the applicable period. Restricted stock units do not represent ordinary shares outstanding until they are vested and converted into ordinary shares. Old Paragon's outstanding share-based payment awards currently consist solely of restricted stock units. The diluted earnings per share calculation under the two class method is the same as the basic earnings per share calculation as we currently have no stock options or other potentially dilutive securities outstanding.

Old Paragon's unvested restricted stock units, which contain non-forfeitable rights to dividends, are deemed to be participating securities and are included in the computation of earnings per share pursuant to the "two-class" method. The "two-class" method allocates undistributed earnings between ordinary shares and participating securities; however, in a period of net loss, losses are not allocated to our participating securities. No earnings were allocated to unvested share-based payment awards in the earnings per share calculation for the three and six months ended June 30, 2017 and 2016 due to net losses in each respective period.

Existing shareholders of Old Paragon did not receive a recovery under the Consensual Plan.

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands, except per share amounts)	2017	2016	2017	2016
Allocation of loss - basic and diluted				
Net loss	$ (56,916)	$ (25,109)	$ (127,332)	$ (30,319)
Earnings allocated to unvested share-based payment awards	—	—	—	—
Net loss attributable to ordinary shareholders - basic and diluted	$ (56,916)	$ (25,109)	$ (127,332)	$ (30,319)
Weighted average shares outstanding				
Basic and diluted	89,011	87,601	88,880	87,099
Weighted average unvested share-based payment awards	1,456	4,328	1,669	5,136
Loss per share				
Basic and diluted	$ (0.64)	$ (0.29)	$ (1.43)	$ (0.35)

NOTE 7—DEBT

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

(In thousands)	June 30, 2017	December 31, 2016
Revolving Credit Facility [(1)]	$ —	$ —
Term Loan Facility, bearing interest of 6% and 5.5% as of June 30, 2017 and December 31, 2016, respectively[(1)]	—	—
Senior Notes due 2022, bearing fixed interest at 6.75% per annum[(1)]	—	—
Senior Notes due 2024, bearing fixed interest at 7.25% per annum[(1)]	—	—
Sale-Leaseback Transaction	164,358	196,418
Unamortized debt issuance costs	(618)	(718)
Total debt	163,740	195,700
Less: Current maturities of long-term debt	(28,480)	(29,737)
Long-term debt	$ 135,260	$ 165,963

(1) See Note 8 - *"Liabilities Subject to Compromise"* for each of the respective June 30, 2017 and December 31, 2016 balances identified above. Our financial statements as of July 18, 2017 will reflect the settlement of the liabilities subject to compromise balance in accordance with the Consensual Plan.

Revolving Credit Facility, Term Loan Facility and Senior Notes

On June 17, 2014, we entered into the Revolving Credit Agreement with lenders that provided commitments in the amount of $800 million. The Revolving Credit Agreement, which was secured by substantially all of our rigs, had a term of five years and had a maturity of July 2019. Borrowings under the Revolving Credit Facility bore interest, at our option, at either (i) an adjusted LIBOR, plus an applicable margin ranging between 1.50% to 2.50%, depending on our leverage ratio, or (ii) a base rate plus an applicable margin ranging between 1.50% to 2.50%. Under the Revolving Credit Agreement, we were also able to obtain letters of credit, the issuance of which would reduce a corresponding amount available for borrowing.

As of June 30, 2017, we had $709 million in borrowings outstanding at a weighted-average interest rate of 3.67%, and an aggregate amount of $47 million of letters of credit issued under the Revolving Credit Facility. The balance of our Revolving Credit Facility and unamortized deferred debt issuance costs are classified as liabilities subject to compromise. We continued to pay interest on the Revolving Credit Facility in the ordinary course of business based on Bankruptcy Court approval up to the Effective Date. Accordingly, interest payable on the Revolving Credit Facility is not classified as a liability subject to compromise in the accompanying Condensed Consolidated Financial Statements.

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

The Senior Notes consisted of $500 million of 6.75% senior notes and $580 million of 7.25% senior notes, which had a maturity date of July 15, 2022 and August 15, 2024, respectively. The Senior Notes were issued without an original issue discount. Contractual interest on the 6.75% senior notes was payable semi-annually, in January and July. Contractual interest on the 7.25% senior notes was payable semi-annually, in February and August. The approximate $1 billion balance of Old Paragon's Senior Notes, accrued pre-petition interest, and unamortized deferred debt issuance costs are classified as liabilities subject to compromise in the accompanying Condensed Consolidated Financial Statements. As interest on Old Paragon's unsecured Senior Notes subsequent to February 14, 2016 was not expected to be an allowed claim, Old Paragon's ceased accruing interest on the Senior Notes on this date. Results for the three and six months ended June 30, 2017 would have included contractual interest expense of $18 million and $35 million, respectively and $18 million and $27 million for the three and six months ended June 30, 2016, respectively. These costs would have been incurred had the unsecured Senior Notes not been classified as subject to compromise.

Borrowings under the Term Loan Facility bore interest at an adjusted LIBOR rate plus 2.75%, subject to a minimum LIBOR rate of 1% or a base rate plus 1.75%, at our option. We were required to make quarterly principal payments of $1.6

million plus interest and were able to prepay all or a portion of the Term Loan Facility at any time. The Term Loan Facility had a maturity date of July 2021. The loans under the Term Loan Facility were issued with 0.50% original issue discount. As of June 30, 2017, the approximate $635 million balance of our Term Loan Facility, unamortized deferred debt issuance costs and unamortized discount are classified as liabilities subject to compromise in the accompanying Condensed Consolidated Financial Statements (See Note 8 - *"Liabilities Subject to Compromise"*). We continued to make interest payments on our Term Loan Facility in the ordinary course of business, based on Bankruptcy Court approval up to the Effective Date. Accordingly, interest payable on the Term Loan Facility is not classified as liabilities subject to compromise in the Condensed Consolidated Balance Sheet as of June 30, 2017.

