Paragon Updated Frequently Asked Questions

Updated January 20, 2017

Note: The provided FAQ document should not be read in a vacuum and readers should not assume that all relevant information is contained within this FAQ document. This FAQ document should be read in conjunction with Paragon's other publicly provided information including, but not limited to, press releases, earnings conference call transcripts, previous FAQ documents posted on Paragon's public website at www.paragonoffshore.com, filings with the U.S. Securities and Exchange Commission, and filings with the U.S. Bankruptcy Court.

- **What has Paragon Offshore announced?**
    - Paragon has announced that it has reached an agreement in principle with representatives of our secured lenders on a term sheet (the "***Term Sheet***") to support a new plan of reorganization (the ***"New Plan"***) under chapter 11 of the United States Bankruptcy Code. If the New Plan based on the Term Sheet is ultimately approved, the company's debt would be significantly reduced leading to a stronger balance sheet, and Paragon's longer-term competitive position within the offshore drilling industry would be enhanced.
    - Key elements of the Term Sheet:
        - Senior Secured Debt/Debtholders
            - Senior Secured Term Loan: The Senior Secured Term Loan maturing July 2021 with an aggregate principle amount of approximately $642 million will be cancelled.
            - Revolving Credit Facility Agreement: The Revolving Credit Facility maturing July 2019 with an aggregate principle amount of approximately $777 million will be cancelled.
            - Holders of the Senior Secured Term Loan (the "***Term Lenders***") and the Revolving Credit Facility (the "***Revolver Lenders***" and together with the Term Lenders, the "***Secured Lenders***") are projected to receive their pro rata share of approximately $421 million in cash, $85 million in take-back debt and approximately 58% of new, to-be-issued common equity. The projected cash distribution is subject to further adjustment on account of (i) cash that will be reserved under the New Plan for satisfaction of administrative, priority, other secured, and other general unsecured claims and (ii) working capital and other adjustments at the time of emergence.

        - Senior Unsecured Debt/Debtholders
            - Paragon's Senior Unsecured 6.75% and 7.25% Notes outstanding in aggregate principal amount of approximately $1 billion will be cancelled.
            - Holders of Paragon's Senior Unsecured Notes (the "***Bondholders***") are projected to receive approximately $50 million in cash and approximately 42% of new, to-be-issued common equity. The projected cash distribution is subject to further adjustment on

account of (i) cash that will be reserved under the New Plan for satisfaction of administrative, priority, other secured, and other general unsecured claims and (ii) working capital and other adjustments at the time of emergence.

- Existing Paragon Offshore common equity
    - Paragon's existing common equity will be deemed to be of no value. Existing shareholders are not expected to receive a recovery under the New Plan.

- New Debt Instrument (the "***Take-back Debt***")
    - The Secured Lenders are to receive Take-back Debt as follows:
        - Amount: $85 million
        - Interest Rate: LIBOR + 6%
        - Term: 5 Years
        - Collateralized against Paragon's rig fleet and other assets, excluding those related to the Prospector Sale-Leaseback Agreement so long as Paragon remains prohibited from pledging those assets under an existing or new financing to the Secured Lenders
        - Key Covenants
            - Prohibition on dividends and share repurchases
            - Prohibition on incurrence of additional secured debt with a carve out for letters of credit
            - Regular reporting and other customary affirmative covenants

- Prospector Sale-Leaseback Agreement
    - The company does not expect the terms and conditions of its Sale-Leaseback agreement related to the two heavy-duty, harsh-environment jackup units, *Prospector 1* and *Prospector 5*, to be affected by the New Plan.

- Paragon Cash at Emergence
    - Paragon expects to emerge with approximately $190 million on its balance sheet at the end of the process, providing the company adequate liquidity under its new business plan.

- Settlement Agreement with Noble Corporation ("***Noble***"), Paragon's former parent company:
    - The company proposes to adopt the previously disclosed settlement agreement with Noble whereby Noble has agreed to provide tax bonding relating to certain previously disclosed and anticipated tax claims in Mexico and assume previously described liability limits for Noble and Paragon legal entities.

        - Paragon also has agreed to release, fully and unconditionally, Noble from any and all claims in relation to the Spin-Off.

- **Have the Bondholders agreed to support this deal?**
    - Although discussions are still ongoing with the Bondholders, Paragon, the Term Lenders, and the Revolver Lenders have not been able to reach a mutually agreeable set of transaction terms with the Bondholders.
    - If we are able to reach a deal with all three creditor groups during the ongoing discussions, the Term Sheet could be subject to change.
    - However, if no consensual agreement is reached with all three creditor groups, the New Plan may be implemented through Chapter 11 without obtaining the consent of the Bondholders.

