

UNITED STATES BANKRUPTCY COURT
DISTRICT OF DELAWARE

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In re : **Chapter 11**

:

PARAGON OFFSHORE PLC, et al., : **Case No. 16-_____ (___)**

:

: **Joint Administration Requested**

:

Debtors.¹ :

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MOTION OF DEBTORS FOR INTERIM AND FINAL ORDERS (I) AUTHORIZING THE DEBTORS TO UTILIZE CASH COLLATERAL; (II) GRANTING JPMORGAN CHASE BANK, N.A., AS ADMINISTRATIVE AGENT FOR THE REVOLVER LENDERS AND COLLATERAL AGENT FOR THE REVOLVER LENDERS AND TERM LOAN LENDERS, AND CORTLAND CAPITAL MARKET SERVICES L.L.C. AS PROPOSED SUCCESSOR ADMINISTRATIVE AGENT FOR THE TERM LOAN LENDERS, ADEQUATE PROTECTION PURSUANT TO SECTIONS 105, 361, 362, 363 AND 507 OF THE BANKRUPTCY CODE; AND (III) SCHEDULING FINAL HEARING PURSUANT TO BANKRUPTCY RULE 4001(b)

Paragon Offshore plc (“**Paragon Parent**”) and its affiliated debtors in the above-captioned chapter 11 cases, as debtors and debtors in possession (collectively, the “**Debtors**”), respectfully represent as follows in support of this motion (this “**Motion**”):

Relief Requested

1. Pursuant to sections 105, 361, 362, 363, and 507 of title 11 of the United States Code (the “**Bankruptcy Code**”), Rules 2002, 4001, 6003, 6004, and 9014 of the Federal

¹ The Debtors in these chapter 11 cases, along with the last four digits of each Debtor’s federal tax identification number, as applicable, are: Paragon Offshore plc (6017); Paragon Offshore Finance Company (6632); Paragon International Finance Company (8126); Paragon Offshore Holdings US Inc. (1960); Paragon Offshore Drilling LLC (4541); Paragon FDR Holdings Ltd. (4731); Paragon Duchess Ltd.; Paragon Offshore (Luxembourg) S.à r.l. (5897); PGN Offshore Drilling (Malaysia) Sdn. Bhd. (9238); Paragon Offshore (Labuan) Pte. Ltd. (3505); Paragon Holding SCS 2 Ltd. (4108); Paragon Asset Company Ltd. (2832); Paragon Holding SCS 1 Ltd. (4004); Paragon Offshore Leasing (Luxembourg) S.à r.l. (5936); Paragon Drilling Services 7 LLC (7882); Paragon Offshore Leasing (Switzerland) GmbH (0669); Paragon Offshore do Brasil Ltda.; Paragon Asset (ME) Ltd. (8362); Paragon Asset (UK) Ltd.; Paragon Offshore International Ltd. (6103); Paragon Offshore (North Sea) Ltd.; Paragon (Middle East) Limited (0667); Paragon Holding NCS 2 S.à r.l. (5447); Paragon Leonard Jones LLC (8826); Paragon Offshore (Nederland) B.V.; and Paragon Offshore Contracting GmbH (2832). The Debtors’ mailing address is 3151 Briarpark Drive, Suite 700, Houston, Texas 77042.



Rules of Bankruptcy Procedure (the “**Bankruptcy Rules**”), and Rule 4001–2 of the Local Rules of Bankruptcy Practice and Procedure for the United States Bankruptcy Court for the District of Delaware (the “**Local Rules**”), the Debtors request entry of an interim order (an “**Interim Order**”): (i) granting adequate protection to the Prepetition Secured Parties (as defined herein); (ii) authorizing the Debtors to use Cash Collateral (as defined in paragraph 4(k) of the Interim Order) (but excluding the Rig Sale Proceeds (as defined in paragraph 6(a) of the Interim Order)), and directing the Debtors to segregate and account for the Rig Sale Proceeds, as set forth in the Interim Order, and to use all other Prepetition Collateral (as defined herein); (iii) authorizing the Debtors to maintain and renew existing letters of credit under, and to the extent permitted by, the Revolver Facility (as defined herein); (iv) modifying the automatic stay imposed under section 362 of the Bankruptcy Code to the extent necessary to implement and effectuate the terms of the Interim Order; and (v) scheduling a hearing to consider the relief requested herein on a final basis (the “**Final Hearing**”).

2. A proposed form of the Interim Order approving the relief requested herein is annexed hereto as **Exhibit A**.²

Bankruptcy Rule 4001 and Local Rule 4001–2 Concise Statements

3. Pursuant to Bankruptcy Rule 4001(b) and Local Rule 4001-2(a)(ii), the Debtors submit the following concise statement of the material terms of the Interim Order.³

² Capitalized terms used but not otherwise defined herein shall have the meanings ascribed to them in the Interim Order.

³ Any summary of the terms of the Interim Order contained in this Motion is qualified in its entirety by reference to the provisions of the Interim Order. To the extent the Motion and the Interim Order are inconsistent, the Interim Order shall control. The Debtors reserve the right to supplement the statements made pursuant to Bankruptcy Rule 4001 and Local Rule 4001–2 herein.

Summary of Material Terms	Location	
Parties with an Interest in Cash Collateral Bankruptcy Rule 4001(b)(1)(B)(i)	The Prepetition Secured Parties (as defined in this Motion).	Page 3
Purposes for Use of Cash Collateral Bankruptcy Rule 4001(b)(1)(B)(ii)	In accordance with the terms and conditions set forth in the Interim Order, the Debtors are authorized to use Cash Collateral other than the cash proceeds from the sale of rig M822 (the “ Rig Sale Proceeds ”), through and including the Termination Date (as defined in paragraph 11 of the Interim Order) for the purposes set forth in the Budget (as defined in paragraph 6(b) of the Interim Order), including for (i) conducting their operations and generating revenue in these chapter 11 cases (the “ Chapter 11 Cases ”); (ii) other general corporate purposes; (iii) the satisfaction of the costs and expenses of administering the Chapter 11 Cases, including payment of any prepetition obligations that are necessary to preserve the value of the estates; and (iv) adequate protection payments to the Agents (as defined herein) and the Prepetition Secured Parties.	¶ 6(a)
Budget Bankruptcy Rule 4001(b)(1)(B)(ii)	A 13-week budget (the “ Budget ”) setting forth the Debtors’ projected receipts and disbursements for such period is attached as Exhibit A to the Interim Order.	¶ 6(b)
Termination Events Bankruptcy Rule 4001(b)(1)(B)(iii)	The Debtors’ right to use the Cash Collateral pursuant to the Interim Order terminate (the date of any such termination, the “ Termination Date ”) without further notice or court proceeding on the earlier to occur of (i) March 20, 2016 and (ii) the occurrence of any of the following events (unless waived by the Agents (the “ Termination Events ”): <ul style="list-style-type: none"> • Failure of the Debtors to make any payment under the Interim Order to the Agents or Prepetition Secured Parties within three (3) business days after such payment becomes due (other than payments required pursuant to paragraph 10(a) or paragraph 10(b) of the Interim Order, which payments shall be made as required therein); • Other than with respect to clauses (a), (d), and (f) of paragraph 11 of the Interim Order, failure of the Debtors to: (i) comply with any material provision of the Interim Order; or (ii) comply with any other covenant or agreement specified in the Interim Order (other than those described in clauses (a) of paragraph 11 of the Interim Order) in any material respect and such failure to comply with any such other covenant or agreement shall continue unremedied for five (5) business days following notice by the Agents of such failure; • The Debtors creating, incurring or suffering to exist any 	¶ 11

Summary of Material Terms		Location
	<p>post-petition liens or security interests other than: (i) those granted pursuant to the Interim Order; (ii) carriers', maritime, mechanics', operator's, warehousemen's, repairmen's or other similar liens arising in the ordinary course of business; (iii) pledges or deposits in connection with workers' compensation, unemployment insurance and other social security legislation; (iv) deposits to secure the payment of any post-petition statutory obligations, performance bonds and other obligations of a like nature incurred in the ordinary course of business; and (v) any other junior liens or security interests that the Debtors are permitted to incur under the Credit Documents;</p> <ul style="list-style-type: none"> • An order entered reversing, amending, supplementing, staying, vacating or otherwise modifying the Interim Order without the consent of the Agents; • The Debtors creating, incurring or suffering any other claim which is pari passu with or senior to the 507(b) Claim; • The Court entering an order dismissing any of the Chapter 11 Cases; • The Court entering an order converting any of the Chapter 11 Cases to a case under chapter 7 of the Bankruptcy Code; • The Court entering an order appointing a chapter 11 trustee, responsible officer, or any examiner with enlarged powers relating to the operation of the businesses in the Chapter 11 Cases, unless consented to in writing by the Agents; <u>provided</u> that nothing in the Interim Order shall preclude any party from seeking to appoint an examiner; or • A filing by any Debtor of any motion, pleading, application or adversary proceeding challenging the validity, enforceability, perfection or priority of the liens securing the Revolver Facility Obligations or the Term Loan Facility Obligations or asserting any other cause of action against and/or with respect to the Revolver Facility Obligations, the Term Loan Facility Obligations or the Prepetition Collateral securing such obligations (or if the Debtors support any such motion, pleading, application or adversary proceeding commenced by any third party). 	
<p>Adequate Protection Bankruptcy Rule 4001(b)(1)(B)(iv)</p>	<p>The adequate protection provided to the Prepetition Secured Parties includes:</p> <ul style="list-style-type: none"> • Allowed superpriority administrative claims, in the amount of the Diminution (as defined below), if any, against the Debtors as provided in section 507(b) of the Bankruptcy Code, with priority in payment over any and all unsecured claims and administrative expense claims against the Debtors, subject and 	<p>¶¶ 9, 10</p>