The agreements related to our Debt Facilities contained covenants that place restrictions on certain merger and consolidation transactions; our ability to sell or transfer certain assets; payment of dividends; making distributions; redemption of stock; incurrence or guarantee of debt; issuance of loans; prepayment; redemption of certain debt; as well as incurrence or assumption of certain liens. The covenants and events of default under our Revolving Credit Agreement, Senior Notes, and Term Loan Facility were substantially similar.

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

Sale-Leaseback Transaction

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

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

While it has been determined that the Lessors are variable interest entities ("VIEs"), we are not the primary beneficiary of the VIEs for accounting purposes since we do not have the power to direct the operation of the VIEs and we did not have the obligation to absorb losses nor the right to receive benefits that could potentially be significant to the VIEs. As a result, we did not consolidate the Lessors in our consolidated financial statements. We have accounted for the Sale-Leaseback Transaction as a capital lease.

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

(In millions)	2017	2018	2019	2020	Thereafter	Total
Minimum annual rental payments	$ 21	$ 32	$ 31	$ 105	$ —	$ 189

We made rental payments, including interest, of approximately $25 million and $38 million during the three and six months ended June 30, 2017, respectively, and $21 million and $38 million during the three and six months ended 2016, respectively. This includes prepayments or Excess Cash Amounts (as defined below) of $0.6 million and $3 million for the three and six months ended June 30, 2017, respectively, and $4 million and $7 million for the three and six months ended June 30, 2016, respectively, for the *Prospector 1* and $11 million and $14 million for the three and six months ended June 30, 2017, respectively, and $9 million and $14 million for the three and six months ended June 30, 2016, respectively, for the *Prospector 5*.

Following the third and fourth anniversaries of the closing dates of the Lease Agreements, we have the option to repurchase each Prospector Rig for an amount as defined in the Lease Agreements. At the end of the lease term, we have an obligation to repurchase each Prospector Rig for a maximum amount of $88 million per rig, less any pre-payments made by us during the term of the Lease Agreements. As of June 30, 2017, our 2020 obligation for the *Prospector 1* is $71 million and for the *Prospector 5* is $34 million. These amounts include final rental payments as well as the repurchase amounts, of $64 million and $26 million for *Prospector 1* and *Prospector 5*, respectively, after consideration of our prepayments of Excess Cash Amounts pursuant to the Lease Agreement

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

In addition, we are required to maintain a cash reserve of $11.5 million for each Prospector Rig throughout the term of the Lease Agreements. During the term of the current drilling contract for each Prospector Rig, we are also required to pay to the Lessors any excess cash amounts earned under such contract, after payment of bareboat charter fees and operating expenses for such Prospector Rig and maintenance of any mandatory reserve cash amounts (the “Excess Cash Amounts”). These excess cash payments represent prepayment for the remaining rental payments under the applicable Lease Agreement (the “Cash Sweep”). As of June 30, 2017 and December 31, 2016, we had short-term restricted cash balances of $6 million and $9 million, respectively, and long-term restricted cash balances of $32 million and $29 million, respectively, related to the Lease Agreements in “Restricted cash” on our Condensed Consolidated Balance Sheet. Following the conclusion of the initial drilling contract for each Rig, the Cash Sweep will be reduced, requiring us to make prepayments to the Lessors of up to 25% of the Excess Cash Amounts. Currently, *Prospector 1* is subject to lower Cash Sweep prepayments up to 25% of the Excess Cash, and *Prospector 5* is subject to 100% of the Cash Sweep prepayments.

NOTE 8—LIABILITIES SUBJECT TO COMPROMISE

As a result of the filing of Old Paragon Bankruptcy cases on February 14, 2016, we classified pre-petition liabilities that are not fully secured and had at least a possibility of not being repaid at the full claim amount by the Consensual Plan as liabilities subject to compromise in our condensed consolidated financial statements. Pre-petition liabilities that are subject to compromise are required to be reported at the amounts expected to be allowed, even if they may be settled for lesser amounts. If there is uncertainty about whether a secured claim is under-secured, or would be impaired under the Consensual Plan, the entire amount of the claim is included in liabilities subject to compromise. As of June 30, 2017, the amounts classified as liabilities subject to compromise represented our estimate of claims expected to be allowed under the Consensual Plan prior to its approval.

The Revolving Credit Facility, Senior Notes, and Term Loan Facility were affected by the Consensual Plan. As such, the outstanding balances of these debt instruments and related accrued pre-petition interest (for the Senior Notes only), unamortized discount (for Term Loan Facility only) and unamortized debt issuance costs are classified as liabilities subject to compromise in the Condensed Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016.

Generally, actions to enforce or otherwise effect payment of pre-bankruptcy filing liabilities are stayed. Although payment of pre-petition claims is generally not permitted, the Bankruptcy Court approved the Debtors’ “first day” motions allowing, among other things, the payment of obligations related to human capital, supplier relations, customer relations, business operations, tax matters, cash management, utilities, case management and retention of professionals. As a result of this approval, Old Paragon continued to pay certain pre-petition claims in designated categories and subject to certain terms and conditions in the ordinary course of business, and we did not classify these liabilities as subject to compromise in the Condensed Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016. This treatment was designed to preserve the value of our business and assets. With respect to pre-petition claims, Old Paragon notified all known claimants of the deadline to file a proof of claim with the Court.

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

The following table reflects pre-petition liabilities that are subject to compromise included in our Condensed Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016. See Note 7 - *"Debt"* for a specific discussion on the debt instruments and related balances subject to compromise:

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

NOTE 9—REORGANIZATION ITEMS

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

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2017	2016	2017	2016
Professional fees	$ 20,656	$ 13,880	$ 37,104	$ 32,496
Other	123	3,669	2,149	6,895
Total Reorganization items, net	$ 20,779	$ 17,549	$ 39,253	$ 39,391

Included in Reorganization items, net for the six months ended June 30, 2017 is approximately $23 million of cash paid for professional fees and $16 million of accrued expenses.

