On behalf of the Applicant
Todd Strickler
First
16 May 2017
TS1

IN THE HIGH COURT OF JUSTICE **CR-2017-_____**

CHANCERY DIVISION

COMPANIES COURT

IN THE MATTER OF PARAGON OFFSHORE PLC

AND IN THE MATTER OF THE INSOLVENCY ACT 1986

FIRST WITNESS STATEMENT OF TODD STRICKLER

I, **TODD STRICKLER**, of 3151 Briarpark Drive, Houston, Texas 77042, USA, **WILL SAY AS FOLLOWS**:

1 I am the company secretary of Paragon Offshore plc (the "**Company**"), a public limited company with company number 08814042, and have been since my appointment on 1 August 2014. I am also the senior vice president of administration and general counsel.

2 The registered office of the Company is situated at 20-22 Bedford Row, London WC1R 4JS.

3 The Company is a holding company and is the ultimate parent company of the Paragon Offshore group of companies (the "**Group**"). The Group is comprised of the subsidiaries shown on the structure chart appearing at [**TS1/tab 1/pp. 1**] (the "**Paragon Structure Chart**") of the exhibit referred to below.

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4 I am duly authorised by the Company's board of directors (the "**Board**" or the "**Applicants**") to make this statement on the Board's behalf. I make this witness statement in support of the administration application made by the directors of the Company under paragraph 12(1)(b) of Schedule B1 to the Insolvency Act 1986. At [**TS1/tab 2/pp. 2-11**] of the exhibit referred to below are minutes of a meeting of the Board held on 16 May 2017 evidencing its resolution to seek the appointment of administrators and authorising me to make this witness statement.

5 I make this statement based on the knowledge that I have obtained as a result of my role as the company secretary. Unless otherwise stated, the facts and matters set out in this statement are within my own knowledge and I believe them to be true. Where I refer to information supplied by others, I identify the source of the information. Facts and matters derived from other sources are true to the best of my knowledge and belief.

6 One source of information contained in this witness statement is the advice that I have received from advisors to the Company. These advisors include Weil, Gotshal & Manges (London) LLP and Weil, Gotshal & Manges LLP, as English and US counsel, respectively (collectively, "**Weil**"), and Lazard Frères & Co. LLC ("**Lazard**") and AlixPartners LLP ("**AlixPartners**") as financial advisors. In referring to any legal advice that the Company has received, the Company does not intend to, and does not, waive any privilege by such reference or otherwise.

7 I refer in this witness statement to a paginated bundle of true copy documents marked "TS1", which is the exhibit to this witness statement. References to page numbers in this statement are references to TS1 unless otherwise stated. References to "$" are to United States dollars.

8 The structure of this witness statement is as follows:

A Introduction

B Background to the Company and its business

C The Chapter 11 Proceedings and the Fifth Chapter 11 Plan

D	The financial position of the Company and the Group
E	The purpose of the administration
F	Actions by the purported shareholders
G	Insolvency proceedings against the Company
H.	The Company's centre of main interests
I.	The Proposed Administrators
Appendix:	The Chapter 11 Proceedings and the proposed restructuring of the Group

A INTRODUCTION

9 The directors are seeking an administration order to appoint administrators primarily to implement the transfer of certain of the Company and the Group's assets to certain of the Company's creditors as part of a debt-for-equity swap. This transaction will take place as part of a restructuring of the Company and certain Group entities (together, the "**Chapter 11 Debtors**"), which are currently engaged in proceedings pursuant to chapter 11 of title 11 of the United States Code (the "**US Bankruptcy Code**"), sections 101-1532, in the United States Bankruptcy Court for the District of Delaware (the "**US Bankruptcy Court**") (in relation to each relevant entity, the "**Chapter 11 Proceeding**" and, together, the "**Chapter 11 Proceedings**"). A list of the Chapter 11 Debtors is exhibited at [**TS1/tab 3/p. 12**].

10 The definitions I use in this witness statement, where not otherwise stated, are those used in the fifth chapter 11 plan, which was filed with the US Bankruptcy Court on 2 May 2017 (the "**Fifth Chapter 11 Plan**") [**TS1/tab 4/pp. 130-203**] as an exhibit to the Chapter 11 Debtors' disclosure statement for the Fifth Chapter 11 Plan (the "**Disclosure Statement**") [**TS1/tab 4/pp. 13-214**].

11 I understand from Weil that, typically in chapter 11 proceedings that involve a debt-for-equity swap, the chapter 11 plan provides that the new equity is issued by the reorganised debtor to creditors and the debtor's old equity is cancelled under section

1141(d)(1)(B) of the US Bankruptcy Code. However, I understand from Weil that, because the Company is an English public limited company, it is not permitted under English law to amend the Company's constitution and issue the new equity to creditors under chapter 11 proceedings without shareholder consent. On the basis that the Company's equity has no value by reason of the Company's insolvency, the Board believes that it is neither necessary nor appropriate to seek shareholder consent as the value in the Company and the Group is now held for the benefit of its creditors.

12 The steps to be carried out to implement the debt-for-equity swap, which will involve the UK Sale Transaction will, in summary, involve the following:

(a) the incorporation of a new Cayman holding company ("**Reorganized Paragon**"), which will be incorporated as a direct subsidiary of the Company;

(b) a direct or indirect transfer of certain assets of the Company to Reorganized Paragon for nominal consideration from Reorganized Paragon itself on the basis that, at the time of the transfer, the Company's assets are still subject to the security and guarantees securing all the debt outstanding and therefore have no economic value and Reorganized Paragon is 100% owned by the Company;

(c) the Company will procure the distribution of the shares in Reorganized Paragon (together with the steps described in sub-paragraphs (a) and (b) above, the "**UK Sale Transaction**") and distribute other assets including cash (as further described below) to the Secured Lenders and Senior Noteholders (as those terms are defined below in paragraphs 45 and 48) in settlement of the Company's financial liabilities;

(d) the consideration for the UK Sale Transaction and the transfer or distribution of other assets to the Secured Lenders and Senior Noteholders (as those terms are defined below) will therefore be the release as against the Company (and other Chapter 11 Debtors) of all debt outstanding under the RCF, the Term Loan and the Senior Notes (as those terms are defined below), in accordance with sections 4.3 and 4.4 of the Fifth Chapter 11 Plan [**TS1/tab 4/pp. 159-160**].

13 The creditors will receive their respective entitlements to cash, shares in Reorganized Paragon and Litigation Trust Interests as applicable and, in the case of the RCF Lenders and the Term Loan Lenders, senior secured first lien debt of $85 million.

14 Because the UK Sale Transaction will involve the transfer of a substantial proportion of the Company's assets and since the Company is insolvent, the Board has resolved to seek the appointment of administrators to implement the UK Sale Transaction. I understand from Weil that the Proposed Administrators (as defined in paragraph 91, below), if appointed, will act in the best interests of the creditors, whose interests are now paramount by reason of the insolvency. The appointment of administrators to execute the UK Sale Transaction is expressly contemplated and, subject to confirmation by the US Bankruptcy Court, authorized in the Fifth Chapter 11 Plan.

B BACKGROUND TO THE COMPANY AND ITS BUSINESS

15 The Company was incorporated as a private company limited by shares under the Companies Act 2006 on 13 December 2013 under the name Noble Spinco Limited. Its initial subscriber and sole member was Noble Corporation plc ("**Noble**"). The Company was re-registered under the Companies Act 2006 as a public company under its present name on 17 July 2014. Subsequently, on 1 August 2014, the Company's shares were distributed to the shareholders of Noble as a special dividend. A copy of the certificate of incorporation on change of name appears at [**TS1/tab 5/p. 215**]. A copy of the certificate of incorporation on re-registration of a private company as a public company appears at [**TS1/tab 6/p. 216**]. A copy of the current articles of association of the Company appears at [**TS1/tab 7/pp. 217-290**].

16 The Group is a leading provider of standard specification offshore drilling services. The drilling rigs are owned by certain of the Company's subsidiaries, as shown on the Paragon Structure Chart. None of the rigs are owned by the Company itself. The Company has one employee, though her employment is to be transferred to Paragon Offshore (Land Support) Ltd in due course.

17 The Group's operated fleet includes 32 jackups (self-elevating, buoyant mobile platforms with movable legs capable of raising the platforms above the sea), including two high-specification, heavy duty/harsh environment jackups and five floaters (four

drillships and one semisubmersible). The Group's primary business is contracting its rigs, related equipment and work crews to conduct oil and gas drilling and workover operations for its exploration and production customers on a dayrate basis around the world. Its principal operations are located in the North Sea, the Middle East and India.