Summary of Material Terms		Location
	<p>subordinate only to the Carve Out;</p> <ul style="list-style-type: none"> • Adequate Protection Liens for and to the extent of the diminution, if any, in the value of the Prepetition Secured Parties' prepetition valid, perfected, and unavoidable security interests in the Prepetition Collateral resulting from the Debtors' use, sale, or lease thereof from and after the Petition Date (any such diminution, the "Diminution"), subject only to the Carve Out, consisting of: a (i) valid, binding, continuing, enforceable, fully-perfected, non-voidable first priority replacement lien on, and security interest in, the Unencumbered Property; (ii) valid, binding, continuing, enforceable, fully-perfected non-voidable junior priority replacement lien on, and security interest in, all tangible and intangible assets, including without limitation, all prepetition and post-petition property of the Debtors' estates, and all products and proceeds thereof (other than the property described in clause (1) or (3) of paragraph 9(b) of the Interim Order), that is subject to (x) valid, perfected and unavoidable liens in existence as of the Petition Date or (y) valid and unavoidable liens in existence as of the Petition Date that are perfected after the Petition Date as permitted by Section 546(b) of the Bankruptcy Code, which valid, perfected and unavoidable liens are senior in priority to the security interests and liens in favor of the Collateral Agent; and (iii) valid, binding, continuing, enforceable, fully-perfected non-voidable priming lien on, and security interest in, all tangible and intangible assets, including without limitation, all prepetition and post-petition property of the Debtors' estates, and all products and proceeds thereof, whether now existing or hereafter acquired; provided that such liens and security interests shall not prime (x) any valid, perfected and unavoidable liens and security interests in existence as of the Petition Date that are held by or granted to any person other than the Collateral Agent or (y) valid and unavoidable liens and security interests in existence as of the Petition Date that are perfected after the Petition Date as permitted by Section 546(b) of the Bankruptcy Code and that are held by or granted to any person other than the Collateral Agent; • Payment of all accrued and unpaid pre or post-petition interest, fees and costs due and payable under the Revolver Facility to the Revolver Agent on the last business day of each calendar month after the entry of the Interim Order; • Payment of all accrued and unpaid pre or post-petition interest, fees and costs due and payable under the Term Loan Facility to the Term Loan Agent on the last business day of each calendar month after the entry of the Interim Order, <u>provided, however</u>, that payment of the reasonable fees and expenses of the Term Loan Agent's financial advisory firm 	

Summary of Material Terms		Location
	<p>shall be subject to the Debtors' review and approval of the terms of such financial advisor's engagement;</p> <ul style="list-style-type: none"> • Payment of the reasonable and documented fees, expenses and disbursements incurred by the Revolver Agent under the Revolver Facility; • Covenants to (i) comply with the Cash Management Order, (ii) not use, sell or lease any material assets outside the ordinary course of business, or seek authority of this Court to do any of the foregoing, without prior consultation with the Agents, (iii) and to comply with the covenants contained in Revolver Facility and the Term Loan Facility regarding the maintenance and insurance of the Prepetition Collateral and the Adequate Protection Collateral; • Continued compliance with the financial reporting requirements set forth in the Revolver Facility and the Term Loan Facility and certain additional financial reporting requirements described in the Interim Order; and • Right to (i) access and inspect the Debtors' properties, (ii) examine the Debtors' books and records, and (iii) discuss (no less than once per calendar month) the Debtors' affairs, finances, and condition with the Debtors' officers and financial advisors, including the status of any pending tax settlements or other contingent liabilities). 	
<p>Carve-Out Bankruptcy Rule 4001(b)(1)(B)(iii)</p>	<p>The Interim Order provides a "Carve Out" of certain statutory fees and allowed professional fees of the Debtors and any statutory committee of creditors (a "Committee") appointed in the Chapter 11 Cases pursuant to section 1103 of the Bankruptcy Code, all as detailed in the Interim Order.</p>	<p>¶ 9(c)</p>

Local Rule 4001-2 Concise Statements		Location
Cross-Collateralization Local Rule 4001-2(a)(i)(A)	The Interim Order does not provide for cross-collateralization, other than priming liens and replacement liens as adequate protection.	N/A
Stipulations Local Rule 4001-2(a)(i)(B)	In the Interim Order, the Debtors stipulate to certain facts, including, among other things: <ul style="list-style-type: none"> the validity and amount of the claims relating to the Prepetition Obligations; the validity, perfection, and priority of the liens and security interests securing the Prepetition Obligations; and the amount of unencumbered cash held by the Debtors. 	¶ 4
Effect of Stipulations Local Rule 4001-2(a)(i)(B)	The stipulations contained in the Interim Order are binding upon the Debtors and any successors. In compliance with Local Rule 4001-2(a)(i)(B), parties in interest have seventy-five (75) days from entry of the Interim Order, and the Committee, if formed, will sixty (60) days from the date of its appointment, investigate the stipulations set forth in the Interim Order.	¶ 21
Section 506(c) Waiver Local Rule 4001-2(a)(i)(C)	Subject to entry of a Final Order, and except to the extent of the Carve Out, the Debtors waive any right to surcharge against the Prepetition Collateral or the Adequate Protection Collateral.	¶ 13
Liens on Chapter 5 Causes of Action Local Rule 4001-2(a)(i)(D)	The Interim Order provides for liens on the Debtors' claims and causes of action arising under section 549 of the Bankruptcy Code. The Interim Order <u>does not</u> provide for liens on the Debtors' claims and causes of action arising under sections 544, 545, 547, 548, and 550 of the Bankruptcy Code (collectively, the " Avoidance Actions ") or until the entry of the Final Order, the proceeds of Avoidance Actions.	¶ 9(b)(1)
Provisions Deeming Prepetition Debt to be Post-petition Debt Local Rule 4001-2(a)(i)(E)	The Interim Order does not deem prepetition secured debt to be post-petition debt or use post-petition loans from a prepetition secured creditor to pay part or all of that secured creditor's prepetition debt.	N/A

Disparate Treatment of Professionals Under Carve Out Local Rule 4001-2(a)(i)(F)	The Interim Order contains no provision for disparate treatment for professionals retained by the Committee, if any, with respect to the Carve Out; <u>provided</u> that up to \$50,000 will be made available to any Committee for investigation costs, as described in paragraph 22 of the Interim Order.	¶ 9(c)
Non-Consensual Priming Liens Local Rule 4001-2(a)(i)(G)	The Interim Order does not provide for non-consensual priming of any existing secured lien.	N/A
Section 552(b)(1) Waiver Local Rule 4001-2(a)(i)(H)	Subject to entry of the Final Order, the “equities of the case” exception under section 552(b) of the Bankruptcy Code shall not apply to the Agents and the Prepetition Secured Parties.	¶ 15

Jurisdiction

4. This Court has jurisdiction to consider this matter pursuant to 28 U.S.C. §§ 157 and 1334, and the Amended Standing Order of Reference from the United States District Court for the District of Delaware dated February 29, 2012. This is a core proceeding pursuant to 28 U.S.C. § 157(b) and, pursuant to Local Rule 9013-1(f), the Debtors consent to the entry of a final order by the Court in connection with this Motion to the extent that it is later determined that the Court, absent consent of the parties, cannot enter final orders or judgments consistent with Article III of the United States Constitution. Venue is proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409.

Background

5. On the date hereof (the “**Petition Date**”), each of the Debtors commenced with this Court a voluntary case under chapter 11 of the Bankruptcy Code. The Debtors continue to operate their businesses and manage their properties as debtors in possession pursuant to sections 1107(a) and 1108 of the Bankruptcy Code. No trustee, examiner, or Committee has been appointed in these chapter 11 cases.

6. Contemporaneously herewith, the Debtors have filed a motion requesting joint administration of these chapter 11 cases pursuant to Bankruptcy Rule 1015(b).

7. Additional information regarding the circumstances leading to the commencement of these chapter 11 cases and information regarding the Debtors' business and capital structure is set forth in the Declaration of Ari Lefkovits in Support of the Debtors' Chapter 11 Petitions and Related Requests for Relief (the "**Lefkovits Declaration**") and the Declaration of James A. Mesterharm in Support of the Debtors' Chapter 11 Petitions and Related Requests for Relief (the "**Mesterharm Declaration**"), both of which have been filed contemporaneously herewith.

The Debtors' Prepetition Secured Indebtedness

8. Below is a summary of the Debtors' prepetition secured indebtedness impacted by the relief requested in this Motion.

A. The Revolver Facility

9. Debtors Paragon Parent and Paragon International Finance Company, as borrowers, are parties to that certain Senior Secured Revolving Credit Agreement, dated as of June 17, 2014 (as amended, restated, supplemented or otherwise modified from time to time, the "**Revolver Facility**") and, together with all agreements and documents delivered pursuant thereto or in connection therewith, each as amended, supplemented or otherwise modified, the "**Revolver Facility Documents**", with the lenders and issuing banks party thereto from time to time (collectively, the "**Revolver Lenders**"), and JPMorgan Chase Bank, N.A., as administrative agent (the "**Revolver Agent**"). The Revolver Facility provides for revolving credit commitments, including letter of credit commitments and swingline commitments, in an aggregate principal amount of up to \$800 million. The Revolver Facility matures in July 2019.

10. As of the date hereof, the aggregate principal amount outstanding in connection with the Revolver Facility is approximately \$708.5 million in unpaid principal and \$87.4 million in face amount of undrawn Letters of Credit (as defined in the Revolver Facility), plus accrued and unpaid interest, fees, and other expenses.

B. The Term Loan Facility

11. Debtor Paragon Offshore Finance Company, as borrower, and Paragon Parent, are parties to that certain Senior Secured Term Loan Agreement, dated as of July 18, 2014 (as amended, supplemented or otherwise modified from time to time, the “**Term Loan Facility**” and, together with all agreements and documents delivered pursuant thereto or in connection therewith, each as amended, supplemented or otherwise modified, the “**Term Loan Facility Documents**”), with the lenders party thereto from time to time (the “**Term Loan Lenders**”), and Cortland Capital Market Services LLC (or any successor thereof), as the proposed successor administrative agent (the “**Term Loan Agent**”). The Term Loan Facility provided for a term loan borrowed on the closing date, in an aggregate principal amount of \$650 million (the “**Secured Term Loan**”). The Term Loan Facility matures in July 2021.

12. As of the date hereof, the aggregate principal amount outstanding under the Term Loan Facility is approximately \$641,875,000 in unpaid principal, plus accrued and unpaid interest, fees, and other expenses.

C. The Security Agreement

13. The Debtors’ obligations under the Revolver Facility and the Term Loan Facility (collectively, the “**Prepetition Obligations**”) are secured pursuant to that certain Guaranty and Collateral Agreement, dated as of July 18, 2014 (as amended, supplemented, amended and restated or otherwise modified from time to time, the “**Security Agreement**”).