Included in Reorganization items, net for the six months ended June 30, 2016 is approximately $21 million of cash paid for professional fees, $12 million of accrued expenses and $6 million of non-cash amortization associated with the reorganization.

The effects of the Consensual Plan and the application of fresh-start accounting will be reflected in our consolidated balance sheet as of July 18, 2017 and the related adjustments thereto will be recorded in our consolidated statements of operations as Reorganization items, net for the period from January 1 to July 18, 2017.

NOTE 10—CONDENSED COMBINED DEBTOR-IN-POSSESSION FINANCIAL INFORMATION

The financial statements below represent the condensed combined financial statements of the Debtors. Effective January 1, 2016, the Non-Filing entities are accounted for as non-consolidated subsidiaries in these financial statements and, as such, their net earnings are included as "Equity in earnings of Non-Filing entities, net of tax" in the Debtors' Condensed Combined Statement of Operations and their net assets are included as "Investment in Non-Filing entities" in the Debtors' Condensed Combined Balance Sheet.

Intercompany transactions among the Debtors have been eliminated in the financial statements contained herein. Intercompany transactions among the Debtors and the Non-Filing entities have not been eliminated in the Debtors' financial statements.

DEBTORS' CONDENSED COMBINED STATEMENT OF OPERATIONS
(Unaudited)
(In thousands)

	Three Months Ended June 30,		Six Months Ended June 30,	
	2017	2016	2017	2016
Operating revenues				
Contract drilling services	$ 29,502	$ 131,343	$ 57,412	$ 331,665
Reimbursables and other	2,742	13,759	5,781	30,857
	32,244	145,102	63,193	362,522
Operating costs and expenses				
Contract drilling services	38,212	83,177	80,899	187,605
Reimbursables	500	12,032	1,310	24,600
Depreciation and amortization	24,621	53,727	49,413	119,802
General and administrative	9,783	8,201	17,882	18,673
Loss on impairments	—	—	391	—
(Gain) on sale of assets, net	(1,383)	—	(1,383)	—
	71,733	157,137	148,512	350,680
Operating loss before interest, reorganization items and income taxes	(39,489)	(12,035)	(85,319)	11,842
Interest expense, net (contractual interest of $33,184 and $32,360 for the three months ended June 31, 2017 and 2016, and $66,314 and $62,771 for the six months ended June 31, 2017 and 2016)	(15,019)	(14,224)	(29,985)	(36,342)
Other, net	837	(1,877)	2,088	(1,083)
Reorganization items, net	(18,779)	(14,753)	(37,253)	(34,207)
Loss before income taxes	(72,450)	(42,889)	(150,469)	(59,790)
Income tax benefit (provision)	(1,175)	723	(3,397)	(460)
Net loss	(73,625)	(42,166)	(153,866)	(60,250)
Equity in earnings of Non-Filing entities, net of tax	16,709	17,057	26,534	29,931
Net loss attributable to Paragon	$ (56,916)	$ (25,109)	$ (127,332)	$ (30,319)

DEBTORS' CONDENSED COMBINED BALANCE SHEET
(Unaudited)
(In thousands)

	June 30, 2017	December 31, 2016
ASSETS		
Current assets		
Cash and cash equivalents	$ 465,806	$ 553,238
Accounts receivable, net of allowance for doubtful accounts of $25 million at June 30, 2017 and December 31, 2016, respectively	35,375	48,861
Accounts receivable from Non-Filing entities	775,188	647,657
Prepaid and other current assets	36,544	33,228
Total current assets	1,312,913	1,282,984
Investment in Non-Filing entities	1,102,514	1,074,335
Notes receivable from Non-Filing entities	65,174	58,759
Property and equipment, at cost	1,792,431	1,809,120
Accumulated depreciation	(1,516,655)	(1,481,209)
Property and equipment, net	275,776	327,911
Other assets	23,992	25,974
Total assets	$ 2,780,369	$ 2,769,963
LIABILITIES AND EQUITY		
Current liabilities		
Current maturities of debt due to Non-Filing entities	$ 3,606	$ 3,606
Accounts payable	7,075	32,261
Accounts payable due to Non-Filing entities	1,097,687	941,644
Accrued payroll and related costs	38,377	24,591
Taxes payable	10,814	13,418
Interest payable	130	591
Other current liabilities	12,961	15,993
Total current liabilities	1,170,650	1,032,104
Long-term debt due to Non-Filing entities	2,112	2,112
Deferred income taxes	1,346	2,505
Other liabilities	22,535	24,758
Liabilities subject to compromise	2,344,563	2,344,563
Total liabilities	3,541,206	3,406,042
Equity		
Total deficit	(760,837)	(636,079)
Total liabilities and equity	$ 2,780,369	$ 2,769,963

DEBTORS' CONDENSED COMBINED STATEMENT OF CASH FLOWS
(In thousands)
(Unaudited)

	Six Months Ended June 30,	
	2017	**2016**
Net cash provided by (used in) operating activities	$ (87,627)	$ 147,293
Capital expenditures	(2,404)	(25,668)
Change in accrued capital expenditures	(176)	(5,133)
Proceeds from sale of assets	2,800	—
Change in restricted cash	—	(9,254)
Net cash used in investing activities	220	(40,055)
Net cash used in financing activities	(25)	(122)
Net change in cash and cash equivalents	(87,432)	107,116
Cash and cash equivalents, beginning of period	553,238	466,917
Cash and cash equivalents, end of period	$ 465,806	$ 574,033

NOTE 11 —INCOME TAXES

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

The income tax provision was $0.01 million and $2 million for the three and six months ended June 30, 2017, respectively. The income tax benefit was $1 million and $0.3 million for the three and six months ended June 30, 2016, respectively.