- **If no deal is reached with the Bondholders, is the New Plan based on the Term Sheet likely to be challenged in court?**
    - Yes, it is likely that a deal that does not have the support of the Bondholders will be challenged by the Bondholders in court. There could be additional objections, but we cannot speculate on the nature of what those objections could be at this time.

- **The previous plan envisioned that existing shareholders would own 53% of the company's equity and in the current plan, they will effectively be wiped out. Wasn't it possible to preserve that value for the shareholders?**
    - Although we tried to preserve value for existing shareholders, none of our creditor groups were willing to support a restructuring that would provide existing equity holders any value.

- **Don't shareholders have a right to the 'non-debtor' assets?**
    - No. Although some assets are held by legal entities which have not been filed as debtors in our Chapter 11 cases, the parent company, Paragon Offshore plc, *is* a debtor and is the owner of those non-debtor assets. Under bankruptcy law, the value of Paragon Offshore plc's interests in non-debtor subsidiaries is available for distribution to its creditors before any recovery to its shareholders. Existing shareholders do not have a particular claim to assets sitting in non-debtor entities.

- **You are emerging with $190 million. Under the previous plan, didn't you emerge with something close to $400 million and the court said in its ruling that it thought *another* $150 million - $200 million should be left in the company? Couldn't you have just resubmitted the previous plan keeping the additional cash in the company?**
    - Paragon lost the case to have its previous plan of reorganization approved. Confirmation was denied on October 28, 2016.
    - The court's ruling (see court docket #0890 - <u>Findings of Fact and Conclusions of Law Denying Confirmation of the Amended Joint Chapter 11 Plan of Paragon Offshore PLC and its Affiliated Debtors</u>) following the confirmation hearing contained several important findings:

        - First and foremost, the court found that our previous plan was not feasible, even under the Downside Sensitivity, noting that "Under the Debtors' proposed Modified Plan, the Debtors will either run out of cash altogether or, at best, breach their financial covenants under the reorganized debt."
        - He also found that we had not established that we would be able to refinance the debt remaining in the company, approximately $1.4 billion, when it became due. Additionally, the company would have retained the balance of the Prospector Sale-Leaseback Agreement, bringing the total debt balance at emergence to greater than $1.5 billion.
        - In summary, the court wrote: "At the end of the day, these cases are all about liquidity. The Debtors' Modified Plan robs the businesses of too much cash and does not preserve sufficient liquidity to meet the challenges of the next several years. These businesses can and should reorganize and recover but not under the Modified Plan."
    - Based on these conclusions, we did not believe that it would be possible to return to the judge with the same business plan, with the only change being that we would retain $150 million to $200 million more cash.
        - Support for the previous plan was predicated upon the distribution of a certain amount of cash to the Bondholders and to the Revolver Lenders. It became clear during the negotiations following the confirmation hearing that it would not be possible to maintain the same business plan, which the court found unreasonable, and keep an additional $150 million - $200 million in the company while still maintaining the support of the Bondholders and Revolver Lenders.
        - Additionally, while the court did not rule out an approach that would reinstate the Term Lenders, it would have been difficult to address the court's concerns about refinancing that debt and we believed that the Term Lenders would once again have contested such an approach.
    - Instead, Paragon considered the court's ruling and developed a new business plan:
        - We assume a smaller, more focused business with a greatly reduced fleet size that will require less liquidity upon emergence.
        - Rig dayrates and utilizations have been modeled using conservative assumptions and have been validated by third parties, unlike in the previous plan.
        - Office and shorebase costs have been reduced under the new business plan to be commensurate with the industry activity we expect over the next several years.
        - Finally, and most importantly, the amount of debt on restructured Paragon will only include the $85 million of Take-back Debt and the balance of the Prospector Sale-Leaseback Agreement.

- **What happens next?**
    - Paragon will develop and submit to the court a New Plan and a new disclosure statement based upon the New Plan sometime within the next few weeks.

- As it did last time, the court will hold a hearing to approve the proposed disclosure statement and, if approved, we will then enter a solicitation period during which certain impaired creditor classes will have the opportunity to vote on the New Plan.
- Assuming the Term Lenders and Revolver Lenders vote their respective classes to accept the New Plan, we would proceed to a confirmation hearing.
- Paragon currently expects to exit Chapter 11 in the first half of 2017, however if the New Plan is contested, the timeline for emergence could be delayed.