18 Between November 2014 and February 2015, the Company acquired all of the issued shares in Prospector Offshore Drilling S.A. ("**Prospector**"), an offshore drilling company incorporated in Luxembourg, with a network of operating subsidiaries in various jurisdictions (together with Prospector, the "**Prospector Group**"). In the aggregate, the Company spent approximately $202 million in cash and assumed certain debt obligations (later refinanced) to acquire 100% of Prospector. None of the companies within the Prospector Group are in chapter 11 proceedings. A structure chart showing the Prospector Group is exhibited at [**TS1/tab 8/p. 291**].

19 The share capital of the Company comprises: (i) 50,000 deferred sterling shares with an aggregate nominal value of £50,000.00; and (ii) 89,011,271 ordinary shares with an aggregate nominal value of $890,112.71. The shares are fully paid up.

20 Until 18 December 2015, the Company's ordinary shares were traded on the New York Stock Exchange (the "**NYSE**"). However, the NYSE determined that the Company's ordinary shares were no longer suitable for listing based on "abnormally low" price levels [**TS1/tab 9/p. 292**][1]. The Company's ordinary shares have been traded on the over-the-counter markets since 18 December 2015, selling at a range of $1.26 down to $0.02 [**TS1/tab 10/p. 293**][2]. As I have already stated, the Company is insolvent and, accordingly, the Board considers that there is no value in the Company's equity and that the current share price of $0.0235 [**TS1/tab 11/p. 294**][3] represents "option value" only.

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1 http://www.paragonoffshore.com/investors-relations/investor-news/investor-news-details/2015/Paragon-Offshore-Confirms-Delisting-Notice-From-NYSE/default.aspx

2 Figures as at 15 May 2017, https://markets.ft.com/data/equities/tearsheet/charts?s=PGNPQ:PKC

3 Figures as at 15 May 2017, https://markets.ft.com/data/equities/tearsheet/summary?s=PGNPQ:PKC

C THE CHAPTER 11 PROCEEDINGS AND THE FIFTH CHAPTER 11 PLAN

21 Demand for drilling services of the type provided by the Group depends on a variety of factors, including commodity prices, actual or potential fluctuations in these prices, and the level of activity in offshore oil and gas exploration and development and production markets (which may be affected to a considerable degree by the prices of these commodities). The offshore contract drilling industry is therefore a highly cyclical business. When the price of oil is high, high demand, short rig supply and high dayrates are typical. These will, however, typically be followed by periods of lower demand, excess rig supply and low dayrates when the price of oil is low.

22 The price of Brent crude is volatile, and the decline in price since mid-2014 has contributed to the Company's and the Group's financial difficulties. As noted in section III/A of the Disclosure Statement [**TS1/tab 4/pp. 34-35**], from about June 2014 to December of the same year, the price of oil per barrel fell sharply from approximately $115 per barrel to approximately $60 per barrel. Oil prices continued to decline in 2015, closing at $37.28 per barrel on 31 December 2015. The present price is around $52 per barrel.

23 In consequence of the substantial price falls in oil, many of the Group's customers reduced their exploration and development capital expenditure by as much as 20% to 25%. The reduced demand led to an oversupply of rigs competing for limited tendering activity, which was compounded by a significant increase in supply of newbuild rigs in recent years. In addition, throughout 2015, the Group suffered the loss of several major drilling contracts, the consequence of which has been that more of the Group's rigs have been stacked and are not in use, and other exploration and production companies approached the Company to seek reductions in contract dayrates.

24 Due to their financial difficulties, on 14 February 2016 the Company and the Chapter 11 Debtors voluntarily commenced the Chapter 11 Proceedings in the US Bankruptcy Court and on this date filed the first chapter 11 plan (the "**First Chapter 11 Plan**").

25 I am advised by Weil that the Chapter 11 Proceedings provide stays, under US federal law,[4] so that individual enforcement by creditors is prohibited while management is left in possession (by way of debtor in possession proceedings), to allow for a compromise restructuring solution to be negotiated between interested parties to attempt to secure the financial future and business of the Group's operations for the benefit of those with a financial interest in the business. The US Bankruptcy Court considers chapter 11 plans, and will adjudicate on proposed plans to determine whether they are appropriate or not as a compromise of the relevant claims.

26 So far, as I explain in more detail in the Appendix to this witness statement, the US Bankruptcy Court has considered two chapter 11 plans (the "**Second Chapter 11 Plan**" and the "**Modified Second Chapter 11 Plan**") but, for different reasons, neither was considered feasible by the US Bankruptcy Court. On 15 November 2016, US bankruptcy judge, Judge Christopher S. Sontchi[5], issued a judgement on the Modified Second Chapter 11 Plan, denying confirmation. He was of the view that the Modified Second Chapter 11 Plan was not feasible because the utilization and dayrate assumptions supporting the Modified Second Chapter 11 Plan were not reasonable, not enough cash would be retained by the Group to survive a prolonged period of challenging market conditions, and because the Group failed to demonstrate that it would be able to refinance its debt in 2021. This judgement is exhibited at [**TS1/tab 12/pp. 295-364**].

27 A third chapter 11 plan (the "**Third Chapter 11 Plan**") was subsequently filed that sought to address the US Bankruptcy Court's concerns, and a further revised version (the "**Fourth Chapter 11 Plan**") was subsequently put forward on 21 April 2017 that reflected amendments as a result of ongoing settlement discussions with certain creditors. Following a successful, court-ordered mediation process involving the ad hoc committee of Term Loan Lenders, the steering committee of RCF Lenders and the Official Committee of Unsecured Creditors appointed in the Chapter 11

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4 The automatic stay under federal law is imposed by the US Bankruptcy Code, chapter 11, section 362.

5 Judge Sontchi was appointed to the bench in 2006 and since then has presided over numerous large and complex chapter 11 reorganisations, including reorganisations involving companies in the oil and gas drilling business. He has presided over the Chapter 11 Proceedings since they began over a year ago, on 14 February 2016.

Proceedings (the "**Official Committee of Unsecured Creditors**"), a consensual plan of reorganisation was reached and the Fifth Chapter 11 Plan was filed on 2 May 2017, which resolved the objections that the Senior Noteholders (as that term is defined in paragraph 48(b), below) had raised in respect of the Third Chapter 11 Plan and the Fourth Chapter 11 Plan[6]. The Fifth Chapter 11 Plan is currently expected to be considered for confirmation by the US Bankruptcy Court on 7 June 2017.

28 The Fifth Chapter 11 Plan proposes that:

(a) the RCF Lenders and the Term Loan Lenders (as those terms are defined in paragraphs 43 and 45, below) will receive their pro rata share of:

(i) a $410 million cash payment;

(ii) senior secured first lien debt (in the face amount of $85 million);

(iii) 50% of the equity interests in Reorganized Paragon that are to be distributed pursuant to the UK Sale Transaction ("**Reorganized Paragon Equity**") (subject to dilution by a management incentive plan); and

(iv) 50% of the Class A Litigation Trust Interests and 25% of the Class B Litigation Trust Interests,

in consideration for a full release of the RCF and the Term Loan;

(b) the Senior Noteholders (as that term is defined at paragraph 48(b), below) will receive their pro rata share of:

(i) a $105 million cash payment;

(ii) 50% of the Reorganized Paragon Equity (subject to dilution of a management dilution plan); and

[6] The 2 May 2017 press release concerning the consensual deal is exhibited at [**TS1/tab 13/pp. 365-369**].

(iii) 50% of the Class A Litigation Trust Interests and 75% of the Class B Litigation Trust Interests,

in consideration for the full release of the Senior Notes; and

(c) the holders of General Unsecured Claims will receive cash in an amount equal to the lesser of 30% of their claim or their pro rata share of $5 million; and

(d) there will be no return to the shareholders of the Company on the basis that the existing ordinary shares have no economic value, the Company being insolvent.

29 The Company has cash of approximately $345 million, which will (along with the available cash held by other Chapter 11 Debtors) be distributed or reserved in accordance with sections 4.1, 4.3, 4.4, 4.5 and 5.13 of the Fifth Chapter 11 Plan [**TS1/tab 4/pp. 158-161 and 168-170**]. On the date the Fifth Chapter 11 Plan becomes effective, it is intended that the Company (or some other designated entity), in its capacity as the "Distributing Agent" under the Fifth Chapter 11 Plan, will distribute such cash in the Group that is to be distributed pursuant to the Fifth Chapter 11 Plan.