At June 30, 2017, the liabilities related to our unrecognized tax benefits, including estimated accrued interest and penalties, totaled $20 million, and if recognized, would reduce our income tax provision by $20 million. At December 31, 2016, the liabilities related to our unrecognized tax benefits totaled $19 million. It is reasonably possible that our existing liabilities related to our unrecognized tax benefits may increase or decrease in the next twelve months primarily due to the progression of open audits or the expiration of statutes of limitation. However, we cannot reasonably estimate a range of potential changes in our existing liabilities for unrecognized tax benefits due to various uncertainties, such as the unresolved nature of various audits and the effects of Old Paragon subsidiaries which were not transferred to New Paragon in accordance with the Consensual Plan. To the extent unrecognized tax benefits are attributable exclusively to Old Paragon subsidiaries, New Paragon's liabilities will decrease.

NOTE 12—RESTRUCTURING CHARGES

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

As related to the workforce reduction for the six months ended June 30, 2017, appropriate communications to impacted personnel had been completed. As a result, we recorded restructuring expense of $1 million and $4 million consisting of employee severance and other termination benefits which were included in “Contract drilling services”, “Labor contract drilling services” and “General and administrative” operating costs and expenses on our Condensed Consolidated Statement of Operations for the three and six months ended June 30, 2017. We paid approximately $10 million in restructuring and employee separation related costs during 2017. We had $4 million and $10 million of accrued restructuring expense consisting of employee severance and other termination benefits in “Accrued payroll and related costs” on our Condensed Consolidated Balance Sheets as of June 30, 2017 and December 31, 2016, respectively.

NOTE 13—EMPLOYEE BENEFIT PLANS

Defined Benefit Plans

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

As of January 1, 2017, all active employees under our current defined benefit pension plans were transferred to a defined contribution pension plan as related to their future service. The accrued benefits under the defined benefit plan were frozen and all employees of those plans became deferred members. The transfer to a defined contribution pension plan was accounted for as a curtailment during the year ended December 31, 2016.

For the three and six months ended June 30, 2017 pension benefit expense related to our frozen defined benefit pension plans, based on actuary estimates, are presented in the table below.

Pension cost includes the following components:

	Three Months Ended June 30,		Six Months Ended June 30,	
(In thousands)	2017	2016	2017	2016
Service cost	$ 20	$ 1,115	$ 38	$ 2,289
Interest cost	535	551	1,006	1,131
Expected return on plan assets	(417)	(441)	(784)	(906)
Amortization of prior service cost	—	(4)	—	(9)
Amortization of transition obligation	12	—	22	—
Amortization of net actuarial loss	—	185	—	380
Net pension expense	$ 150	$ 1,406	$ 282	$ 2,885

During the three and six months ended June 30, 2017 and 2016, we made no contribution to our frozen defined benefit pension plans.

Defined Contribution and Other Benefit Plans

We sponsor a 401(k) defined contribution plan and a profit sharing plan. Other post-retirement benefit expense related to these other benefit plans included in the accompanying Condensed Consolidated Statements of Operations was $1.5 million and $0.5 million for the six months ended June 30, 2017 and 2016, respectively.

NOTE 14—FAIR VALUE OF FINANCIAL INSTRUMENTS

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

Fair Value of Debt

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

The estimated fair value of our Senior Notes due July 15, 2022, excluding debt issuance costs of $6 million for June 30, 2017 and December 31, 2016, respectively, and our Senior Notes due August 15, 2024, excluding debt issuance costs of $8 million for June 30, 2017 and December 31, 2016, respectively, are as follows:

	Subject to Compromise			
	June 30, 2017		December 31, 2016	
(In thousands)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
6.75% Senior Notes due July 15, 2022	$ 456,572	$ 103,587	$ 456,572	$ 83,324
7.25% Senior Notes due August 15, 2024	527,010	122,861	527,010	93,544
Total senior unsecured notes	$ 983,582	$ 226,448	$ 983,582	$ 176,868

The estimated fair value of our Term Loan Facility, bearing interest at 6.00% and 5.50%, excluding unamortized discount and debt issuance costs of $7 million for both June 30, 2017 and December 31, 2016, is as follows:

	Subject to Compromise			
	June 30, 2017		December 31, 2016	
(In thousands)	Carrying Value	Estimated Fair Value	Carrying Value	Estimated Fair Value
Term Loan Facility	$ 641,875	$ 244,715	$ 641,875	$ 244,113

The carrying amount of our variable-rate debt, the Revolving Credit Facility, which is subject to compromise as of June 30, 2017 and December 31, 2016, approximates fair value as such debt bore short-term, market-based interest rates. We have classified this instrument as Level 2 as valuation inputs used for purposes of determining our fair value disclosure are readily available published LIBOR rates.

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

NOTE 15—ACCUMULATED OTHER COMPREHENSIVE LOSS

The following table sets forth the changes in the accumulated balances for each component of "Accumulated other comprehensive loss" ("AOCL") for the six months ended June 30, 2017 and 2016. All amounts within the tables are shown net of tax.

(In thousands)	Defined Benefit Pension Items (1)	Foreign Currency Items	Total
Balance as of December 31, 2015	$ (20,351)	$ (21,663)	$ (42,014)
Activity during period:			
Other comprehensive loss before reclassification	—	8,151	8,151
Amounts reclassified from AOCL	386	—	386
Net other comprehensive income	386	8,151	8,537
Balance as of June 30, 2016	$ (19,965)	$ (13,512)	$ (33,477)
Balance as of December 31, 2016	$ (14,329)	$ (24,329)	$ (38,658)
Activity during period:			
Other comprehensive income before reclassification	—	1,808	1,808
Amounts reclassified from AOCL	(86)	—	(86)
Net other comprehensive income	(86)	1,808	1,722
Balance as of June 30, 2017	$ (14,415)	$ (22,521)	$ (36,936)

(1) Defined benefit pension items relate to actuarial losses, prior service credits, and the amortization of actuarial losses and prior service credits. Reclassifications from AOCL are recognized as expense on our Condensed Consolidated Statements of Operations through either "Contract drilling services" or "General and administrative." See Note 13, *"Employee Benefit Plans"* for additional information.