14. Pursuant to the Security Agreement, except as described below, each of the Debtors granted a first priority lien on substantially all of its property, including equipment, executed mortgages for each of the Collateral Rigs (as defined in the Security Agreement), inventory, and receivables generated from use of the collateral (the “**Prepetition Collateral**”), in favor of JPMorgan Chase Bank, N.A. (the “**Collateral Agent**” and together with the Revolver Agent and the Term Loan Agent, the “**Agents**”) for the Revolver Lenders, the Term Loan Lenders, and the Collateral Agent (collectively, with the Term Loan Agent and the Revolver Agent, the “**Prepetition Secured Parties**”).

15. The Prepetition Collateral does not include “**Excluded Assets**,” which includes, deposit accounts, securities accounts, capital stock in unrestricted non-Debtor subsidiaries or in entities that are not Collateral Rig owners, owned or leased real property.

16. The Debtors assert that they hold approximately \$332 million of unencumbered cash in a Goldman Sachs account ending in 3774 (the “**Goldman Account**”) and approximately \$11.5 million in a Bank of America account ending in 9069.

The Debtors’ Need to Use Cash Collateral and Prepetition Collateral

17. The orderly continuation of the Debtors’ operations and the preservation of their going concern value is largely dependent upon their ability to regularly convert Prepetition Collateral into Cash Collateral and use it to support the Debtors’ business operations. For example, Cash Collateral will be used to fund the Debtors’ payments to vendors and employees and to satisfy the other ordinary costs of operation, including rent, taxes, and insurance. Absent authority to use Cash Collateral, even for a limited period of time, the continued operation of the Debtors’ business would suffer, causing immediate and irreparable harm to the Debtors, their respective estates, and their creditors. Accordingly, the use of Cash Collateral is critical to preserve and maintain the going concern value of the Debtors.

Proposed Adequate Protection

18. The Debtors intend to provide the Prepetition Secured Parties with adequate protection, consisting of (i) an allowed superpriority administrative claim pursuant to section 507(b) of the Bankruptcy Code and (ii) security interests and liens pursuant to sections 361 and 363 of the Bankruptcy Code in the form of (a) a first priority replacement lien on, and security interest in, the Unencumbered Property, (b) a junior priority replacement liens on, and security interest in, all tangible and intangible assets, including without limitation, all prepetition and post-petition property of the Debtors' estates, and all products and proceeds thereof, whether now existing or hereafter acquired (other than the property described in clause (1) or (3) of paragraph 9(b) of the Interim Order), that is subject to (x) valid, perfected and unavoidable liens in existence as of the Petition Date or (y) valid and unavoidable liens in existence as of the Petition Date that are perfected after the Petition Date as permitted by Section 546(b) of the Bankruptcy Code, which valid, perfected and unavoidable liens are senior in priority to the security interests and liens in favor of the Collateral Agent, and (c) a priming lien on, and security interest in, all tangible and intangible assets, including without limitation, all prepetition and post-petition property of the Debtors' estates, and all products and proceeds thereof, whether now existing or hereafter acquired; provided that such liens and security interests shall not prime (x) any valid, perfected and unavoidable liens and security interests in existence as of the Petition Date that are held by or granted to any person other than the Collateral Agent or (y) valid and unavoidable liens and security interests in existence as of the Petition Date that are perfected after the Petition Date as permitted by Section 546(b) of the Bankruptcy Code and that are held by or granted to any person other than the Collateral Agent (all such property identified in clauses (i), (ii), and (iii) the "**Adequate Protection Collateral**"), all to the extent of diminution in value of the Prepetition Secured Parties' prepetition valid, perfected, and unavoidable security

interests in the Prepetition Collateral (collectively, the “**Adequate Protection Liens**”), subject only to the Carve Out.

19. As further adequate protection, the Debtors agree to pay to the Revolver Agent for the ratable benefit of the Revolver Lenders on an ongoing basis on the last business day of each calendar month after the entry of the Interim Order, all accrued and unpaid pre or post-petition interest, fees and costs due and payable under the Revolver Facility, including, without limitation, interest on Loans, breakage costs and accrued fees owing to the Revolver Agent. The Debtors shall also pay to the Term Loan Agent for the ratable benefit of the Term Loan Lenders on the last business day of each calendar month after the entry of the Interim Order, all accrued and unpaid pre or post-petition interest, fees and costs due and payable under the Term Loan Facility, including, without limitation, interest on Loans, breakage costs and accrued fees owing to the Term Loan Agent.

20. As further adequate protection, the Debtors agree to (i) maintain their cash management arrangements in a manner consistent with that described in the Debtors’ “first-day” cash management motion and the corresponding order; (ii) not use, sell or lease any material assets outside the ordinary course of business, or seek authority of this Court to do any of the foregoing, without prior consultation with the Agents at least five (5) business days prior to the date on which the Debtors seek the authority of this Court for such use, sale or lease, and (iii) comply with the covenants contained in the Revolver Facility and the Term Loan Facility.

21. For the avoidance of doubt, and notwithstanding anything to the contrary in this Motion, the Prepetition Secured Parties are not entitled to adequate protection of their interests in the Prepetition Collateral for any amounts over and above the amount equal to the

aggregate post-petition diminution in value of the applicable Prepetition Secured Party's interest in the Prepetition Collateral.

Basis for Relief Requested

22. A debtor's use of property of the estate, including cash collateral, is governed by Bankruptcy Code section 363. Pursuant to section 363(c)(2), a debtor may use cash collateral if "(A) each entity that has an interest in such cash collateral consents; or (B) the court, after notice and a hearing, authorizes such use, sale, or lease in accordance with the provisions of [section 363]." 11 U.S.C. § 363(c)(2). Bankruptcy Code section 363(e) further provides that "on request of an entity that has an interest in property . . . to be used, sold or leased, by the trustee, the court . . . shall prohibit or condition such use, sale or lease as is necessary to provide adequate protection of such interest." 11 U.S.C. § 363(e).

23. The Bankruptcy Code does not expressly define "adequate protection." Section 361 of the Bankruptcy Code, however, provides a non-exhaustive list of examples of adequate protection, including replacement liens and administrative priority claims. *See* 11 U.S.C. § 361. Generally, courts decide what constitutes adequate protection on a case-by-case basis. *See Resolution Trust Corp. v. Swedeland Dev. Group, Inc. (In re Swedeland Dev. Group, Inc.)*, 16 F.3d 552, 564 (3d Cir. 1994) ("[A] determination of whether there is adequate protection is made on a case by case basis."); *In re N.J. Affordable Homes Corp.*, No. 05-60442, 2006 WL 2128624, at *14 (Bankr. D.N.J. June 29, 2006) ("The term 'adequate protection' is intended to be a flexible concept."); *In re Columbia Gas Sys., Inc.*, Nos. 91-803, 91-804, 1992 WL 79323, at *2 (Bankr. D. Del. Feb. 18, 1992) (emphasizing that "the varying analyses and results contained in the . . . slew of cases demonstrate that what interest is entitled to adequate protection and what constitutes adequate protection must be decided on a case-by-case basis"); *see also In re Dynaco Corp.*, 162 B.R. 389, 394 (Bankr. D.N.H. 1993) (*citing* 2 Collier on

Bankruptcy ¶ 361.01 [1] at 361-66 (15th ed. 1993) (explaining that adequate protection can take many forms and “must be determined based upon equitable considerations arising from the particular facts of each proceeding”).

24. In *Swedeland*, the Third Circuit pointedly noted that the purpose of adequate protection “is to insure that the creditor receives the value for which he bargained prebankruptcy.” *In re Swedeland*, 16 F.3d at 564; *see also Shaw Indus., Inc. v. First Nat’l Bank of PA (In re Shaw Indus., Inc.)*, 300 B.R. 861, 865 (Bankr. W.D. Pa. 2003) (“The purpose of providing ‘adequate protection’ is to insure that a secured creditor receives in value essentially what he bargained for.”); *In re Beker Indus. Corp.*, 58 B.R. 725, 736 (Bankr. S.D.N.Y. 1986) (noting that the application of adequate protection “is left to the vagaries of each case, but its focus is protection of the secured creditor from diminution in the value of its collateral during the reorganization process”) (citation omitted), *rev’d on other grounds*, 89 B.R. 336 (S.D.N.Y. 1988). The Third Circuit has held that adequacy, “depends directly on how effectively it compensates the secured creditor for loss of value” caused by the priming lien granted to the new lender. *In re Swedeland*, 16 F.3d at 564 (quoting *In re Am. Mariner Inds., Inc.*, 734 F.2d 426, 435 (9th Cir. 1984)).

25. Consistent with the purposes underlying the provision of adequate protection, the proposed Interim Order provides the Prepetition Secured Parties with more than sufficient adequate protection to protect them from any diminution in value of their interests in the Prepetition Collateral during the pendency of these Chapter 11 Cases, include a first priority lien on, and security interest in the Goldman Account.

26. The Debtors need access to the cash generated from their business activities in order to fund their ongoing operations. As described above and in the Mesterharm

Declaration, if the Debtors are prohibited from using their cash, the Debtors' ability to continue as a going concern would be jeopardized. The preservation of the Debtors' business as a going concern in and of itself provides "adequate protection" for purposes of the Bankruptcy Code. *See 495 Cent. Park Ave. Corp.*, 136 B.R. 626, 631 (Bankr. S.D.N.Y. 1992) (noting that whether the value of a debtor's property will increase as a result of the use of collateral is part of considering whether a party is adequately protected).

27. Accordingly, the adequate protection provided for in the Interim Order is fair and reasonable under the circumstances, satisfies the requirements of sections 363(c)(2) and 363(e) of the Bankruptcy Code, and is in the best interests of the Debtors, their estates, and all parties in interest and should be approved. Courts in this district have approved similar adequate protection packages in recent chapter 11 cases. *See, e.g., In re Offshore Grp. Inv. Ltd.*, No. 15-12422 (BLS) (Bankr. D. Del. Jan. 8, 2016) (Docket No. 158); *In re Samson Res. Corp.*, No. 15-11934 (CSS) (Bankr. D. Del. Sept. 25, 2015) (Docket No. 111) (Interim Order); *In re Quicksilver Res. Inc.*, No. 15-10585 (LSS) (Bankr. D. Del. May 1, 2015) (Docket No. 307); *In re Entegra Power Grp. LLC*, No. 14-11859 (PJW) (Bankr. D. Del. Sept. 3, 2014) (Docket No. 106); *In re Energy Future Holdings Corp.*, No. 14-10979 (CSS) (Bankr. D. Del. June 6, 2014) (Docket No. 855).