30 At a hearing on 2 May 2017, the US Bankruptcy Court approved the Disclosure Statement, which proposes that three creditor groups vote on the plan (see [**TS1/tab 4/p. 14**]). These three creditor groups are (using the definitions in the Fifth Chapter 11 Plan):

(a) holders of Secured Lender Claims (which will be allowed in the amount of approximately $1.4 billion in total), who will, under the Fifth Chapter 11 Plan, receive cash, Reorganized Paragon Equity, new debt and Litigation Trust Interests in the amounts set out in paragraph 28(a), above (these creditors are the RCF Lenders and the Term Loan Lenders to which I refer in more detail below at paragraphs 43 and 45, when referring to the financial position of the Company and the Group). It is estimated that the recovery for this group of creditors if the compromise is effected will be approximately 53.5% (this does

not include any amounts that might be received pursuant to Litigation Trust Interests, which are discussed at paragraphs 79 - 84, below);

(b) holders of Senior Notes Claims (which will be allowed in the amount of approximately $1.02 billion in total), who will, under the Fifth Chapter 11 Plan, receive cash, Reorganized Paragon Equity and Litigation Trust Interests in the amounts set out in paragraph 28(b), above. It is estimated that the recovery for this group of creditors if the compromise is effected will be approximately 35.1% (this does not include any amounts that might be received pursuant to Litigation Trust Interests, which are discussed at paragraphs 79 - 84, below); and

(c) holders of General Unsecured Claims, which are projected to be allowed in the aggregate amount of approximately $14 million. It is estimated that the recovery for this group of creditors if the compromise is effected will be approximately 30% (see [**TS1/tab 4/p. 25**).

31 The Fifth Chapter 11 Plan contemplates being implemented in part via the UK Sale Transaction, which will involve a direct or indirect transfer of certain assets of the Company and other Group companies to Reorganized Paragon, the shares in which will subsequently be distributed by the Distributing Agent (see paragraph 29, above) to the holders of Secured Lender Claims and Senior Notes Claims, in partial consideration for a release of such claims against the Company and each other Chapter 11 Debtor (see [**TS1/tab 4/pp. 168-170**])[7].

32 For the reasons set out in paragraph 12, it is proposed to effect the UK Sale Transaction after and pursuant to the appointment of the Proposed Administrators (as defined in paragraph 91, below) by the English Court (see [**TS1/tab 4/p. 168**]). The UK Sale Transaction will be effected in accordance with an implementation

[7] See paragraph 12 of the Appendix to this witness statement for further detail of the compromises proposed by the Fifth Chapter 11 Plan.

agreement (the "**UK Implementation Agreement**")[8] to be entered into between, among others, Reorganized Paragon, the Company and the Proposed Administrators.

33 The Board anticipates that the UK Implementation Agreement will only be entered into, and the UK Sale Transaction carried out, if the Fifth Chapter 11 Plan is confirmed by the US Bankruptcy Court. However, the Board considers that it is desirable to apply for the appointment of administrators prior to the consideration by the US Bankruptcy Court whether to confirm the Fifth Chapter 11 Plan in circumstances where:

(a) the Company is insolvent;

(b) the insolvency is proposed to be addressed by the chapter 11 restructuring of the Company and the Group under the control and supervision of the US Bankruptcy Court by way of a court supervised compromise;

(c) the administration is proposed to implement the Fifth Chapter 11 Plan, which the Board believes will achieve a better result for creditors of the Company than would be likely on a winding up of the Company;

(d) a winding up of the Company would be value-destructive for all concerned as it would involve a general winding up of the affairs of the Company (and inevitably of the Group as well), which would include forced sales of assets by enforcement of security and debt rights at distressed values. I refer to the liquidation outcome statement prepared by AlixPartners in conjunction with the Company, which illustrates this (see paragraph 59, below);

(e) by contrast, the Fifth Chapter 11 Plan proposes a restructuring compromise solution and transfer of assets to allow the business to survive and for the benefit of those who have a present commercial interest in the assets of the Company (and the Group). This is likely to produce a better result for creditors than would be achieved on a winding up (see paragraphs 55 to 65 below in relation to the purpose of administration);

[8] The UK Implementation Agreement is to be filed in substantially final form as a "Plan Supplement" by 19 May 2017.

(f) notwithstanding that the Company is insolvent and that the Board considers that there is no value in the Company's equity, certain individuals purporting to be members of the Company[9] have threatened action to attempt to displace the Board at the next annual general meeting of the Company ("**AGM**") (see paragraphs 70 to 73, below). Unless administrators are appointed first, the directors will need to send out notices for an AGM by 6 June 2017 and the AGM itself will need to take place no later than 30 June 2017. At the AGM, the shareholders could, and it is expected that they would, remove the Board. The Board believes that this would have adverse consequences to the restructuring as a whole, and would not maximise value for creditors in circumstances where the interests of creditors are paramount.

34 A hearing for the US Bankruptcy Court to consider confirmation of the Fifth Chapter 11 Plan is currently scheduled to commence on 7 June 2017 (the "**Confirmation Hearing**"). Any objections to confirmation of the Fifth Chapter 11 Plan are required to be filed on 31 May 2017. The Chapter 11 Debtors' papers in support of confirmation of the Fifth Chapter 11 Plan, and any replies by other interested parties who also support confirmation of the Fifth Chapter 11 Plan are required to be filed on 5 June 2017.

35 At the Confirmation Hearing, Judge Sontchi will determine whether the Chapter 11 Debtors have satisfied their burden to show the Fifth Chapter 11 Plan complies with the requirements of the US Bankruptcy Code. In addition to other factors, I am advised by Weil that the Chapter 11 Debtors must show by a preponderance of the evidence that they satisfy, among other things, the following factors[10]:

(a) that the "*plan has been proposed in good faith and is not otherwise forbidden by law*";

(b) that "*[c]onfirmation of the plan is not likely to be followed by the liquidation, or the need for further financial reorganization, of the debtor or any successor*

[9] These individuals are not members of the Company included on the register of members, but instead purport to hold beneficial interests in the Company through custodian entities.

[10] See US Bankruptcy Code, sections 1129(a)(3), (7)(A)(ii), and (11).

to the debtor under the plan, unless such liquidation or reorganization is proposed in the plan" - a test often referred to as the "feasibility test"; and

(c) that each impaired class of claims and interests that rejects the plan will receive or retain under the plan "*not less than the amount that such holder would so receive or retain if the debtor were liquidated under chapter 7 of this title*" or, in other words, satisfies the "best interests test."

36 The Chapter 11 Debtors believe that the Fifth Chapter 11 Plan has been proposed in good faith. I am advised by Weil that, generally, where a plan is proposed with the legitimate and honest purpose to reorganise and has a reasonable hope of success, the good faith requirement of section 1129(a)(3) of the US Bankruptcy Code is satisfied. The Chapter 11 Debtors have proposed the Fifth Chapter 11 Plan in good faith and solely for the legitimate and honest purposes of reorganising their core business and enhancing its long-term financial viability while providing recoveries to creditors. The Fifth Chapter 11 Plan is the culmination of rigorous arm's-length negotiations and hard-won concessions by and between the Chapter 11 Debtors and their three main creditor constituencies.

37 Likewise, the Chapter 11 Debtors believe that the Fifth Chapter 11 Plan is feasible. The Chapter 11 Debtors have analyzed their ability to meet their obligations under the plan and prepared the financial projections disclosed in section VII of the Disclosure Statement at [**TS1/tab 4/pp. 82-86**] (the "**Projections**"). Based upon the Projections, the Chapter 11 Debtors believe that they will have sufficient resources to make all payments required pursuant to the Fifth Chapter 11 Plan and that confirmation is not likely to be followed by the need for a further reorganisation or a liquidation that is not already contemplated under the Fifth Chapter 11 Plan.

38 Lastly, the Chapter 11 Debtors believe that the Fifth Chapter 11 Plan satisfies the best interests test. Upon consideration of the effects that a chapter 7 liquidation would have on the ultimate proceeds available for distribution to holders of impaired claims and interests and the liquidation analysis prepared by AlixPartners discussed below, the Chapter 11 Debtors believe that the Fifth Chapter 11 Plan provides a greater recovery to impaired creditors than they would otherwise receive under a chapter 7 liquidation.

D THE FINANCIAL POSITION OF THE COMPANY AND THE GROUP

39 The financial position of the Company, including a statement of its assets and liabilities, is set out in the Company's draft unaudited accounts as at 31 December 2016 (the "**2016 Accounts**") [**TS1/tab 14/pp. 370-371**], which have not been finalised. The 2016 Accounts were prepared on a going-concern basis. As a preliminary point, when I refer to the 2016 Accounts, it should be noted that, since various of the entries in the 2016 Accounts comprise book values (rather than realisation values at today's date), it is worth having in mind the figures for actual realization values in a proposed administration/chapter 11 scenario (as assessed by Lazard and referred to in paragraph 58 below), and in a liquidation scenario (as assessed by AlixPartners and as referred to in paragraph 59 below).