NOTE 16—COMMITMENTS AND CONTINGENCIES

Litigation

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

Tax Contingencies

We operate in a number of countries throughout the world and our tax returns filed in those jurisdictions are subject to review and examination by tax authorities within those jurisdictions. As of June 30, 2017, we have received tax audit claims of approximately $386 million, of which $96 million were subject to indemnity by Noble, primarily in Mexico and Brazil, attributable to our income, customs and other business taxes. In addition, as of June 30, 2017, approximately $35 million of tax audit claims in Mexico assessed against Noble were subject to indemnity by us as a result of the Spin-Off. We have contested, or intend to contest, these assessments, including through litigation if necessary. Tax authorities may issue additional assessments or pursue legal actions as a result of tax audits, and we cannot predict or provide assurance as to the ultimate outcome of such assessments and legal actions. In some cases, we will be required to post a cash deposit as collateral while we defend these claims. We could be required to post such collateral in the near future, and such amounts could be substantial and could have a material adverse effect on our liquidity, financial condition, results of operations and cash flows. We have no surety bonds or letters of credit associated with tax audit claims outstanding as of June 30, 2017. To the extent tax audit claims are attributable exclusively to Old Paragon subsidiaries, New Paragon's exposure should decrease.

In January 2015, a subsidiary of Noble received an unfavorable ruling from the Mexican Supreme Court on a tax depreciation position claimed in periods prior to the Spin-Off. Although the ruling does not constitute mandatory jurisprudence in Mexico, it would have created potential indemnification exposure for us under the Tax Sharing Agreement with Noble if Noble was ultimately determined to be liable for any amounts.

Petrobras has notified us, along with other industry participants that it is currently challenging assessments by Brazilian tax authorities of withholding taxes associated with the provision of drilling rigs for its operations in Brazil during the years 2008 and 2009 totaling $85 million, of which $24 million was subject to indemnity by Noble. Petrobras has also notified us that if they must pay such withholding taxes, they will seek reimbursement from us. We believe that we are contractually indemnified by Petrobras for these amounts and dispute the validity of the assessment. We have notified Petrobras of our position. We will, if necessary, vigorously defend our rights. If we were required to pay such reimbursement, however, the amount of such reimbursement could be substantial and could have a material adverse effect on our financial condition, results of operations and cash flows.

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

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

Noble Litigation Trust

On the Effective Date, in connection with the effectiveness of, and pursuant to the terms of, the Consensual Plan, Old Paragon, New Paragon, certain of the reorganized Debtors and the Joint Administrators entered into a Litigation Trust Agreement with Drivetrain, LLC, as Litigation Trust Management, and certain members of a litigation trust committee, pursuant to which the Litigation Trust was established for the benefit of certain holders of allowed claims under the Consensual Plan. Pursuant to

the Consensual Plan and the Confirmation Order, Old Paragon and the reorganized Debtors transferred the Noble Claims to the Litigation Trust.

Pursuant to the terms of the Litigation Trust Agreement, a subsidiary of New Paragon agreed to provide the Litigation Trust with an interest-free delayed draw term loan of up to $10 million in cash to fund the reasonable costs and expenses associated with the administration of the Litigation Trust Term Loan. The Litigation Trust may prosecute the Noble Claims and conduct such other action as authorized by the Consensual Plan, make timely and appropriate distributions to the beneficiaries of the Litigation Trust and otherwise carry out the provisions of the Litigation Trust Agreement. None of Old Paragon, New Paragon or any of the reorganized Debtors is a beneficiary to the Litigation Trust.

Other Contingencies

As previously reported, one of Old Paragon's subsidiaries used a commercial agent in Brazil in connection with Petrobras drilling contracts. The agent pleaded guilty in Brazil in connection with the award by Petrobras of a drilling contract to one of Old Paragon's competitors as part of a wider investigation of Petrobras' business practices. The agent has represented a number of different companies in Brazil over many years, including several offshore drilling contractors. Since mid-2015, Old Paragon has conducted an independent review of its relationships with the agent and with Petrobras. Old Paragon's review to date found no evidence of wrongdoing by its employees or the commercial agent on its behalf. The SEC and U.S. Department of Justice are aware of Old Paragon's review.

Insurance

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

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

Other

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

Separation Agreements

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

- Master Separation Agreement;
- Tax Sharing Agreement;
- Employee Matters Agreement;

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

Pursuant to these agreements with Noble, our Condensed Consolidated Balance Sheets include the following balances due from and to Noble as of June 30, 2017 and December 31, 2016:

(In thousands)	June 30, 2017	December 31, 2016
Accounts receivable	$ 97	$ 1,149
Other current assets	128	461
Other assets	7,392	7,157
Due from Noble	$ 7,617	$ 8,767
Accounts payable	$ —	$ 211
Other current liabilities	2,403	2,594
Other liabilities	2,522	3,268
Due to Noble	$ 4,925	$ 6,073

These receivables and payables primarily relate to rights and obligations under the Tax Sharing Agreement and the Transition Services Agreement (Brazil).

On the Effective Date, Old Paragon rejected the Separation Agreements pursuant to the terms of the Consensual Plan.

NOTE 17—SUPPLEMENTAL CASH FLOW INFORMATION

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

	Six Months Ended June 30,	
(In thousands)	2017	2016
Accounts receivable	$ 9,409	$ 79,243
Other current assets	4,574	20,739
Other assets	1,314	4,155
Accounts payable and accrued payroll	(26,066)	(21,253)
Other current liabilities	(12,295)	(1,414)
Other liabilities	(2,319)	(662)
Prepaid and accrued reorganization items	16,616	18,791
Net change in other assets and liabilities	$ (8,767)	$ 99,599
Supplemental information for non-cash activities:		
Accrued capital expenditures	$ 1,615	$ 4,943
Reclassification of Liabilities subject to compromise	—	1,709,347
Netting of VAT receivables and payables	12,307	—

We made income tax payments of approximately $4 million and received income tax refunds of approximately $9 million during the six months ended June 30, 2017 and 2016, respectively.