The Proposed Interim Order Should Be Granted

28. Bankruptcy Rule 4001(b) provides that a final hearing on a motion to use cash collateral may not be commenced earlier than 14 days after the service of such motion. Upon request, however, the Court is authorized to conduct a preliminary expedited hearing on the motion and authorize the use of cash collateral to the extent necessary to avoid immediate and irreparable harm to a debtor's estate pending a final hearing. Pursuant to Bankruptcy Rule 4001(b), the Debtors request that the Court conduct an expedited preliminary hearing on the

Motion and (i) authorize the Debtors to use the Cash Collateral in order to (a) maintain and finance their ongoing operations and (b) avoid immediate and irreparable harm and prejudice to the Debtors' estates and all parties in interest, and (ii) schedule a Final Hearing on the relief requested herein.

29. Absent authorization from the Court to use Cash Collateral on an interim basis pending a Final Hearing, the Debtors and their creditors will be immediately and irreparably harmed. As set forth above, the Debtors' ability to use Cash Collateral on the terms described herein is critical to their ability to operate their business in the ordinary course. Accordingly, the Interim Order should be granted.

30. Courts in this district recognize the importance of a debtor's ability to use cash collateral to prevent immediate and irreparable harm to its estate. *See, e.g., In re Offshore Grp. Inv. Ltd.*, No. 15-12422 (BLS) (Bankr. D. Del. Jan. 8, 2016) (Docket No. 158); *In re Quicksilver Resources, Inc.*, No. 15-10585 (LSS) (Bankr. D. Del. May 1, 2015) (Docket No. 307); *In re Trump Ent. Resorts Inc.*, No. 14-12103 (KG) (Bankr. D. Del. Oct. 23, 2014) (Docket No. 342); *In re Entegra Power Grp. LLC*, No. 14-11859 (PJW) (Bankr. D. Del. Sept. 3, 2014) (Docket No. 106); *In re Energy Future Holdings Corp.*, No. 14-10979 (CSS) (Bankr. D. Del. June 6, 2014) (Docket No. 855).

The Relief Requested Is Appropriate

31. The relief requested herein is further supported by the pre-arranged nature of these Chapter 11 Cases. On the Petition Date the Debtors filed the Joint Chapter 11 Plan of Paragon Offshore Plc and Its Affiliated Debtors (the "**Plan**") and expect that such Plan will be accepted by all classes entitled to vote. Thus, the most critical and complex task required to effectuate a successful reorganization—the negotiation and formulation of a chapter 11 plan of reorganization—is already complete. Given the backdrop of these Chapter 11 Cases, the relief

requested herein is appropriate and will assist the expeditious confirmation of the Plan while at the same time mitigating any harm to the Debtors' business. Accordingly, the relief requested herein is necessary and appropriate, is in the best interests of the Debtors, their estates, and all parties in interest, and should be granted in all respects.

The Scope of the Carve Out Is Appropriate

32. The Adequate Protection Liens are subject to the Carve Out. Without the Carve Out, the Debtors and other parties in interest may be deprived of certain rights and powers because the services for which professionals may be paid in these Chapter 11 Cases would be restricted. *See In re Ames Dep't Stores, Inc.*, 115 B.R. 34, 40 (Bankr. S.D.N.Y. 1990) (observing that courts insist on carve-outs for professionals representing parties in interest because “[a]bsent such protection, the collective rights and expectations of all parties-in-interest are sorely prejudiced”). The Carve Out does not directly or indirectly deprive the Debtors' estates or other parties in interest of possible rights and powers. Additionally, the Carve Out protects against administrative insolvency during the course of these Chapter 11 Cases by ensuring that assets remain for the payment of fees of the Clerk of the Bankruptcy Court or the Office of the United States Trustee for the District of Delaware and professional fees of the Debtors and a Committee.

The Automatic Stay Should Be Modified on a Limited Basis

33. The relief requested herein contemplates a modification of the automatic stay to permit the Debtors to grant the replacement liens described above to the Prepetition Secured Parties, and to perform such acts as may be requested to assure the perfection and priority of such liens. Stay modifications of this kind are ordinary and standard

features for the use of cash collateral, and in the Debtors' business judgment, are reasonable and fair under the present circumstances.

Bankruptcy Rule 4001(a)(3) Should Be Waived

34. The Debtors request a waiver of the stay of the effectiveness of the order approving this Motion under Bankruptcy Rule 4001(a)(3). Bankruptcy Rule 4001(a)(3) provides, “[an] order granting a motion for relief from an automatic stay made in accordance with Rule 4001(a)(1) is stayed until the expiration of fourteen days after entry of the order, unless the court orders otherwise.” The use of Cash Collateral is essential to prevent irreparable damage to the Debtors' operations. Accordingly, ample cause exists to justify the waiver of the fourteen-day stay imposed by Bankruptcy Rule 4001(a)(3), to the extent such stay applies.

Bankruptcy Rule 6003 Has Been Satisfied

35. Bankruptcy Rule 6003 provides that, to the extent relief is necessary to avoid immediate and irreparable harm, a bankruptcy court may issue an order granting “a motion to use, sell, lease, or otherwise incur an obligation regarding property of the estate, including a motion to pay all or part of a claim that arose before the filing of the petition” before twenty-one (21) days after filing of the petition. The Debtors' estates would suffer immediate and irreparable harm if the relief sought herein is not promptly granted. Accordingly, the Debtors have satisfied the requirements of Bankruptcy Rule 6003.

Request for Bankruptcy Rule 6004 Waivers

36. The Debtors request a waiver of the notice requirements under Bankruptcy Rule 6004(a) and any stay of the order granting the relief requested herein pursuant to Bankruptcy Rule 6004(h). The relief requested herein is necessary to avoid immediate and irreparable harm to the Debtors. Accordingly, ample cause exists to justify the waiver of the

notice requirements under Bankruptcy Rule 6004(a) and the fourteen-day stay imposed by Bankruptcy Rule 6004(h), to the extent such stay applies.

Notice

37. No trustee, examiner, or statutory committee of creditors has been appointed in these chapter 11 cases. Notice of this Motion has been provided to (i) the Office of the United States Trustee for the District of Delaware; (ii) the Debtors' thirty (30) largest unsecured creditors on a consolidated basis; (iii) Simpson Thacher & Bartlett LLP, 425 Lexington Avenue, New York, NY 10017 (Attn: Sandeep Qusba, Esq., Kathrine A. McLendon, Esq., and Morris J. Massel, Esq.), counsel to JPMorgan Chase Bank, N.A. (a) as administrative agent under the Senior Secured Revolving Credit Agreement, dated as of June 17, 2014 (the "**Revolver Agent**"), and (b) as collateral agent under the Guaranty and Collateral Agreement, dated as of July 18, 2014 ("the "**Collateral Agent**"); (iv) Landis Rath & Cobb LLP, 919 Market Street, Wilmington, DE 19801 (Attn: Adam G. Landis, Esq. and Kerri Mumford, Esq.), co-counsel to the Revolver Agent and the Collateral Agent; (v) Kaye Scholer LLP, 250 West 55th Street, New York, NY 10019 (Attn: Mark F. Liscio, Esq. and Scott D. Talmadge, Esq.), counsel to (a) Cortland Capital Market Services LLC, as administrative agent (the "**Term Loan Agent**"), and (b) the ad hoc committee of lenders (the "**Ad Hoc Term Lenders**"), under the Senior Secured Term Loan Agreement, dated as of July 18, 2014; (vi) Potter Anderson & Coroon LLP, 1313 N. Market Street, 6th Floor, Wilmington, DE 19801 (Attn: Jeremy W. Ryan, Esq.), co-counsel to the Term Loan Agent and the Ad Hoc Term Lenders; (vii) Morgan, Lewis, & Bockius LLP, 101 Park Avenue, New York, NY 10178 (Attn: James O. Moore, Esq., Glenn E. Siegel, Esq., and Joshua Dorchak, Esq.), counsel to Deutsche Bank Trust Company Americas as trustee under the Senior Notes Indenture, dated as of July 18, 2014, for the 6.75% Senior Notes due 2022 and the 7.25% Senior Notes due 2024; (viii) Paul, Weiss, Rifkind, Wharton, & Garrison

LLP, 1285 Avenue of the Americas, New York, NY 10019 (Attn: Andrew N. Rosenberg, Esq. and Elizabeth R. McColm, Esq.), counsel to certain holders of the 6.75% Senior Notes due 2022 and the 7.25% Senior Notes due 2024; (ix) Young Conaway Stargatt & Taylor, LLP, Rodney Square, 1000 North King Street, Wilmington, DE 19801 (Attn: Pauline K. Morgan, Esq.), co-counsel to certain holders of the 6.75% Senior Notes due 2022 and the 7.25% Senior Notes due 2024; (x) the Securities and Exchange Commission; (xi) the Internal Revenue Service; (xii) the United States Attorney's Office for the District of Delaware; and (xiii) any other party entitled to notice pursuant to Local Rule 9013-1(m).

38. Notice of this Motion and any order entered hereon will be served on all parties required by Local Rule 9013-1(m). Based on the urgency of the circumstances surrounding this Motion and the nature of the relief requested herein, the Debtors respectfully submit that no further notice is required.

No Previous Request

39. No previous request for the relief sought herein has been made by the Debtors to this or any other court.

WHEREFORE the Debtors respectfully request entry of the Interim Order granting the relief requested herein and such other and further relief as the Court may deem just and appropriate

Dated: February 14, 2016
Wilmington, Delaware

/s/ Mark D. Collins

RICHARDS, LAYTON & FINGER, P.A.