40 As regards the 2016 Accounts, the Company's overall balance sheet position in the 2016 Accounts shows a net deficiency of $1,097,534,000 [**TS1/tab 14/p. 371**].

41 The assets of the Company at 31 December 2016 are stated with an aggregate total value of $1,446,664,000 comprised mainly of:

(a) investments in subsidiaries, stated $905,862,000 at book value (rather than the realization value). The book value is aggregated from the cost of the investments in subsidiaries, less accumulated impairments, less amounts written off;

(b) cash at the bank, stated at $11,632,000;

(c) cash equivalents, stated at $332,747,000; and

(d) intercompany receivables, stated at $177,791,000.

42 The principal liabilities of the Company to non-Group entities are, as at the date of this witness statement, as follows and are summarized in the following paragraphs.

Facility	**Approximate amount outstanding**
Revolving credit facility (the "**RCF**")	$755,764,000
Term loan facility (the "**Term Loan**")	$641,875,000
6.75% senior notes (the "**6.75% Senior Notes**")	$474,636,199
7.25% senior notes (the "**7.25% Senior Notes**")	$546,114,112
	$2,418,389,311

The RCF

43 The Company is the only borrower with loans current outstanding under the RCF, provided to the Company pursuant to a senior secured revolving credit agreement, dated 17 June 2014, between the Company, Paragon International Finance Company, each as a borrower, the lenders from time to time party thereto (the "**RCF Lenders**"), and JPMorgan Chase Bank, N.A. ("**JPM**") as administrative agent (the "**RCF Agent**") (the "**RCF Credit Agreement**") (exhibited at [**TS1/tab 15/pp. 372-613**]). As at the date hereof, the Company owes the RCF Lenders approximately $755,764,000[11] [**TS1/tab 4/p. 32**], comprising: (i) $709,100,000 in unpaid principal plus interest, fees and other expenses; and (ii) $46,664,000 in respect of letters of credit. JPM, as collateral agent, holds the benefit of security for certain secured parties as set out below.

(a) Each Chapter 11 Debtor other than the Company, which is a borrower, has agreed, pursuant to a guaranty and collateral agreement dated 18 July 2014 (the "**GCA**") [**TS1/tab 16/pp. 614-663**], to jointly and severally guarantee the Company's obligations under the RCF (the "**RCF Guaranty**").

(b) Pursuant to the GCA and as collateral for its obligations under the RCF or the RCF Guaranty (as applicable), the Company and each other Chapter 11 Debtor has granted security for the benefit of the RCF Lenders over substantially all of its assets (as described in section 3 of the GCA [**TS1/tab 16/p. 626**]) other than certain excluded assets (which include certain cash and equity interests in certain subsidiaries).

[11] This amount excludes accrued but unpaid interest for the month to date.

(c) In addition, pursuant to a subordination agreement entered into on 18 July 2014 between, among others, the Company and the RCF Agent (the "**RCF Subordination Agreement**") [**TS1/tab 17/pp. 664-691**], the Company's Restricted Subsidiaries (as defined in the RCF Credit Agreement) have agreed:

(i) to subordinate their intercompany claims against the Company to the claims of the RCF Lenders; and

(ii) that, until the payment in full in cash of all obligations under the RCF, any payment or distribution from or on behalf of the Company, to which they would otherwise be entitled, shall be paid or delivered directly to the RCF Agent for the benefit of the RCF Lenders;

this effectively means that, in a liquidation, the RCF Lenders' position would be enhanced beyond that afforded to them by their security package alone because they would be entitled to amounts that would otherwise be payable under intercompany debts owed to certain other Group entities.

(d) As further collateral for the performance of their obligations under the RCF Guaranty, each Chapter 11 Debtor that owns one or more rigs (other than certain excluded rigs) has entered into a mortgage in relation to such rig(s).

44 As described in section IV/A/2 of the Disclosure Statement at [**TS1/tab 4/pp. 36-37**], pursuant to orders of the US Bankruptcy Court in the Chapter 11 Proceedings, the RCF Lenders have the benefit of first priority replacement liens over each of the Chapter 11 Debtors' (including the Company's) unencumbered property (including cash) and junior replacement liens on certain of the Chapter 11 Debtors' encumbered property (the "**Adequate Protection Claims**").

The Term Loan

45 Paragon Offshore Finance Company is the borrower (the "**Term Loan Borrower**") under the senior secured Term Loan pursuant to a senior secured term loan agreement, dated 18 July 2014, between the Term Loan Borrower, the Company, as parent, the lenders party thereto (the "**Term Loan Lenders**" and, together with the RCF Lenders, the "**Secured Lenders**") and Cortland Capital Market Services LLC, in its capacity as

successor administrative agent (the "**Term Loan Agreement**") (exhibited at [**TS1/tab 18/pp. 692-883**]). As at the date hereof, the Term Loan Lenders are owed approximately $641,875,000 in unpaid principal, interest, fees, and other expenses[12]. Pursuant to the GCA, the Company and each other Chapter 11 Debtor has agreed to jointly and severally guarantee such obligations of the Term Loan Borrower (the "**Term Loan Guaranty**"). I am advised by Weil that the Term Loan Guaranty constitutes a primary obligation of the Company for which the Company may be fully liable irrespective of the Term Loan Lenders' rights of recourse against any other entity. The Term Loan was trading at approximately 40.5% of par on 15 May 2017 (see the screen shot from market index provider, Bloomberg Finance L.P exhibited at [**TS1/tab 19/p. 884**]).

46 Each of the Company, Paragon Offshore Finance Company and the other Chapter 11 Debtors has, as collateral for its obligations under the Term Loan or Term Loan Guaranty (as applicable), granted security equivalent to that described in paragraph 43, above. The Term Loan Lenders have the benefit of a subordination agreement between, among others, the Company and the Term Loan Agent dated 18 July 2014 [**TS1/tab 20/pp. 885-909**] (the "**Term Loan Subordination Agreement**" and, together with the RCF Subordination Agreement, the "**Subordination Agreements**"), on substantially the same terms as the RCF Subordination Agreement. The Term Loan Lenders also have the benefit of Adequate Protection Claims as described in paragraph 44, above.

Default under the RCF and the Term Loan

47 I am advised by Weil that the commencement of the Chapter 11 Proceedings in the US Bankruptcy Court triggered an event of default under the RCF Credit Agreement and the Term Loan Agreement, leading to approximately $1.4 billion of secured debt obligations of the Company thereunder becoming immediately due and payable[13].

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12 This amount excludes accrued but unpaid interest for the month to date.

13 The Company's liability under the Term Loan Guaranty was not included in the year end 31 December 2016 accounts because it was treated as a contingent liability; however, it is now a current liability for the purposes of the administration.

The Senior Notes

48 The Company is also the primary borrower pursuant to two unsecured senior note issues, being:

(a) the 6.75% Senior Notes due 2022 in the aggregate principal amount outstanding of $456,572,000; and

(b) the 7.25% Senior Notes due 2024 in the aggregate principal amount outstanding of $527,010,000 (the 6.75% Senior Notes and the 7.25% Senior Notes being, together, the "**Senior Notes**"[14] and the holders of the Senior Notes being the "**Senior Noteholders**").

49 As at the date hereof, the aggregate amount outstanding under the 6.75% Senior Notes is approximately $474,636,199 in unpaid principal, plus accrued and unpaid interest, fees and expenses, and the aggregate amount outstanding under the 7.25% Senior Notes is approximately $546,114,112 plus accrued and unpaid interest, fees and expenses. On 15 May 2017, the 6.75% Senior Notes were trading at approximately 21% of par and the 7.25% Senior Notes were trading at approximately 21% of par [**TS1/tab 21/p. 910**].

Default under the Senior Notes

50 I am advised by Weil that the commencement of the Chapter 11 Proceedings in the US Bankruptcy Court also triggered an event of default under the Senior Notes, leading to approximately $1.02 billion of obligations of the Company thereunder becoming immediately due and payable.

Other liabilities

51 The Company also has other liabilities as set out below.

[14] The Senior Notes are unsecured but guaranteed by certain companies in the Group and so are structurally senior to unsecured creditors of the Company.