NOTE 18—SEGMENT AND RELATED INFORMATION

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

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

The following discussion and analysis of the consolidated financial condition and results of operations should be read in conjunction with the accompanying unaudited condensed consolidated financial statements and related notes as of June 30, 2017 and for the three and six months ended June 30, 2017 and 2016 contained in this Quarterly Report and the consolidated financial statements and notes thereto included in our Annual Report on Form 10-K for the year ended December 31, 2016.

Overview

Our financial and operating results for the three months ended June 30, 2017 include:

- Second quarter 2017 revenues of $60 million; net loss of $57 million or $0.64 per share
- Adjusted EBITDA of $10 million net of reorganization items
- Cash balance as of June 30, 2017 of $772 million excluding restricted cash
- Contract backlog as of June 30, 2017 of $214 million

Contract Drilling Services Backlog

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

	For the Years Ending December 31,			
(Dollars in millions)	Total	2017	2018	2019
Drilling service backlog	$ 214	$ 113	$ 70	$ 31
Percent of available days committed [(1)]		22%	14%	6%

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

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

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

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

RESULTS OF OPERATIONS

For the Three Months Ended June 30, 2017 and 2016

Net loss for the three months ended June 30, 2017 was $57 million, or a loss of $0.64 per diluted share, on operating revenues of $60 million, compared to a net loss for three months ended June 30, 2016 of $25 million, or a loss of $0.29 per diluted share, on operating revenues of $185 million.

Average Rig Utilization, Operating Days and Average Dayrates

Operating results for our contract drilling services segment are dependent on two primary metrics: rig utilization and dayrates. The following table includes the average rig utilization, operating days and average dayrates for our rig fleet for the three months ended June 30, 2017 (the "Current Quarter") and for the three months ended June 30, 2016 (the "Comparable Quarter"):

	Average Rig Utilization (1)		Operating Days (2)			Average Dayrates		
	Three Months Ended June 30,		Three Months Ended June 30,		Change	Three Months Ended June 30,		Change
	2017	2016	2017	2016	%	2017	2016	%
Jackups	24%	36%	722	1,126	(36)%	$ 80,078	$ 112,007	(29)%
Floaters	—%	18%	—	96	(100)%	—	398,910	(100)%
Total	21%	34%	722	1,222	(41)%	$ 80,078	$ 134,586	(41)%

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

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

Operating Results

The following table sets forth our operating results for the three months ended June 30, 2017 and 2016:

(Dollars in thousands)	Three Months Ended June 30, 2017	Three Months Ended June 30, 2016	Change $	Change %
Operating revenues				
Contract drilling services	$ 57,816	$ 164,464	$ (106,648)	(65)%
Labor contract drilling services	—	5,485	(5,485)	(100)%
Reimbursables and other	2,282	14,986	(12,704)	(85)%
	60,098	184,935	(124,837)	(68)%
Operating costs and expenses				
Contract drilling services	$ 42,045	$ 91,631	$ (49,586)	(54)%
Labor contract drilling services	(629)	4,193	(4,822)	(115)%
Reimbursables	1,540	13,308	(11,768)	(88)%
Depreciation and amortization	30,493	59,556	(29,063)	(49)%
General and administrative	7,118	9,821	(2,703)	(28)%
(Gain) on sale of assets, net	(1,383)	—	(1,383)	**
	79,184	178,509	(99,325)	(56)%
Operating loss	$ (19,086)	$ 6,426	$ (25,512)	(397)%

** Not a meaningful percentage

Contract Drilling Services Operating Revenues—Changes in contract drilling services revenues for the Current Quarter as compared to the Comparable Quarter resulted from a 41% decrease in operating days which negatively impacted revenues by $84 million. This was coupled with a 41% decrease in average dayrates, which resulted in a $23 million decrease in revenues from the Comparable Quarter.

The decrease in contract drilling services revenues was attributable to both our floaters and jackups, which experienced decreases of $38 million and $69 million, respectively, in the Current Quarter as compared to the Comparable Quarter.

The decrease in floater revenues of $38 million in the Current Quarter was driven by a 100% decrease in operating days, from the Comparable Quarter.

The decrease in operating days for our floaters was primarily attributable to *Paragon MSS2* and *Paragon DPDS3*, which were uncontracted for all of the Current Quarter but experienced full or partial utilization in Brazil, in the Comparable Quarter.

The $69 million decrease in jackup revenues in the Current Quarter was driven by a 36% decrease in operating days which resulted in a $46 million decrease in revenues from the Comparable Quarter. This was coupled with a 29% decrease in average dayrates, which resulted in a $23 million decrease in revenues from the Comparable Quarter.

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

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

Contract Drilling Services Operating Costs and Expenses — Contract drilling services operating costs and expenses decreased $50 million in the Current Quarter as compared to the Comparable Quarter due to reduced operating days across our fleet as well as cost reduction initiatives implemented across our operations.

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

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

Depreciation and Amortization — The $29 million decrease in depreciation and amortization in the Current Quarter was primarily attributable to lower depreciation on assets subject to the impairment charges taken in the fourth quarter of 2016.

General and Administrative — General and administrative expenses decreased $3 million in the Current Quarter as compared to the Comparable Quarter primarily due to cost reduction initiatives implemented across the business as a result of reduced operations.

Other Expenses

Income tax provision — Our income tax provision increased $1 million in the Current Quarter compared to the Comparable Quarter, primarily related to the underlying changes in the profitability/loss associated with our operations in various jurisdictions and certain discrete tax items.