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Facsimile: (212) 310-8007

Proposed Attorneys for the Debtors
and Debtors in Possession

Exhibit A

Proposed Interim Order

**UNITED STATES BANKRUPTCY COURT
DISTRICT OF DELAWARE**

-----X
 :
In re : **Chapter 11**
 :
PARAGON OFFSHORE PLC, et al., : **Case No. 16-_____ (___)**
 :
 : **Joint Administration Requested**
 :
Debtors.¹ :
 -----X

INTERIM ORDER (I) AUTHORIZING THE DEBTORS TO UTILIZE CASH COLLATERAL; (II) GRANTING JPMORGAN CHASE BANK, N.A., AS ADMINISTRATIVE AGENT FOR THE REVOLVER LENDERS AND COLLATERAL AGENT FOR THE REVOLVER LENDERS AND TERM LOAN LENDERS AND CORTLAND CAPITAL MARKET SERVICES L.L.C. AS PROPOSED SUCCESSOR ADMINISTRATIVE AGENT FOR THE TERM LOAN LENDERS, ADEQUATE PROTECTION PURSUANT TO SECTIONS 105, 361, 362, 363, AND 507 OF THE BANKRUPTCY CODE; AND (III) SCHEDULING FINAL HEARING PURSUANT TO BANKRUPTCY RULE 4001(b)

Upon the motion, dated February 14, 2016 (Docket No. __) (the “**Motion**”),² of Paragon Offshore Group plc (“**Paragon Parent**”) and its affiliated debtors, as debtors and debtors in possession (collectively, the “**Debtors**”), in the above-captioned cases (the “**Chapter 11 Cases**”), for interim and final orders under Sections 105, 361, 362, 363 and 507 of title 11 of

¹ The Debtors in these chapter 11 cases, along with the last four digits of each Debtor’s federal tax identification number, as applicable, are: Paragon Offshore plc (6017); Paragon Offshore Finance Company (6632); Paragon International Finance Company (8126); Paragon Offshore Holdings US Inc. (1960); Paragon Offshore Drilling LLC (4541); Paragon FDR Holdings Ltd. (4731); Paragon Duchess Ltd.; Paragon Offshore (Luxembourg) S.à r.l. (5897); PGN Offshore Drilling (Malaysia) Sdn. Bhd. (9238); Paragon Offshore (Labuan) Pte. Ltd. (3505); Paragon Holding SCS 2 Ltd. (4108); Paragon Asset Company Ltd. (2832); Paragon Holding SCS 1 Ltd. (4004); Paragon Offshore Leasing (Luxembourg) S.à r.l. (5936); Paragon Drilling Services 7 LLC (7882); Paragon Offshore Leasing (Switzerland) GmbH (0669); Paragon Offshore do Brasil Ltda.; Paragon Asset (ME) Ltd. (8362); Paragon Asset (UK) Ltd.; Paragon Offshore International Ltd. (6103); Paragon Offshore (North Sea) Ltd.; Paragon (Middle East) Limited (0667); Paragon Holding NCS 2 S.à r.l. (5447); Paragon Leonard Jones LLC (8826); Paragon Offshore (Nederland) B.V.; and Paragon Offshore Contracting GmbH (2832). The Debtors’ mailing address is 3151 Briarpark Drive, Suite 700, Houston, Texas 77042.

² All capitalized terms not otherwise defined herein are to be given the meanings ascribed to them in the Motion.

the United States Code (as amended, the “**Bankruptcy Code**”), Rules 2002, 4001, and 9014 of the Federal Rules of Bankruptcy Procedure (as amended, the “**Bankruptcy Rules**”), and the Local Rules of Bankruptcy Practice and Procedure of the United States Bankruptcy Court for the District of Delaware (the “**Local Rules**”), seeking:

- (a) authorization for the Debtors, pursuant to Sections 105, 361, 362, 363, and 507 of the Bankruptcy Code, to provide adequate protection to JPMorgan Chase Bank, N.A., in its capacity as administrative agent for the Revolver Lenders (as defined below) (in such capacity, the “**Revolver Agent**”), Cortland Capital Market Services LLC (or any successor thereof), in its capacity as the proposed successor administrative agent for the Term Loan Lenders (as defined below) (in such capacity, the “**Term Loan Agent**”), and JPMorgan Chase Bank, N.A. in its capacity as collateral agent for the Revolver Lenders and the Term Loan Lenders (in such capacity, the “**Collateral Agent**” and, together with the Revolver Agent and the Term Loan Agent, the “**Agents**”) under:
 - (1) a Senior Secured Revolving Credit Agreement, dated as of June 17, 2014 (as amended, supplemented or otherwise modified, the “**Revolver Facility**” and, together with all mortgage, security, pledge and guaranty agreements and all other documentation executed by any Debtor in connection with any of the foregoing, each as amended, supplemented or otherwise modified, the “**Revolver Facility Documents**,” and all debts, liabilities and obligations of every kind and nature under the Revolver Facility Documents, including without limitation all rate management and currency protection obligations and cash management obligations, the “**Revolver Facility Obligations**”) among Paragon Offshore plc (“**Paragon**”), Paragon International Finance Company, the lenders and issuing banks party thereto from time to time (collectively, the “**Revolver Lenders**”) and the Revolver Agent, and
 - (2) a Senior Secured Term Loan Agreement, dated as of July 18, 2014 (as amended, supplemented or otherwise modified, the “**Term Loan Facility**” and, together with all mortgage, security, pledge and guaranty agreements and all other documentation executed by any Debtor in connection with any of the foregoing, each as amended, supplemented or otherwise modified, the “**Term Loan Facility Documents**,” and all debts, liabilities and obligations of every kind and nature under the Term Loan Facility Documents, the “**Term Loan Facility Obligations**” and together with the Revolver Facility Obligations, the “**Prepetition Obligations**”) among Paragon, Paragon Offshore Finance Company, the lenders party thereto from time to time (collectively, the “**Term Loan**

Lenders” and, together with the Revolver Lenders and the Agents, the “**Prepetition Secured Parties**”) and the Term Loan Agent;

- (b) authorization for the Debtors, pursuant to Sections 105, 361, 362, 363, and 507 of the Bankruptcy Code, to use Cash Collateral (as defined in paragraph 4(k) below) (but excluding the Rig Sale Proceeds (as defined in paragraph 6(a) below)), and directing the Debtors to segregate and account for the Rig Sale Proceeds, as set forth herein, and to use all other Prepetition Collateral;
- (c) subject to entry of a final order (the “**Final Order**”), and except to the extent of the Carve Out (as defined in paragraph 9(c) below), the waiver by the Debtors of any right to surcharge against the Prepetition Collateral or the Adequate Protection Collateral (as defined in paragraph 9(b) below) pursuant to Section 506(c) of the Bankruptcy Code or any other applicable principle of equity or law, as identified pursuant to Local Rule 4001-2(a)(i)(C);
- (d) to schedule, pursuant to Bankruptcy Rule 4001, an interim hearing (the “**Interim Hearing**”) on the Motion to be held before this Court to consider entry of an interim order (the “**Interim Order**” and, together with the Final Order, the “**Orders**”) (a) authorizing the Debtors to use the Prepetition Collateral, including Cash Collateral on the terms and conditions set forth in this Interim Order; and (b) granting adequate protection to the Agents;
- (e) authorization for the Debtors to maintain and renew existing letters of credit under, and to the extent permitted by, the Revolver Facility (provided that, no Issuing Bank (as defined in the Revolver Facility) shall have any obligation to extend, renew or otherwise modify any letters of credit, but the obligations of the parties with respect to existing letters of credit shall not be modified by this Interim Order), obtain new letters of credit to replace or backstop the existing letters of credit, cash collateralize new letters of credit and perform all acts related thereto;
- (f) to schedule, pursuant to Bankruptcy Rule 4001 and Local Rule 4001-2(c), a final hearing (the “**Final Hearing**”) for this Court to consider entry of the Final Order authorizing the Debtors on a final basis to continue to use the Prepetition Collateral, including Cash Collateral (but excluding the Rig Sale Proceeds) and to segregate and account for the Rig Sale Proceeds and authorizing and approving the relief requested in the Motion to become effective pursuant to the Final Order; and
- (g) waiver of any applicable stay with respect to the effectiveness and enforceability of this Interim Order or the Final Order (including a waiver pursuant to Bankruptcy Rule 6004(h)).

Notice of the Interim Hearing having been given in the manner set forth in the Motion; and the Interim Hearing having been held by this Court on _____, 2016; and upon the record made by the Debtors at the Interim Hearing; and upon the Declaration of Ari Lefkovits In Support of the Debtors' Chapter 11 Petitions and First Day Relief and the Declaration of James A. Mesterharm In Support of the Debtors' Chapter 11 Petitions and First Day Relief; and this Court having heard and resolved or overruled all objections to the interim relief requested in the Motion; and it appearing that the interim relief requested in the Motion is in the best interests of the Debtors, their estates and creditors; and after due deliberation and consideration and sufficient cause appearing therefor,

IT IS FOUND, DETERMINED, ORDERED AND ADJUDGED, that:

1. *The Motion.* The Motion is granted on an interim basis as set forth herein. Any objection to the Motion to the extent not withdrawn or resolved is hereby overruled.
2. *Jurisdiction.* This Court has core jurisdiction over the Chapter 11 Cases commenced on February 14, 2016 (the "**Petition Date**"), the Motion, and the parties and property affected hereby pursuant to 28 U.S.C. §§ 157(b) and 1334, and the Amended Standing Order of Reference from the United States District Court for the District of Delaware dated February 29, 2012. Venue is proper before this Court pursuant to 28 U.S.C. §§ 1408 and 1409.
3. *Notice.* Notice of the Motion, the relief requested therein and the Interim Hearing was served on (i) the Office of the United States Trustee for the District of Delaware (the "**U.S. Trustee**"); (ii) the Debtors' thirty (30) largest unsecured creditors on a consolidated basis; (iii) Simpson Thacher & Bartlett LLP, 425 Lexington Avenue, New York, NY 10017 (Attn: Sandeep Qusba, Esq., Kathrine A. McLendon, Esq., and Morris J. Massel, Esq.), counsel to JPMorgan Chase Bank, N.A. (a) as administrative agent under the Senior Secured Revolving Credit