(a) Amounts owed to other Group companies ("**Intercompany Debts**") of approximately $828,440,000 in total[15] (as set out in the 2016 Accounts [**TS1/tab 14/p. 371**]). It is anticipated that, in accordance with section 4.6 of the Fifth Chapter 11 Plan and the UK Implementation Agreement, the Intercompany Debts will be paid, adjusted, continued, settled, reinstated, discharged, eliminated or otherwise managed such that the only Intercompany Debt outstanding as at the effective date of the Fifth Chapter 11 Plan will be an amount owed to Reorganized Paragon. Such treatment of the Intercompany Debts will not prejudice any intercompany creditor of the Company, since the Intercompany Debts are subordinated to the Company's obligations under the RCF and the Term Loan, pursuant to the Subordination Agreements, and are therefore of no economic value.

(b) General Unsecured Claims that have been filed against the Company in the Chapter 11 Proceedings, in the aggregate amount of $370,980. Such amount comprises mainly certain trade claims against the Company, as well as claims for the fees of the Senior Noteholders' professional advisers and the Senior Noteholders.

Insolvency

52 The Company's total cash balance of around $345 million [**TS1/tab 14/p. 371**] would not be sufficient to cover the total obligations of approximately $2.4 billion under the RCF, the Term Loan and the Senior Notes, which are payable on demand but for the global stay imposed by the US Bankruptcy Court and US federal law. As stated in paragraph 40 above, the 2016 Accounts showed a net deficiency of $1,097,534,000. Therefore, the Company is or is likely to become unable to pay its debts within the meaning of Schedule B1, paragraph 11(a) of the Insolvency Act 1986.

53 There is no holder of any qualifying floating charge over the assets of the Company, and there is no person who holds any security right to appoint an administrative

[15] The Intercompany Debts arise in the ordinary course of business of the Company and the Group and therefore fluctuate and will continue to do so following the appointment of administrators.

receiver or administrator over the assets or in respect of the Company. There are two fixed charge security interests over assets of the Company:

Persons entitled	Date created	Details
JPMorgan Chase Bank NA as collateral agent	18 July 2014	Pursuant to the GCA and as collateral for its obligations under the RCF, the RCF Guaranty, the Term Loan or the Term Loan Guaranty (as applicable), the Company and each other Chapter 11 Debtor has charged for the benefit of the RCF Lenders and the Term Loan Lenders over substantially all of its assets (as described in section 3 of the GCA) other than certain excluded assets (which include cash and equity interests in certain subsidiaries). See paragraph 43 above for further discussion of the GCA.
Prospector One Corporation; Prospector Five Corporation	24 July 2015	Pursuant to a pledge agreement [**TS1/tab 22/pp. 911-928**], all shares owned from time to time by the Company in Prospector Drilling S.à.r.l. and all dividends, interest and other monies payable in respect of the shares and all other rights, benefits and proceedings in respect of or derived from the Shares are pledged in favour of Prospector One Corporation and Prospector Five Corporation (which are not Prospector Group entities).

54 The balance sheet of the Group for the year ended 31 December 2016 on a consolidated basis is exhibited at [**TS1/tab 23/p. 929**]. The balance sheet position shows total assets of $1,903,731,000 and total liabilities of $2,736,488,000 resulting in net liabilities of $859,757,000.

E THE PURPOSE OF THE ADMINISTRATION

55 As set out above, it is proposed to effect the UK Sale Transaction after and pursuant to the appointment of joint administrators by the English Court in order to implement the restructuring proposed by the Fifth Chapter 11 Plan. The UK Sale Transaction will be effected in accordance with the UK Implementation Agreement to be entered into between, among others, Reorganized Paragon, the Company and the Administrators. The UK Implementation Agreement will bind the Company and the

Administrators to take all actions required to implement the Fifth Chapter 11 Plan, including implementing the UK Sale Transaction.

56 For the reasons set out below, I believe that the administration order sought is reasonably likely to achieve the purpose of administration, the most applicable being the purpose set out in Schedule B1, paragraph 3(1)(b) of the Insolvency Act 1986, i.e. "*achieving a better result for the company's creditors as a whole than would be likely if the company were wound up (without first being in administration)*".

57 Lazard has served as a financial advisor to the Group since September 2015. During this engagement, Lazard has assisted the Chapter 11 Debtors with, among other things, determining a reorganised capital structure for the Chapter 11 Debtors, advising them on strategies for negotiating with their key stakeholders, providing financial advice in relation to those negotiations, advising them with respect to strategic alternatives, and preparing for and managing the Chapter 11 Debtors' chapter 11 filings.

58 Lazard has also been involved with the preparation of the valuation analysis in connection with the Chapter 11 Proceedings and has advised on the reorganisation value of the Chapter 11 Debtors on a going concern basis. Exhibited at [**TS1/tab 24/pp. 930-931**] is Lazard's analysis of distributable value under the Fifth Chapter 11 Plan attributable to the Company, along with explanatory notes. On Lazard's analysis, the value of the proceeds that will be available for distribution to the Company's creditors from the Company will be between approximately $780,983,000 and $905,983,000.

59 By comparison, the estimated outcome statement prepared on the basis of realization in a liquidation of the Company, which is exhibited with explanatory notes at [**TS1/tab 25/pp. 934-936**], shows a materially worse outcome for the Company's creditors. This liquidation analysis was prepared by valuation specialists at the consulting firm AlixPartners in conjunction with the Company, on the basis of an assumed liquidation date of 31 July 2017. On their analysis, the value of the proceeds that would be available for distribution to the Company's creditors in a liquidation would be between approximately $383,780,000 and $390,929,000.

60 When the Company is considered in isolation, the analyses of Lazard and AlixPartners referred to in paragraphs 58 and 59, above, indicate that a better result for the Company's creditors as a whole will be achieved through the implementation of the Fifth Chapter 11 Plan than if the Company was put into liquidation.

61 However, in practice, the implementation of the Fifth Chapter 11 Plan will involve a Group-wide restructuring. I and the Company's advisors have therefore also compared the total amount to be distributed under the Fifth Chapter 11 Plan against the total proceeds that would be realised on a liquidation of the Group.

62 Exhibited at [**TS1/tab 24/pp. 932-933**] is the analysis of distributable value under the Fifth Chapter 11 Plan on a consolidated basis prepared by Lazard. On their analysis, the value of the proceeds that would be available for distribution to the Group's creditors in that scenario would be between approximately $1,096,652,000 and $1,221,652,000.

63 These figures can be compared to the estimated outcome statement assuming realization in a liquidation of the Group on a consolidated basis prepared by AlixPartners in conjunction with the Company, which is exhibited with explanatory notes at [**TS1/tab 25/pp. 937-939**], on the basis of an assumed liquidation date of 31 July 2017 (the "**Consolidated Liquidation Analysis**"). It should be noted that the value attributed to the *Senior Secured Claims – Revolver and Senior Term Loan* in the Consolidated Liquidation Analysis differs from the value attributed to such claims in the consolidated liquidation analysis prepared for the purposes of the Disclosure Statement [**TS1/tab 4/pp. 209-213**] (the "**Disclosure Statement Liquidation Analysis**"). This is because the aggregate amount outstanding under the RCF has decreased by approximately $22 million since the date on which the Disclosure Statement Liquidation Analysis was prepared, as a result of the release of certain letters of credit that were previously outstanding under the RCF. The differences in outcomes for creditors under the Consolidated Liquidation Analysis as compared with those set out in the Disclosure Statement Liquidation Analysis are solely attributable to this difference in the *Senior Secured Claims – Revolver and Senior Term Loan* amounts. Under the Consolidated Liquidation Analysis, the value of the proceeds that would be available for distribution to creditors on a liquidation of the Group

would be between approximately $739,243,000 and $774,136,000. This liquidation analysis includes notes explaining how the Group's assets have been valued for the purposes of calculating the value that would be realised on a liquidation of the Group.

64 Therefore, when the comparison is performed between the expected total proceeds available for distribution on implementation of the Fifth Chapter 11 Plan via an administration versus the distributable proceeds on a liquidation of the Group, Lazard and AlixPartners' analyses referred to in paragraphs 62 and 63, above, again demonstrate that a better result for creditors as a whole will be achieved through the implementation of the Fifth Chapter 11 Plan than in liquidation.

65 The analyses of Lazard and AlixPartners referred to above do not take into account the potential proceeds of any claims that may be brought against Noble Group (as that term is defined in paragraph 81, below) entities (or their officers and directors), though any cash received by way of damages should have the same value in either an administration or a liquidation scenario (see further at paragraphs 82 and 83 below and paragraphs 10 and 11 of the appendix to this witness statement).

F ACTIONS BY THE PURPORTED SHAREHOLDERS

66 The Company will, as a courtesy, notify certain individuals purporting to be shareholders of the Company of this application. Their and others' names are not entered on the shareholders' register of the Company, because their shareholdings are registered in the names of custodian entities (the "**Opposing Individuals**"). These various Opposing Individuals have appeared before Judge Sontchi in the US Bankruptcy Court to raise arguments in relation to the formation of an official equity committee (as they allege that the Company's shares still have economic value). However, Judge Sontchi has so far not agreed with their contentions and has noted that they are at least one billion dollars out of the money (as I discuss below).