Reorganization items, net — We use "Reorganization items, net" to reflect the net revenues, expenses, gains and losses that are the direct result of the reorganization of the business. Reorganization items of $21 million and $18 million for the three months ended June 30, 2017 and 2016, respectively, primarily relate to professional fees for legal and financial advisors incurred in connection with preparation and handling of the Bankruptcy cases. (See Note 9, "*Reorganization Items*" for additional detail).

For the Six Months Ended June 30, 2017 and 2016

Net loss for the six months ended June 30, 2017 was $127 million, or a loss of $1.43 per diluted share, on operating revenues of $118 million, compared to a net loss for six months ended June 30, 2016 of $30 million, or a loss of $0.35 per diluted share, on operating revenues of $450 million.

Average Rig Utilization, Operating Days and Average Dayrates

Operating results for our contract drilling services segment are dependent on two primary metrics: rig utilization and dayrates. The following table includes the average rig utilization, operating days and average dayrates for our rig fleet for the six months ended June 30, 2017 (the "Current Period") and for the six months ended June 30, 2016 (the "Comparable Period"):

	Average Rig Utilization (1)		Operating Days (2)			Average Dayrates		
	Six Months Ended June 30,		Six Months Ended June 30,		Change	Six Months Ended June 30,		Change
	2017	2016	2017	2016	%	2017	2016	%
Jackups	22%	42%	1,354	2,617	(48)%	$ 83,485	$ 113,077	(26)%
Floaters	—%	31%	—	343	(100)%	—	302,375	(100)%
Total	19%	41%	1,354	2,960	(54)%	$ 83,485	$ 134,969	(38)%

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

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

Operating Results

The following table sets forth our operating results for the six months ended June 30, 2017 and 2016:

(Dollars in thousands)	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016	Change $	Change %
Operating revenues				
Contract drilling services	$ 113,063	$ 399,508	$ (286,445)	(72)%
Labor contract drilling services	—	12,233	(12,233)	(100)%
Reimbursables and other	4,478	38,314	(33,836)	(88)%
	117,541	450,055	(332,514)	(74)%
Operating costs and expenses				
Contract drilling services	$ 91,637	$ 204,337	$ (112,700)	(55)%
Labor contract drilling services	(615)	9,252	(9,867)	(107)%
Reimbursables	3,116	33,092	(29,976)	(91)%
Depreciation and amortization	61,068	131,462	(70,394)	(54)%
General and administrative	15,841	21,995	(6,154)	(28)%
Loss on impairments	391	—	391	**
(Gain) on sale of assets, net	(1,383)	—	(1,383)	**
	170,055	400,138	(230,083)	(58)%
Operating income (loss)	$ (52,514)	$ 49,917	$ (102,431)	(205)%

** Not a meaningful percentage

Contract Drilling Services Operating Revenues—Changes in contract drilling services revenues for the Current Period as compared to the Comparable Period were driven by a 54% decrease in operating days which negatively impacted revenues by $246 million. This was coupled with a 38% decrease in average dayrates which decreased revenues by $40 million.

The decrease in contract drilling services revenues was attributable to both our floaters and jackups, which experienced decreases of $103 million and $183 million, respectively, in the Current Period as compared to the Comparable Period.

The decrease in floater revenues of $103 million in the Current Period was driven by a 100% decrease in operating days, from the Comparable Period.

The decrease in operating days for our floaters was primarily attributable to *Paragon DPDS3*, which was uncontracted for all of the Current Period but experienced full utilization in Brazil in the Comparable Period. *Paragon MSS2* and *Paragon MSS1* also experienced a decrease in operating days in Brazil and the North Sea, respectively, in the Current Period as compared to the Comparable Period.

The $183 million decrease in jackup revenues in the Current Period was driven by a 48% decrease in jackup operating days which resulted in a $143 million decrease in revenues. This was coupled with a 26% decrease in average dayrates which resulted in decreased revenues of $40 million from the Comparable Period.

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

The decrease in jackup average dayrates during the Current Period was due to an overall decrease in dayrates across our fleet. The decrease in average dayrates was offset by the realization of higher dayrates on contracts for *Prospector 5* operating in the North Sea.

Contract Drilling Services Operating Costs and Expenses — Contract drilling services operating costs and expenses decreased $113 million in the Current Period as compared to the Comparable Period due to reduced operating days across our fleet as well as cost reduction initiatives implemented across our operations.

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

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

Depreciation and Amortization — The $70 million decrease in depreciation and amortization in the Current Period was primarily attributable to lower depreciation on assets subject to the impairment charges taken in the fourth quarter of 2016.

General and Administrative — General and administrative expenses decreased $6 million in the Current Period as compared to the Comparable Period primarily due to cost reduction initiatives implemented across the business as a result of reduced operations.

Other Expenses

Income tax provision — Our income tax provision increased $3 million in the Current Period compared to the Comparable Period, primarily related to the underlying changes in the profitability/loss associated with our operations in various jurisdictions and certain discrete tax items.

Reorganization items, net — Old Paragon uses "Reorganization items, net" to reflect the net revenues, expenses, gains and losses that are the direct result of the reorganization of the business. Reorganization items of $39 million in both the Current and Prior Periods, primarily relate to professional fees for legal and financial advisors incurred in connection with preparation and handling of the Bankruptcy cases. During the six months ended June 30, 2017, Old Paragon paid cash of approximately $23 million for reorganization items. (See Note 9, "*Reorganization Items*" for additional detail).