Agreement, dated as of June 17, 2014 (the “**Revolver Agent**”), and (b) as collateral agent under the Guaranty and Collateral Agreement, dated as of July 18, 2014 (“the “**Collateral Agent**”); (iv) Landis Rath & Cobb LLP, 919 Market Street, Wilmington, DE 19801 (Attn: Adam G. Landis, Esq. and Kerri Mumford, Esq.), co-counsel for the Revolver Agent and the Collateral Agent; (v) Kaye Scholer LLP, 250 West 55th Street, New York, NY 10019 (Attn: Mark F. Liscio, Esq. and Scott D. Talmadge, Esq.), counsel to (a) Cortland Capital Market Services LLC, as administrative agent (the “**Term Loan Agent**”), and (b) the ad hoc committee of lenders (the “**Ad Hoc Term Lenders**”), under the Senior Secured Term Loan Agreement, dated as of July 18, 2014; (vi) Potter Anderson & Coroon LLP, 1313 N. Market Street, 6th Floor, Wilmington, DE 19801 (Attn: Jeremy W. Ryan, Esq.), co-counsel to the Term Loan Agent and the Ad Hoc Term Lenders; (vii) Morgan, Lewis, & Bockius LLP, 101 Park Avenue, New York, NY 10178 (Attn: James O. Moore, Esq., Glenn E. Siegel, Esq., and Joshua Dorchak, Esq.), counsel to Deutsche Bank Trust Company Americas as trustee under the Senior Notes Indenture, dated as of July 18, 2014, for the 6.75% Senior Notes due 2022 and the 7.25% Senior Notes due 2024; (viii) Paul, Weiss, Rifkind, Wharton, & Garrison LLP, 1285 Avenue of the Americas, New York, NY 10019 (Attn: Andrew N. Rosenberg, Esq. and Elizabeth R. McColm, Esq.), counsel to certain holders of the 6.75% Senior Notes due 2022 and the 7.25% Senior Notes due 2024; (ix) Young Conaway Stargatt & Taylor, LLP, Rodney Square, 1000 North King Street, Wilmington, DE 19801 (Attn: Pauline K. Morgan, Esq.), co-counsel to certain holders of the 6.75% Senior Notes due 2022 and the 7.25% Senior Notes due 2024; (x) the Securities and Exchange Commission; (xi) the Internal Revenue Service; (xii) the United States Attorney’s Office for the District of Delaware; and (xiii) any other party entitled to notice pursuant to Local Rule 9013–1(m). The notice given by the Debtors of the Motion and the Interim Hearing

complies with Bankruptcy Rules 2002, 4001(b) and (d), the Local Rules, and no further notice of the relief sought at the Interim Hearing is necessary or required.

4. *Debtors' Stipulations.* Without prejudice to the rights of any other party (but subject to the limitations thereon contained in paragraphs 21 and 22 below) the Debtors admit, stipulate, and agree that:

The Revolver Facility

- (a) as of the Petition Date, Paragon, Paragon International Finance Company and the guarantors of the Revolver Facility Obligations (collectively, the “**Revolver Obligors**”) were indebted and liable to the Revolver Lenders, without defense, counterclaim or offset of any kind, for all of the Revolver Facility Obligations, made by the Revolver Lenders in the aggregate principal amount of not less than \$708,500,000.00 under the Revolver Facility and not less than \$87,400,000.00 in face amount of undrawn Letters of Credit (as defined in the Revolver Facility), plus accrued and unpaid interest, indemnification obligations, obligations arising under the Rate Management and Currency Protection Obligations and Specified Cash Management Obligations, if any (each as defined in the Revolver Facility), and fees and expenses (including, without limitation, the reasonable fees and expenses of the Revolver Agent’s attorneys and financial advisors) and other obligations incurred in connection therewith, in each case in accordance with the terms of the Revolver Facility Documents; the Revolver Facility Obligations are unconditionally and irrevocably guaranteed by the Revolver Obligors (other than Paragon and Paragon International Finance Company) pursuant to the Guaranty and Collateral Agreement (the “**Security Agreement**” and, together with the Revolver Facility Documents and the Term Loan Facility Documents, the “**Credit Documents**”), dated as of July 18, 2014, in favor of the Collateral Agent;
- (b) the Revolver Facility Obligations constitute the legal, valid and binding obligation of the Revolver Obligors, enforceable in accordance with their terms (except as subject to the stay of enforcement arising under Section 362 of the Bankruptcy Code);
- (c) (i) no portion of the Revolver Facility Obligations and no amounts paid at any time to the Revolver Agent or the Revolver Lenders in respect of the Revolver Facility Obligations, the Revolver Facility Documents, and the transactions contemplated thereby is subject to contest, attack, objection, recoupment, defense, setoff, counterclaim, avoidance, recharacterization, reclassification, reduction, disallowance, recovery or subordination or other challenge pursuant to the Bankruptcy Code or applicable

nonbankruptcy law, and (ii) the Debtors do not have any claims, counterclaims, causes of action, defenses or setoff rights related to the Revolver Facility Obligations or the Revolver Facility Documents, whether arising on or prior to the date hereof, under the Bankruptcy Code or applicable nonbankruptcy law against the Revolver Agent, the Revolver Lenders, and their respective affiliates, subsidiaries, agents, officers, directors, employees, attorneys and advisors;

- (d) the Master Intercompany Subordination Agreement (Revolving Credit Agreement) dated as of July 18, 2014, among the Debtors party thereto, the Revolver Agent and the other parties from time to time party thereto (the “**Revolver ISA**”) is binding and enforceable in accordance with its terms;

The Term Loan Agreement

- (e) as of the Petition Date, Paragon Offshore Finance Company and the guarantors of the Term Loan Facility Obligations (collectively, the “**Term Loan Obligors**”) were indebted and liable to the Term Loan Lenders, without defense, counterclaim or offset of any kind, for all of the Term Loan Facility Obligations, made by the Term Loan Lenders in the aggregate principal amount of not less than \$641,875,000.00 under the Term Loan Facility, plus accrued and unpaid interest, indemnification obligations, obligations arising under the Rate Management and Currency Protection Obligations and Specified Cash Management Obligations, if any (each as defined in the Term Loan Facility), and fees and expenses (including, without limitation, the reasonable fees and expenses of the Term Loan Agent’s attorneys and financial advisors) and other obligations incurred in connection therewith, in each case in accordance with the terms of the Term Loan Facility Documents; the Term Loan Facility Obligations are unconditionally and irrevocably guaranteed by the Term Loan Obligors (other than Paragon Offshore Finance Company) pursuant to the Security Agreement;
- (f) the Term Loan Facility Obligations constitute the legal, valid and binding obligation of the Term Loan Obligors, enforceable in accordance with their terms (except as subject to the stay of enforcement arising under Section 362 of the Bankruptcy Code);
- (g) (i) no portion of the Term Loan Facility Obligations and no amounts paid at any time to the Term Loan Agent or the Term Loan Lenders in respect of the Term Loan Facility Obligations, the Term Loan Facility Documents, and the transactions contemplated thereby is subject to contest, attack, objection, recoupment, defense, setoff, counterclaim, avoidance, recharacterization, reclassification, reduction, disallowance, recovery or subordination or other challenge pursuant to the Bankruptcy Code or applicable nonbankruptcy law, and (ii) the Debtors do not have

any claims, counterclaims, causes of action, defenses or setoff rights related to the Term Loan Facility Obligations or the Term Loan Facility Documents, whether arising on or prior to the date hereof, under the Bankruptcy Code or applicable nonbankruptcy law against the Term Loan Agent, the Term Loan Lenders, and their respective affiliates, subsidiaries, agents, officers, directors, employees, attorneys and advisors;

- (h) Intercompany Subordination Agreement (Term Loan Agreement) dated as of July 18, 2014, among the Debtors party thereto, the Term Loan Agent and the other parties from time to time party thereto (the “**Term ISA**”) is binding and enforceable in accordance with its terms;

The Collateral

- (i) the liens and security interests granted by the Revolver Obligors and the Term Loan Obligors under the Security Agreement to the Collateral Agent to secure the Revolver Facility Obligations and the Term Loan Facility Obligations for the benefit of the Collateral Agent and the Prepetition Secured Parties pursuant to and in connection with the Revolver Facility Documents and the Term Loan Facility Documents are valid, binding, perfected, enforceable, first priority liens and security interests (subject to liens permitted under the Credit Documents) on the rigs (the “**Rigs**”), drilling contracts and certain other personal property of the Revolver Obligors and Term Loan Obligors constituting “Collateral” as defined in the Security Agreement (all such “Collateral,” including the Cash Collateral (as defined below) and the setoff rights described in the Revolver Facility Documents and the Term Loan Facility Documents or arising by operation of law, are collectively referred to herein as the “**Prepetition Collateral**”), are subject in each case to permitted exceptions under the Revolver Facility Documents and the Term Loan Facility Documents, and are not subject to objection, defense, contest, avoidance, recharacterization, reclassification, reduction or subordination pursuant to the Bankruptcy Code or applicable non-bankruptcy law by any person or entity;
- (j) the liens and security interests granted by the Revolver Obligors and the Term Loan Obligors under the First Preferred Fleet Mortgages (the “**Rig Mortgages**”) to the Collateral Agent to secure the Revolver Facility Obligations and the Term Loan Facility Obligations for the benefit of the Collateral Agent and the Prepetition Secured Parties pursuant to and in connection with the Revolver Facility Documents and the Term Loan Facility Documents are valid, binding, perfected, enforceable, first priority liens and security interests (subject to liens permitted under the Credit Documents) on the Rigs; and
- (k) all of the Debtors’ cash (1) constituting proceeds or products of Prepetition Collateral; or (2) subject to the Prepetition Secured Parties’

rights of setoff, if any, collectively, constitutes cash collateral (the “**Cash Collateral**”), and all of the Debtors’ cash not constituting Prepetition Collateral, proceeds or products of Prepetition Collateral or subject to such rights of setoff is not Cash Collateral.

The Unencumbered Cash

- (l) As of the Petition Date, the Debtors assert that approximately \$332 million of cash held in a Goldman Sachs account ending in 3774 (the “**Goldman Account**”) and approximately \$11.5 million in cash held in a Bank of America account ending in 9069 is unencumbered, and each of the Prepetition Lenders reserves all rights with respect to the Debtors’ assertion.