67 Owing to the distressed financial position of the Company, and on the basis of Weil's advice, the Board is required to take account of the interests of the creditors of the Company in their management of the affairs of the Company because of the insolvency of the Company (pursuant to section 172 of the Companies Act 2006). Because of the financial position of the Company, the US Bankruptcy Court does not

consider there to be any economic value in the ordinary shares. At a hearing on 27 March 2017, Judge Sontchi refused to grant an application for the formation of an official equity committee, on the basis that the shareholders are so "*out of the money […] that it would take […] a billion dollars or significantly more […] to put equity in the money*" and that there is therefore "*no substantial likelihood of a material recovery to the equity*" (see lines 6-10 of [**TS1/tab 26/p. 1007**] and lines 7-8 of [**TS1/tab 26/p. 1008**] in the judgement of Judge Sontchi.

68 The Opposing Individuals have stated that they oppose the Fifth Chapter 11 Plan, because it ascribes no economic value to the Company's ordinary shares, whereas under the First Chapter 11 Plan and the Second Chapter 11 Plan, shareholders would have been offered some equity interest, because priority holders of debt were willing to give up value for the benefit of shareholders by way of compromise.

69 The Opposing Individuals have taken action to attempt to replace the Board. They have also made attempts to form an official equity committee (which failed) to oppose the chapter 11 plans and have filed a proof of claim in the Chapter 11 Proceedings (see further at paragraph 77, below). Most recently, they opposed the Chapter 11 Debtors' application to maintain exclusivity (see further at paragraph 78, below).

Attempts to replace the Board at a meeting of the Company

70 I am advised by Weil that an initial notification sent on 22 February 2017 (see [**TS1/tab 27/pp. 1015-1039**]) by two Opposing Individuals purportedly under section 303 of the Companies Act 2006 to requisition an extraordinary general meeting was invalid because, at that time, they were not formally members on the register of members, instead holding their interests in the Company through various custodian entities. The correspondence between these Opposing Individuals and the Company in this regard is exhibited at [**TS1/tab 28/pp. 1040-1047**]. The Company has not, to date, acted on any purported requisition because these Opposing Individuals are not registered members of the Company in circumstances where shares are registered in the name of the relevant custodian.

71 On 2 May 2017, the Company received a letter from Cede & Co. (the "**Cede Letter**") [**TS1/tab 29/pp. 1048-1060**]. Cede & Co. is a partnership associated with the

Depository Trust Company ("**DTC**"), and is the registered holder of approximately 99% of the Company's ordinary share capital on behalf of certain DTC custodians (typically brokers and other financial intermediaries) who hold interests in the Company's ordinary share capital through Cede & Co., on behalf of the Company's ultimate indirect beneficial shareholders. Pursuant to the Cede Letter, Cede & Co. requests (stated to be on behalf of a beneficial owner of approximately 0.125% of the Company's share capital) that, "*at such time as the Company has received requests from other shareholders who, together, hold in excess of 5% of the Company's outstanding stock*", the Company call an extraordinary general meeting in accordance with section 303 of the Companies Act 2006. As at the date hereof, the Company has not received valid requests from person holding in excess of 5% of the Company's issued share capital, and the Company does not intend to call an extraordinary general meeting unless required to do so in accordance with the Company's obligations under the Companies Act 2006.

72 However, the Opposing Individuals could remove the Board at the Company's AGM, which, I am advised by Weil, must, in the absence of an administration order, be held by 30 June 2017. If the meeting was to be held on this date, notification of the AGM would need to be sent to the Company's shareholders on 6 June 2017, in order to comply with the requirements of section 307(2)(a) of the Companies Act 2006.

73 To ensure that an insolvency practitioner can consummate a restructuring in the interests of creditors without the process being destabilised by shareholders, the Board considers that the appointment of administrators would be desirable prior to 6 June 2017 for the reasons given in paragraph 33(f), above. As a further point, sending out notices for an AGM would be likely to confuse both creditors and shareholders, whose expectations will be that their interests are being considered by the US Bankruptcy Court in consideration of whether to confirm the Fifth Chapter 11 Plan, and thus if they receive notices for an AGM this is likely to result in considerable demands upon the Company and the Group in communicating with creditors and shareholders as to the purpose of the AGM and how it interrelates with the Chapter 11 proceedings ongoing before Judge Sontchi. In all the circumstances, the Board considers that it would be desirable to have administrators appointed to the Company before 6 June 2017 so that all stakeholders can have confidence that the Company and

its assets are under the control of officers of the court for the benefit of those with an economic interest in them. This will assist in avoiding potential confusion, concern and cost.

Attempts to form an official equity committee

74 On 30 January 2017, a group of Opposing Individuals requested [**TS1/tab 30/pp. 1061-1146**] that the US Trustee (which is an office established by the Department of Justice in the US under the US Bankruptcy Code to act as a "watchdog" in bankruptcy cases) appoint an official committee of equity security holders in the Chapter 11 Proceedings.

75 The US Trustee declined to appoint an official equity committee by letter dated 17 February 2017 [**TS1/tab 31/pp. 1147-1148**]. Correspondence dated 8 to 14 February 2017 from lawyers for the Official Committee of Unsecured Creditors, the Chapter 11 Debtors, the agents for the Secured Lenders and the Opposing Individuals on the proposed appointment of an equity committee is at [**TS1/tab 32/pp. 1149-1223**].

76 The Opposing Individuals renewed their request by applying to the US Bankruptcy Court for appointment of an official equity committee. As noted in paragraph 67, above, however, at a hearing on 27 March 2017, Judge Sontchi refused to grant an application for the formation of an official equity committee for the reasons set out in the judgement to which I have already referred.

Attempts to claim in the Chapter 11 Proceedings

77 On 10 February 2017, the Opposing Individuals filed a unsubstantiated proof of claim in the Chapter 11 Proceedings, asserting claims against the Chapter 11 Debtors, PricewaterhouseCoopers LLP (and their relevant subsidiaries), the Board and the Group's management in the amount of $1.1 billion [**TS1/tab 33/pp. 1224-1230**] (the "**Shareholder Claim**"). The Chapter 11 Debtors filed their objection to the Shareholder Claim on 3 April 2017 [**TS1/tab 34/pp. 1231-1241**]. On 11 May 2017 certain Opposing Individuals filed a reply in the Chapter 11 Proceedings in support of the Shareholder Claim [**TS1/tab 35/pp. 1242-1263**]. A hearing before the US Bankruptcy Court has been scheduled for 30 May 2017 to consider this claim, which

is wholly unparticularised and is not accepted by the Company or the other Chapter 11 Debtors.

78 On 17 April 2017, the Opposing Individuals filed an objection to the Chapter 11 Debtors' application to the US Bankruptcy Court for an extension of the period of exclusivity for proposing a chapter 11 plan [**TS1/tab 36/pp. 1264-1272**] (the "**Exclusivity Objection**"), in which they raised various arguments in relation to the legality of the administration and the UK Sale Transaction under English law. On 25 April 2017, the Chapter 11 Debtors filed a response in opposition to the Exclusivity Objection [**TS1/tab 37/pp. 1273-1283**], asserting, among other things, that arguments as to English law were not appropriate in the Chapter 11 Proceedings and should properly be brought before an English court. On 27 April 2017, the Opposing Individuals withdrew the Exclusivity Objection.

Settlement offer

79 On 3 May 2017, certain Opposing Individuals offered to withdraw the Shareholder Claim if they were able to obtain their current pro-rata equity shares in twenty percent of Reorganized Paragon Equity. Their offer term sheet is exhibited at [**TS1/tab 38/p. 1284**] (the "**Term Sheet**"). On 10 May 2017, the RCF Lenders, the Term Loan Lenders and the Official Committee of Unsecured Creditors rejected the offer proposed in the Term Sheet.

80 The Term Sheet also notes that the offer "*would mean that shareholders are not entitled to receive any recoveries from the Class A or Class B Litigation Trust Interests*".

81 As described more fully in paragraphs 10 and 11 of the appendix to this witness statement, certain of the Chapter 11 Debtors may have causes of action against Noble and/or certain of its direct or indirect subsidiaries (the "**Noble Group**"), which are referred to in the Fifth Chapter 11 Plan as the "Noble Claims". On the effective date of the Fifth Chapter 11 Plan, the Noble Claims are to be transferred to the Litigation Trust, as set out in section 5.7 of the Fifth Chapter 11 Plan, for the benefit of the RCF Lenders, the Term Loan Lenders and the Senior Noteholders.