Non-GAAP Performance Measure: Adjusted EBITDA

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

The reconciliation from net loss to Adjusted EBITDA is as follows:

	Three Months Ended June 30,		Six Months Ended June 30,	
(in thousands)	2017	2016	2017	2016
Net loss	$ (56,916)	$ (25,109)	$ (127,332)	$ (30,319)
Adjustments:				
Depreciation and amortization	30,493	59,556	61,068	131,462
Loss on impairments	—	—	391	—
(Gain) on sale of assets, net	(1,383)	—	(1,383)	—
Interest expense, net	18,005	12,836	35,921	39,853
Other, net	(968)	2,054	(2,719)	1,292
Reorganization items, net	20,779	17,549	39,253	39,391
Income tax (benefit) provision	14	(904)	2,363	(300)
Adjusted EBITDA	$ 10,024	$ 65,982	$ 7,562	$ 181,379

LIQUIDITY AND CAPITAL RESOURCES

Financial Resources and Liquidity Overview

Our primary sources of liquidity are cash generated from operations, any future financing arrangements, and equity issuances, subject to the restrictions in our Debt Facilities. Our principal uses of liquidity will be to fund our operating expenditures and capital expenditures, including projects, upgrades and replacements to drilling equipment and to service our outstanding indebtedness.

As of June 30, 2017, we had available liquidity in cash and cash equivalents of $772 million.

The table below includes a summary of our cash flow information for the six months ended June 30, 2017 and 2016:

(In thousands)	Six Months Ended June 30, 2017	Six Months Ended June 30, 2016
Cash flows provided by (used in):		
Operating activities	$ (74,620)	$ 208,189
Investing activities	(4,738)	(54,225)
Financing activities	(32,352)	(38,445)

Changes in cash flows from operating activities for the six months ended June 30, 2017 are driven by the overall decrease in our business activity (see discussion of changes in net loss in "Results of Operations" above). Changes in cash flows used in investing activities are dependent upon our level of capital expenditures, which varies based on the timing of projects. Cash used for capital expenditures totaled $6 million during the six months ended June 30, 2017, as compared to $35 million during the same period of 2016. During the six months ended June 30, 2017, our net cash from investing activities was impacted by an increase in restricted cash related to reserve requirements on the Sale-Leaseback Transaction. Cash used in financing activities for the six months ended June 30, 2017 are due to repayments on our Sale-Leaseback Transaction.

Meeting Our Liquidity Needs

We have maintained our liquidity position by giving priority to generating cash flows, including cost and capital expenditure reductions, while maintaining our long-term commitment to providing high quality services. During the pendency of the Bankruptcy cases and upon emergence from bankruptcy, our primary sources of liquidity have been cash on hand and cash flows from operations. In addition to the cash requirements to fund ongoing operations, we have incurred and continue to incur significant professional fees and other costs in connection with preparation and handling of the Bankruptcy cases. For the six months ended June 30, 2017 and 2016, we paid $23 million and $21 million, respectively, in professional fees. We anticipate that we will continue to incur significant professional fees and costs related to the Bankruptcy cases. Pursuant to the terms of, the Consensual Plan, Old Paragon holds approximately $11 million of cash on trust to discharge the fees, expenses and disbursements of the administration of Old Paragon, including the fees and expenses of the Joint Administrators, and the wind down of Old Paragon's remaining subsidiaries, excluding the Prospector Group. As of the Effective Date, Old Paragon has approximately $7 million in cash in certain of its subsidiaries which will also be used for the wind down of Old Paragon's remaining subsidiaries.

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

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

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

Capital Expenditures

Cash used for capital expenditures, including capitalized interest, totaled $6 million during the six months ended June 30, 2017 and $35 million during the six months ended June 30, 2016.

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

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

Forward-Looking Statements

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

ITEM 3. QUANTITATIVE AND QUALITATIVE DISCLOSURES ABOUT MARKET RISK

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

Interest Rate Risk

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

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

Interest on borrowings under our Revolving Credit Facility is at an agreed upon applicable margin over adjusted LIBOR, or base rate plus such applicable margin as stated in the agreement. As of June 30, 2017, we had $709 million borrowings outstanding under our Revolving Credit Facility. A 1% change in the interest rate on the floating rate debt would have impacted our annual earnings and cash flows by approximately $7 million.

Old Paragon's Senior Notes bore interest at a fixed interest rate and fair value would fluctuate based on changes in prevailing market interest rates and market perceptions of its credit risk.

Interest on borrowings under our Term Loan Facility is at an agreed upon percentage point spread over adjusted LIBOR (subject to a 1% floor), or base rate as stated in the agreement. As of June 30, 2017, we had $635 million in borrowings outstanding under our Term Loan Facility, net of unamortized discount. Since we were subject to the 1% LIBOR floor as of June 30, 2017, our Term Loan Facility effectively bore interest at a fixed interest rate. Holding other variables constant (such as debt levels), a 1% increase in interest rates would have increased our annual interest expense by approximately $6 million.

Foreign Currency Risk

Although Old Paragon is a U.K. company, we define foreign currency as any non-U.S. denominated currency. Our functional currency is primarily the U.S. dollar. However, outside the United States, a portion of our expenses are incurred in local currencies. Therefore, when the U.S. dollar weakens (strengthens) in relation to the currencies of the countries in which we operate, our expenses reported in U.S. dollars will increase (decrease).

We are exposed to risks on future cash flows to the extent that local currency expenses exceed revenues denominated in local currencies that are other than the U.S. dollar. To help manage this potential risk, we may periodically enter into derivative instruments to manage our exposure to fluctuations in foreign currency exchange rates, and we may conduct hedging activities in future periods to mitigate such exposure, subject to certain limitations as a result of the bankruptcy proceedings. We do not engage in derivative transactions for speculative or trading purposes, nor are we a party to leveraged derivatives. At June 30, 2017, we had no outstanding derivative contracts.

PART II. OTHER INFORMATION

ITEM 1. LEGAL PROCEEDINGS

Information regarding legal proceedings is set forth in Note 1 - *"Organization, Currents Events, and Basis of Presentation*" and Note 16, *"Commitments and Contingencies"* to our unaudited consolidated financial statements included in Item I, Part I of this Quarterly Report.

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

ITEM 1A. RISK FACTORS

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