5. *Findings Regarding the Use of Cash Collateral and Prepetition Collateral.*

- (a) Good cause has been shown for the entry of this Interim Order.
- (b) The Debtors need to continue to use the Prepetition Collateral, to, among other things, conduct their business operations, generate revenue and preserve the going concern value of the Debtors. The Debtors have an immediate need to use the Cash Collateral to, among other things, preserve and maintain the going concern value of the Debtors, absent which immediate and irreparable harm will result to the Debtors, their estates and their creditors.
- (c) The terms of the use of the Prepetition Collateral pursuant to this Interim Order are fair and reasonable, reflect the Debtors’ exercise of prudent business judgment consistent with their fiduciary duties and constitute reasonably equivalent value and fair consideration. The use of the Prepetition Collateral in accordance with this Interim Order is in the best interest of the Debtors’ estates.

6. *Authorization of Use of Cash Collateral and Prepetition Collateral.*

- (a) The Debtors are hereby authorized to use the Prepetition Collateral, including Cash Collateral (other than the cash proceeds from the sale of rig M822 (the “**Rig Sale Proceeds**”)), through and including the Termination Date (as defined in paragraph 11 below) for the purposes set forth in the Budget (as defined below), including (i) conducting their operations and generating revenue in the Chapter 11 Cases, subject to the terms hereof; (ii) other general corporate purposes; (iii) the satisfaction of the costs and expenses of administering the Chapter 11 Cases, including payment of any prepetition obligations that are necessary to preserve the value of the estates, as further described in each of the Debtors’ first day motions; and (iv) adequate protection payments to the Agents and the Prepetition Secured Parties, as provided herein. All post-petition

distributions and transfers by a Debtor to any other Debtor (each, a “**Debtor Transferee**”) shall (i) constitute an allowed administrative expense under Sections 503(b)(1) and 507(a)(2) of the Bankruptcy Code against such Debtor Transferee in the aggregate amount of such distribution or transfer, which administrative expense claim against such Debtor Transferee shall be junior in all respects to the 507(b) Claims (as defined in paragraph 9(a)) against such Debtor Transferee and (ii) be subject to the terms and conditions of the Revolver ISA and the Term ISA.

- (b) Attached as **Exhibit A** hereto and incorporated by reference herein is the 13-week budget (which has been approved by the Term Loan Agent and the Revolver Agent) setting forth the Debtors’ projected receipts and disbursements for such period (the “**Budget**”). The Debtors’ use of Cash Collateral shall be consistent with the types of expenses set forth in the Budget. The Prepetition Secured Parties shall have no obligation with respect to the Debtors’ use of the Cash Collateral, and shall not be obligated to ensure or monitor the Debtors’ compliance with the Budget or to pay (directly or indirectly from the Cash Collateral) any expenses incurred or authorized to be incurred pursuant to the Budget. Any and all Cash Collateral shall be used by the Debtors in accordance with this Order and the Budget. The consent of the Agents to the Budget shall not be construed as consent to the use of any Cash Collateral after the Termination Date (other than with respect to the Carve Out), regardless of whether the aggregate funds shown on the Budget have been expended.
- (c) The Debtors shall fully comply with the accounting of Cash Collateral required by Section 363(c)(4) of the Bankruptcy Code. The Debtors are directed to segregate Rig Sale Proceeds and are not authorized to use them absent consent of the Agents and as further ordered by the Court.

7. [Reserved]

8. *Entitlement to Adequate Protection.* The Agents and the Prepetition Secured Parties are entitled, pursuant to Sections 361, 363(c)(2) and 363(e) of the Bankruptcy Code, to adequate protection of their interests in the Prepetition Collateral, including the Cash Collateral, in an amount equal to the aggregate diminution, if any, in value of the applicable Agent’s or Prepetition Secured Party’s interest in the Prepetition Collateral (including the Cash Collateral) from and after the Petition Date resulting from the use, sale, or lease by the Debtors of the Prepetition Collateral and the imposition of the automatic stay pursuant to Section 362 of the Bankruptcy Code (such diminution in value, the “**Adequate Protection Obligations**” or the

“**Diminution**”). For the avoidance of doubt, and notwithstanding anything to the contrary herein, the Agents and the Prepetition Secured Parties are not entitled to adequate protection of their interests in the Prepetition Collateral for any amounts over and above the amount equal to the aggregate postpetition diminution in value of the applicable Agent’s or Prepetition Secured Party’s interest in the Prepetition Collateral.

9. *Adequate Protection Claims and Liens.*

As adequate protection, the Prepetition Secured Parties are hereby granted the following claims, liens, rights and benefits:

- (a) Section 507(b) Claim. The Adequate Protection Obligations due to the Prepetition Secured Parties shall constitute joint and several superpriority claims in the amount of the Diminution (as defined below), if any, against the Debtors as provided in Section 507(b) of the Bankruptcy Code, with priority in payment over any and all unsecured claims and administrative expense claims against the Debtors, now existing or hereafter arising, of the kinds specified or ordered pursuant to any provision of the Bankruptcy Code, including without limitation, Sections 105, 326, 328, 330, 331, 503(b), 506(c) (subject to entry of the Final Order), 507(a), 507(b), 726, 1113 or 1114, and shall at all times be senior to the rights of the Debtors and any successor trustee or any creditor in the Chapter 11 Cases or any subsequent proceedings under the Bankruptcy Code (the “**507(b) Claim**”), subject and subordinate only to the Carve Out (as defined in paragraph 9(c) below).
- (b) Adequate Protection Liens. As security for the Adequate Protection Obligations, effective as of the Petition Date and perfected without the necessity of the execution by the Debtors (or recordation or other filing) of security agreements, control agreements, pledge agreements, financing statements, mortgages or other similar documents, or the possession or control by the Agents of any Adequate Protection Collateral (as defined below), the following security interests and liens are hereby granted to the Agents for the benefit of the Prepetition Secured Parties for and to the extent of the Diminution, if any, in the value of the Prepetition Secured Parties’ prepetition valid, perfected, and unavoidable security interests in the Prepetition Collateral (all property identified in clauses (1), (2), (3) and (4) below being collectively referred to as the “**Adequate Protection Collateral**”), subject only to the Carve Out (as defined in paragraph (c) below) (all such liens and security interests, the “**Adequate Protection Liens**”):

- (1) First Priority on Unencumbered Property. Pursuant to Sections 361(2) and 363(c)(2) of the Bankruptcy Code, a valid, binding, continuing, enforceable, fully-perfected, non-voidable first priority replacement lien on, and security interest in, all of the Debtors' rights in tangible and intangible assets, including without limitation, all prepetition and post-petition property of the Debtors' estates, and all products and proceeds thereof, whether existing on or as of the Petition Date or thereafter acquired, that is not subject to (x) valid, perfected, non-avoidable and enforceable liens in existence on or as of the Petition Date or (y) valid and unavoidable liens in existence as of the Petition Date that are perfected after the Petition Date as permitted by Section 546(b) of the Bankruptcy Code (collectively, the "**Unencumbered Property**"), including without limitation, accounts receivable, other rights to payment, cash, inventory, general intangibles, contracts, servicing rights, servicing receivables, securities, chattel paper, owned real estate, real property leaseholds, fixtures, machinery, equipment, deposit accounts, patents, copyrights, trademarks, trade names, rights under license agreements and other intellectual property, claims and causes of action (including those arising under Section 549 of the Bankruptcy Code), and the proceeds of all of the foregoing, provided that the Unencumbered Property shall not include any actions under sections 544, 545, 547, 548 and 550 of the Bankruptcy Code (collectively, the "**Avoidance Actions**") and, subject only to and effective upon entry of the Final Order, the proceeds or property recovered, unencumbered or otherwise from successful Avoidance Actions, whether by judgment, settlement or otherwise ("**Avoidance Proceeds**");
- (2) Liens Junior to Certain Existing Liens. Pursuant to Sections 361(2) and 363(c)(2) of the Bankruptcy Code, a valid, binding, continuing, enforceable, fully-perfected non-voidable junior priority replacement lien on, and security interest in, all tangible and intangible assets, including without limitation, all prepetition and post-petition property of the Debtors' estates, and all products and proceeds thereof, whether now existing or hereafter acquired (other than the property described in clause (1) or (3) of this paragraph 9(b)), that is subject to (x) valid, perfected and unavoidable liens in existence as of the Petition Date or (y) valid and unavoidable liens in existence as of the Petition Date that are perfected after the Petition Date as permitted by Section 546(b) of the Bankruptcy Code, which valid, perfected and unavoidable liens are senior in priority to the security interests and liens in favor of the Collateral Agent;
- (3) Liens Senior to Certain Existing Liens. Pursuant to Sections 361(2) and 363(c)(2) of the Bankruptcy Code, a valid, binding,

continuing, enforceable, fully-perfected non-voidable priming lien on, and security interest in, all tangible and intangible assets, including without limitation, all prepetition and post-petition property of the Debtors' estates, and all products and proceeds thereof, whether now existing or hereafter acquired; provided that such liens and security interests shall not prime (x) any valid, perfected and unavoidable liens and security interests in existence as of the Petition Date that are held by or granted to any person other than the Collateral Agent or (y) valid and unavoidable liens and security interests in existence as of the Petition Date that are perfected after the Petition Date as permitted by Section 546(b) of the Bankruptcy Code and that are held by or granted to any person other than the Collateral Agent;

(4) Status of The Adequate Protection Liens. The Adequate Protection Liens shall not be (i) subject or subordinate to (A) any lien or security interest that is avoided and preserved for the benefit of the Debtors and their estates under Section 551 of the Bankruptcy Code or (B) any lien or security interest arising after the Petition Date, subject to the Carve Out, or (ii) except as otherwise set forth in clauses (1), (2) and (3) of this paragraph 9(b) subordinated to or made pari passu with any other lien or security interest under Sections 363 or 364 of the Bankruptcy Code or otherwise.