82 It could be inferred from the contents of the Term Sheet that certain Opposing Individuals believe that, should the Noble Claims be prosecuted successfully, the Company's shareholders would be entitled to a share of the proceeds from such proceedings. The Group has not, to date, commissioned an exact valuation of the Noble Claims (as noted in the appendix hereto, it was until very recently the intention to settle such potential claims), though certain Opposing Individuals have claimed that $1.36 billion could be recovered by the Company should it prosecute the Noble Claims [**TS1/tab 39/pp. 1285-1289**],[16] (though it should be noted that these Opposing Individuals have provided no support, factual or otherwise, that this amount is even remotely attainable in litigation). However, Lazard has prepared a draft equity shortfall analysis for the Company, which shows how far out of the money the shareholders of the Company are (the "**Lazard Analysis**"). The Lazard Analysis is exhibited at [**TS1/tab 40/p. 1290**]. This draft concludes that there is an equity shortfall of between $1,591,714,000 and $1,466,714,000 (and these amounts represent the minimum needed to bring the first dollar recovery to over 30,000 individuals with a beneficial interest in the Company's shares). Therefore, even if the maximum estimated recovery from the Noble Claims asserted by the Opposing Individuals was obtained by the Company, there would be no recovery for shareholders.

83 It should also be noted that the Lazard Analysis on this point does not take into account inherent litigation risk in bringing the Noble Claims, the time and cost that would be incurred in doing so, or the potential for any counterclaim to be brought against the Company. Judge Sontchi identified these points in his judgment denying the formation of an official equity committee (which I have already referred to in paragraph 67, above). In particular, he noted that "*[l]itigation and victory takes a significant amount of cash and a significant amount of time, and contains a significant amount of risk. So you can't sort of look at what happened in 2014 and say if they don't settle for what's on the table today they can achieve $1.3, $1.4 billion dollars in recovery. That is possible, but that is a number that is (A) not a net number*

[16] The exhibited document appears online at: http://www.paragonoffshoreshareholders.com/uploads/9/9/7/9/99793174/noblefraudulentconveyanceoutline.pdf. The $1.36 billion figure asserted therein is calculated by adding the difference between the Noble advertised equity value and the market's valuation of equity when the spinoff completed ($1,097,000) to unpaid Mexico taxes that Noble incurred between 2005-2010 ($266 million).

and (B) is significantly risk and (C) would require years to achieve. So the present value of that number for trying to figure out whether equity is in the money, even on a litigation basis, has to be significantly below $1.3 billion dollars" [**TS1/tab 26/pp. 1007-1008**].

84 In this regard, I also draw the Court's attention to my declaration filed in the Chapter 11 Proceedings [**TS1/tab 41/pp. 1291-1312**]. Following extensive consideration of the Noble Claims with a view to entering into the Noble Settlement (as that term is defined in the appendix to this witness statement), I was of the view that it would be difficult to successfully bring any claims against the Noble Group (see in particular paragraphs 40, 48 and 51 of that declaration).

G INSOLVENCY PROCEEDINGS AGAINST THE COMPANY

85 There are no winding-up petitions presented against the Company as at the time I signed this witness statement that I am aware of. Weil made a telephone search at the Central Registry of Winding-Up Petitions at the Companies Court at 4:28pm on 16 May 2017 for the Company and there were no outstanding winding-up petitions made against it in England and Wales and no outstanding administration applications, administration orders or administration appointments (including out-of-court appointments and intentions to appoint) filed or made in respect of it in England and Wales.

H THE COMPANY'S CENTRE OF MAIN INTERESTS

86 I confirm that to the best of my knowledge and belief, the centre of main interests ("**COMI**") of the Company is based at 3151 Briarpark Drive, Suite 700, Houston, Texas 77042 in the USA. This is based on advice from Weil and the following facts and matters.

(a) The address for communications with the Board and for major suppliers, customers and lenders of the Company notified on the Company's website is Houston, Texas.

(b) The Company's head office functions, internal administration and management meetings are conducted in and from Houston, Texas[17].

(c) The Company, along with the other relevant companies in the Group, are in chapter 11 proceedings in the USA, and all negotiations with creditors, including those between the Company and its creditors have taken place in New York and Delaware (and not in London). I am advised by Weil that the US Bankruptcy Court is considering the appropriate compromise solution and restructuring to be imposed on creditors and stakeholders. If a chapter 11 plan is confirmed by the US Bankruptcy Court, after full consideration of submissions and arguments and interests, then the US Bankruptcy Court's order will bind all creditors and stakeholders of the Company (and the Group) over which it has power and jurisdiction. By reason of the chapter 11 process there are presently in place worldwide injunctions restraining process. If confirmation is granted then worldwide injunctions of the US Bankruptcy Court will continue in place to enforce the confirmed plan of restructuring.

(d) The Company's directors are all based in the USA.

(e) The Company's main financial liabilities are governed by New York-law.

(f) The creditors of the Company (and also those of the Group) are mainly based in the USA.

(g) The primary operating accounts of the Company are in the USA, and the main operating currency for the Company (and the Group) is US$. A small amount of cash is maintained in England for when sterling amounts are required to be paid by the Company (presently about £130,000 is held in England) pursuant to certain customer contracts.

87 On the basis of Weil's advice, I understand that those factors should take priority over the following points, which might have indicated the contrary.

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[17] As stated above, the Company has one employee, who is a human resources manager for the Group. The Company's general management and administration functions are performed by individuals employed by other entities within the Group.

(a) The registered address of the Company is at 20-22 Bedford Row, London, WC1R 4JS, although this is the address of Jordans Limited, the corporate services provider.

(b) The Company is tax domiciled in the UK, although HMRC is not a creditor of the Company and, in particular, the Company has no PAYE claims against it.

(c) Three of the four board meetings per year are held in London for tax reasons, but I do not believe that the Company's creditors would be aware of this, because all communications with creditors take place within the US.

88 As the Company's COMI is in the US, rather than the UK or any other member state of the European Economic Area, I am advised by Weil that these proceedings qualify as non-EC proceedings. I am advised by Weil that whether the COMI of the Company is in the USA or London would not actually affect whether the English Court can grant an administration order, as the Company is a company registered under the Companies Act 2006 and thus within Schedule B1, paragraph 111(1A)(a) of the Insolvency Act 1986.

89 As at the date of this witness statement no application has been made under:

(a) Article 15 of the Cross Border Insolvency Regulations 2006 for recognition of the Company's Chapter 11 Proceeding in any court in any part of Great Britain; or

(b) any other legislation implementing the UNCITRAL Model Law on Cross-Border Insolvency to the court in any other jurisdiction.

90 It is not currently necessary to apply for recognition, in the opinion of the Board, as the proposed administration is contemplated by the Fifth Chapter 11 Plan. This will be kept under review.

I THE PROPOSED ADMINISTRATORS

91 Subject to the Court's approval, the Applicants propose that Neville Kahn and David Soden of Deloitte LLP should be appointed as administrators of the Company (the

"**Proposed Administrators**") and they have consented to act. The Proposed Administrators have also waived the requirement for service of the application upon them, and I am advised by Weil that there is no other person who is required to be served with the application.

92 The Proposed Administrators confirm that, in their opinion, it is reasonably likely that the purpose of administration will be achieved (pursuant to rule 3.2(1)(h) of the Insolvency Rules 2016). In this connection, I refer the Court to the witness statement of Mr Neville Kahn.

93 The Fifth Chapter 11 Plan proposes to set aside funding for the UK Administration (if granted and if the Fifth Chapter 11 Plan is confirmed) and, at paragraph 5.14 of the Fifth Chapter 11 Plan, refers to permission to maintain and/or establish the Retained Accounts. The Retained Accounts include not only funding for the UK Administration but also other fee claims and disbursements estimated as necessary for the Fifth Chapter 11 Plan and its various consequential matters to be resolved. As part of the overall consideration of the Fifth Chapter 11 Plan, Judge Sontchi will be considering the viability of not only the overall plan, but the reserves proposed to satisfy creditors' claims, including for fees and other disbursement costs.

94 For the purposes of paragraph 100 of Schedule B1 to the Insolvency Act 1986, it is proposed that all the functions of the Proposed Administrators are to be exercised by either or both of them, as they consider appropriate.

95 In the circumstances and for the reasons set out in this statement, the directors of the Company respectfully request that the Court make an administration order in respect of the Company and other consequential relief as appropriate.

STATEMENT OF TRUTH

I believe that the facts stated in this witness statement are true.

Signed 

Todd Strickler

Date: 16 May 2017

APPENDIX: SUMMARY OF CHAPTER 11 PROCEEDINGS

The Chapter 11 Proceedings and the proposed restructuring of the Group

1 The First Chapter 11 Plan was filed on 14 February 2016, when the Company and the other Chapter 11 Debtors voluntarily commenced the Chapter 11 Proceedings in the US Bankruptcy Court. On 19 April 2016 a revised version, the Second Chapter 11 Plan, was filed with the US Bankruptcy Court and proposed:

(a) that the Term Loan be reinstated, or restored to the same position it occupied prior to the Petition Date, allowing the Chapter 11 Debtors to retain the benefits offered by the Term Loan's favourable interest rate and maturity date and its lack of financial covenants;

(b) a cash pay down of $165 million to the RCF Lenders and an amendment and extension of the remaining outstanding amounts under the RCF; and

(c) a cash payment of $345 million, rights to certain deferred cash payments and distribution of c.35% of the Company's ordinary share capital to the Senior Noteholders (leaving the remainder of the Company's ordinary share capital held by the Company's existing shareholders), in consideration for a full discharge of the Company's obligations under the Senior Notes.

2 The Term Loan Lenders opposed the Second Chapter 11 Plan on a number of grounds, including that the restructured Group's business plan (the "**Original Business Plan**") would not survive a further prolonged period of low oil prices.

3 I am advised by Weil that, at a chambers conference conducted by the US Bankruptcy Court on 8 July 2016, involving representatives of the Chapter 11 Debtors and all creditor groups, the US Bankruptcy Court communicated its concern that the Second Chapter 11 Plan may not be feasible because the projected dayrates and rig utilization contemplated by the Original Business Plan may not be achievable.

4 An amended chapter 11 plan (the "**Modified Second Chapter 11 Plan**") was filed on 15 August 2016. The Modified Second Chapter 11 Plan accounted for a downside sensitivity analysis prepared by the Chapter 11 Debtors that assumed a scenario where

the expected market recovery was delayed (including if day-rates and utilization rates were less than expected). Under the Modified Second Chapter 11 Plan, the cash payment to the Senior Noteholders was reduced from $345 million to $285 million but the Senior Noteholders' equity increased from c.35% (as per the Second Chapter 11 Plan) to c.47%. The Modified Second Chapter 11 Plan also provided for the issuance of $60 million of new Senior Notes to the Senior Noteholders, in partial satisfaction of their claims against the Company.

5 However, the Term Loan Lenders continued to oppose the Modified Second Chapter 11 Plan which was considered at a hearing on 28 October 2016. On 15 November 2016, by the judgment of Judge Sontchi, the Bankruptcy Court ordered that the Modified Second Chapter 11 Plan should not be confirmed and the parties were directed to negotiate a new restructuring. In his judgment Judge Sontchi noted that "*[t]he main problem is that the [Modified Second Chapter 11 Plan], which is an improvement over the [Second Chapter 11 Plan], still siphons $450 million in cash out of the estate, which is at least $150 to $200 million too much. That cash is needed for the Reorganized Debtors to be able to survive the challenging business environment of off-shore oil and gas production over the next several years and to be reasonably able to refinance their debt in 2021*" [**TS1/tab 12/p. 296**]. Accordingly, to obtain confirmation, the Modified Second Chapter 11 Plan had to be further amended to leave more cash in the Group to provide additional liquidity in the event market conditions did not improve even as forecasted in the downside sensitivity analysis.

6 The Chapter 11 Debtors therefore developed a revised business plan (the "**New Business Plan**"), using significantly more conservative dayrate and rig utilisation assumptions than in the Original Business Plan.

7 The New Business Plan was presented to certain of the Secured Lenders and the Senior Noteholders, and the Chapter 11 Debtors spent considerable time meeting and negotiating with their creditors regarding potential proposals for a consensual restructuring plan that would have the support of all three creditor groups.

8 Within two weeks of the global discussions stalling, the Chapter 11 Debtors arrived at a settlement and agreement in principle with certain committees of the Secured

Lenders, which was eventually memorialised in the Third Chapter 11 Plan, which was filed with the Bankruptcy Court on 7 February 2017 (and an amended version was filed on 10 March 2017). The Third Chapter 11 Plan proposed that:

(a) the Secured Lenders would receive a cash payment (their pro rata share of approximately $421 million, subject to certain adjustments), senior secured first lien debt (in total $85 million) and a pro rata share of the equity interests in Reorganized Paragon to be distributed pursuant to the UK Sale Transaction (approximately 58% to the Secured Lenders in total) ("**Reorganized Paragon Equity**") in consideration for a full release of the RCF and the Term Loan;

(b) the Senior Noteholders would receive a cash payment (their pro rata share of approximately $50 million, subject to certain adjustments) and a pro rata share of the Reorganized Paragon Equity (approximately 42% to the Senior Noteholders in total) in consideration for the full release of the Senior Notes; and

(c) there would be no return to the shareholders of the Company as the existing ordinary shares have no economic value.

9 The Official Committee of Unsecured Creditors (which is comprised of three Senior Noteholders who were to receive significantly less cash under the Third Chapter 11 Plan than they were to receive under the Second Chapter 11 Plan or the Modified Second Chapter 11 Plan) were opposed to the Third Chapter 11 Plan. To resolve the parties' disputes regarding the Third Chapter 11 Plan and reach a fully consensual restructuring of the Group (a "**Global Settlement**"), in April 2017, the Chapter 11 Debtors, the steering committee of RCF Lenders, the ad hoc committee of Term Lenders and the Official Committee of Unsecured Creditors participated in a mediation.

10 One of the key objections raised by the Official Committee of Unsecured Creditors in connection with the Third Chapter 11 Plan was that the plan sought to approve a settlement agreement that the Company had entered into in 2016 with Noble (the "**Noble Settlement**") pursuant to which:

(a) the Company agreed to waive any cause of action it may have against the Noble Group in connection with the 2014 spin-off of the Group from the Noble Group, i.e. the Noble Claims; and

(b) certain members of the Noble Group agreed (subject to, among other things, the Noble Settlement having been approved by the US Bankruptcy Court) to, among other things, provide bonding support to certain indirect subsidiaries of the Company with operations in Mexico (the "**Mexican Entities**") to aid in the dispute of certain tax claims that have been asserted by the Mexican tax authorities (the "**Disputed Tax Claims**"), and agreed to assume the ultimate liability for certain portions of the Disputed Tax Claims.

11 The Creditors' Committee (as well as certain of the Opposing Individuals) were opposed to the Noble Settlement, as they did not believe that it provided sufficient value to the Chapter 11 Debtors to forego litigating the Noble Claims. Following further review and subsequent events, the Company determined that further efforts to effectuate the Noble Settlement would not be in the best interests of the Company and the other Chapter 11 Debtors and accordingly, the Chapter 11 Debtors filed the Fourth Chapter 11 Plan on 21 April 2017, which did not seek approval of the Noble Settlement (with potential causes of action against the Noble Group to be preserved for the benefit of the Chapter 11 Debtors and ultimately their creditors).

12 Subsequently, attempts to reach a consensual restructuring deal with the three key creditor groups through mediation were successful. On 2 May 2017 the Fifth Chapter 11 Plan was filed with the US Bankruptcy Court, which proposes that:

(a) the Secured Lenders will receive Litigation Trust Interests and their pro rata share of the following: $410 million of cash; $85 million of new senior secured first lien debt; and 50% of the Reorganized Paragon Equity, to be distributed pursuant to the UK Sale Transaction, in consideration for a full release of the RCF and the Term Loan;

(b) the Senior Noteholders will receive Litigation Trust Interests and their pro rata share of the following: $105 million of cash; and the other 50% of the

Reorganized Paragon Equity, in consideration for the full release of the Senior Notes; and

(c) there will be no return to the shareholders of the Company as there is no value in their equity.

13 Following implementation of the UK Sale Transaction (as described in paragraph 12 of this witness statement), certain entities that are currently direct or indirect subsidiaries of the Company (including the Mexican Entities) will remain as direct or indirect subsidiaries of the Company, and will be wound down in accordance with the laws of their jurisdiction of incorporation, under the supervision of the Proposed Administrators.

On behalf of the Applicants
Todd Strickler
First
16 May 2017
TS1

CR-2017-

IN THE HIGH COURT OF JUSTICE

CHANCERY DIVISION

COMPANIES COURT

IN THE MATTER OF PARAGON OFFSHORE PLC

AND IN THE MATTER OF THE INSOLVENCY ACT 1986

FIRST WITNESS STATEMENT OF TODD STRICKLER

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