(c) For purposes hereof, the “**Carve Out**” shall mean the following: (i) all statutory fees required to be paid by the Debtors to the Clerk of the Bankruptcy Court and to the Office of the U.S. Trustee in such amounts as agreed to by the U.S. Trustee or as determined by order of the Court under section 1930(a) of title 28 of the United States Code (irrespective of whether the Carve Out Notice (as defined below in this paragraph) has been delivered); (ii) the reasonable fees and expenses up to \$50,000 incurred by a trustee appointed in the Debtors' cases under section 726(b) of the Bankruptcy Code (irrespective of whether the Carve Out Notice has been delivered); (iii) all accrued and unpaid reasonable fees, disbursements, costs, and expenses (the “**Professional Fees**”) incurred by professionals or professional firms retained by the Debtors or their estates pursuant to sections 327, 328, or 363 of the Bankruptcy Code and any statutory committee (the “**Committee**”) appointed in the Chapter 11 Cases pursuant to section 1103 of the Bankruptcy Code (collectively, the “**Professionals**”), which Professional Fees (x) are allowed by this Court at any time and (y) were incurred (regardless of when invoiced or applied for) at any time before or on the first business day following delivery by the Revolver Agent or the Term Loan Agent to counsel to the Debtors, the U.S. Trustee, and counsel to any Committee of a written notice (the “**Carve Out Notice**”), which notice may be delivered at any time following the occurrence of the Termination Date or a Termination Event (as defined in paragraph 11 below), stating that the Termination Date has

occurred or a Termination Event has occurred; and (iv) the Professional Fees allowed by this Court or another court of competent jurisdiction in an aggregate amount not exceeding \$4 million, which Professional Fees are incurred by the Professionals after the first business day following delivery by the Revolver Agent or the Term Loan Agent of the Carve Out Notice in accordance with the immediately preceding clause (iii); provided that: (x) the Carve Out shall not be available to pay any Professional Fees incurred by any party, including the Debtors or any Committee or any Professionals engaged thereby, in connection with the initiation or prosecution of any claims, causes of action, adversary proceedings or other litigation against any of the Agents or Prepetition Secured Parties, it being understood that up to an aggregate of \$50,000 shall be made available to any Committee for investigation costs, as described in paragraph 22 below; (y) so long as a Carve Out Notice has not been delivered, the Carve Out shall not be reduced by the payment of Professional Fees allowed at any time by this Court and payable under sections 328, 330 and 331 of the Bankruptcy Code; and (z) without prejudice to the rights of the Professionals or the Debtors to contest any such objection, nothing in this Interim Order shall be construed to impair the ability of any party to object to any fees, expenses, reimbursements, or compensation sought by any such Professionals. For the avoidance of doubt, nothing in this Order shall or shall be construed to limit the payment following the delivery of a Carve Out Notice of any of the statutory, Professional Fees or other fees covered by this Carve Out, from cash that is not Cash Collateral. Notwithstanding anything to the contrary herein, payment following the delivery of a Carve Out Notice of any of the statutory, Professional Fees or other fees covered by this Carve Out shall be paid (and shall be deemed to have been satisfied) first, from unencumbered assets or cash that is not Cash Collateral and second, if there are no remaining unencumbered assets or cash that is not Cash Collateral, from Cash Collateral.

10. *Additional Adequate Protection.* As additional adequate protection to the Prepetition Secured Parties:

- (a) Payments to the Revolver Agent and Revolver Lenders: The Debtors are authorized and directed to pay to the Revolver Agent for the ratable benefit of the Revolver Lenders on the last business day of each calendar month after the entry of this Interim Order, all accrued and unpaid pre or post-petition interest, fees and costs due and payable under the Revolver Facility, including, without limitation, interest on Loans, breakage costs and accrued fees owing to the Revolver Agent (with all payments of interest to be without prejudice the rights of the Revolver Agent and Revolver Lenders to assert a claim for payment of additional interest at any other rates in accordance with the Revolver Facility).

- (b) Payments to the Term Loan Agent and Term Loan Lenders: The Debtors are authorized and directed to pay to the Term Loan Agent for the ratable benefit of the Term Loan Lenders on the last business day of each calendar month after the entry of this Interim Order, all accrued and unpaid pre or post-petition interest, fees and costs due and payable under the Term Loan Facility, including, without limitation, interest on Loans, breakage costs and accrued fees owing to the Term Loan Agent (with all payments of interest to be without prejudice the rights of the Term Loan Agent and Term Loan Lenders to assert a claim for payment of additional interest at any other rates in accordance with the Term Loan Facility).
- (c) Fees and Expenses: The Debtors are authorized and directed to pay, in accordance with this paragraph, within two business days following fifteen (15) days after delivery of an invoice describing in summary detail (redacted for privilege and work product) reasonable and documented fees, costs and expenses in accordance with the Revolver Facility and Term Loan Facility, including those incurred or accrued by (i) the Revolver Agent and the (ii) the Term Loan Agent, including without limitation, for each of the Revolver Agent and the Term Loan Agent, respectively, the reasonable fees and documented expenses of one legal counsel, one additional local Delaware counsel and one financial advisory firm; provided, however, that payment of the reasonable fees and expenses of the Term Loan Agent's financial advisory firm shall be subject to the Debtors' review and approval of the terms of such financial advisor's engagement. None of the fees, costs, expenses or other amounts payable pursuant to this paragraph shall be subject to separate approval by this Court (but this Court shall resolve any dispute as to the reasonableness of any such fees, costs and expenses), and no recipient of any such payment shall be required to file any interim or final fee application with respect thereto; provided that the Debtors shall submit copies of the Agents' respective legal counsels' and financial advisors' invoices to the U.S. Trustee and the Committee (if any), and the Debtors, the U.S. Trustee and the Committee shall have ten (10) days following their receipt of such invoices to object to the reasonableness of the fees and expenses included in any such invoice. The invoices for such invoiced fees shall include the number of hours billed (except for financial advisors compensated on other than an hourly basis) and a reasonably detailed description of services provided and the expenses incurred by the applicable professional; provided, however, that any such invoice may be redacted to protect privileged, confidential or proprietary information. If any such objection is not resolved within ten (10) days after such objection is interposed, a hearing with respect thereto shall be conducted at a regularly-scheduled omnibus hearing in the Chapter 11 Cases, provided that the Debtors shall pay any undisputed portion of such fees, costs and expenses on the first Thursday following fifteen (15) days after the initial presentment to the Debtors of such invoice.

- (d) Other Covenants: The Debtors shall maintain their cash management arrangements in a manner consistent with that described in the Motion of Debtors for Entry of (I) Interim and Final Authority to (A) Continue Existing Cash Management System, (B) Maintain Business Forms and Existing Bank Accounts, and (C) Continue Intercompany Arrangements; (II) Waiver of the Requirements of Section 345(b) of The Bankruptcy Code Pursuant to Sections 105(a), 345(b), 363(b)(1), and 363(c)(1) of the Bankruptcy Code and Bankruptcy Rules 6003 and 6004; and (III) Granting Related Relief (the “**Cash Management Motion**”), filed substantially contemporaneously herewith, and the corresponding order. The Debtors shall not use, sell or lease any material assets outside the ordinary course of business, or seek authority of this Court to do any of the foregoing, without prior consultation with the Agents at least five (5) business days prior to the date on which the Debtors seek the authority of this Court for such use, sale or lease. The Debtors shall comply with the covenants contained in Revolver Facility and the Term Loan Facility, including without limitation as set forth in Sections 6.2, 6.5, 6.6, 6.10 and 6.11 of each of the Revolver Facility and the Term Loan Facility, regarding the maintenance and insurance of the Prepetition Collateral and the Adequate Protection Collateral.
- (e) Reporting: The Debtors shall comply with the reporting requirements set forth in Revolver Facility and the Term Loan Facility, including without limitation Section 6.6 of each of the Revolver Facility and the Term Loan Facility, and shall provide the following additional reporting to the Agents and, subject to appropriate confidentiality provisions, the Committee (if any):
- (1) On Friday of each calendar week, commencing on Friday, February 26, 2016, a variance report (a “Variance Report”) comparing, on a line item basis, actual results for the previous individual week and cumulative weeks to the amounts set forth in the Budget for such previous week and since the last approved Budget. Each material variance shall be accompanied by a qualitative explanation. Each Variance Report shall include an accounting of the amount of unencumbered cash as of the end of the previous week.
 - (2) No later than the last Friday prior to the last week covered by the then existing Budget, an updated Budget, which updated Budget shall be in form and substance satisfactory to the Term Loan Agent and the Revolver Agent.
 - (3) No later than 20 days after the end of each calendar month, commencing with March 2016, a copy of the unaudited consolidated and consolidating balance sheet of the Debtors as at the end of such month and the related statements of income and

cash flows for such month and the portion of the fiscal year through the end of such month.

- (4) A monthly report of capital expenditures (beginning with the year-to-date period ended February 2016) for the Debtors to be provided as soon as available, but in any event within one (1) month and ten (10) business days after the last day of each month;
- (5) A weekly fleet status report on all drilling rigs, including:
 - a. Details of any contracts the Company is currently in the process of bidding for and/or expected to be committed; or
 - b. Details on any indications or notices provided by the Company's customers for potential early contract terminations, which may impact the existing backlog.
- (f) Access to Records: In addition to, and without limiting, whatever rights to access the Prepetition Secured Parties have under their respective Credit Documents, upon reasonable notice, at reasonable times during normal business hours, the Debtors shall permit representatives, agents and employees of the Agents (i) to have access to and inspect the Debtors' properties, (ii) to examine the Debtors' books and records, and (iii) to discuss (no less than once per calendar month) the Debtors' affairs, finances, and condition with the Debtors' officers and financial advisors, including the status of any pending tax settlements or other contingent liabilities).
- (g) Equal Adequate Protection: The adequate protection claims, liens, rights and benefits granted to or for the benefit of any of the Revolver Lenders, the Revolver Agent, the Term Loan Lenders or Term Agent shall in no event be less than the adequate protection claims, liens, rights and benefits granted to or for the benefit of any of the foregoing parties.

11. *Termination*. The Debtors' right to use the Cash Collateral pursuant to this Interim Order shall terminate (the date of any such termination, the "**Termination Date**") without further notice or court proceeding on the earlier to occur of (i) March 20, 2016 and (ii) the occurrence of any of the events set forth in clauses (a) through (i) below (unless waived by the Agents) (the events set forth in clauses (a) through (i) below are collectively referred to herein as the "**Termination Events**");

- (a) Failure of the Debtors to make any payment under this Interim Order to the Agents or Prepetition Secured Parties within three (3) business days after such payment becomes due (other than payments required pursuant to paragraph 10(a) or paragraph 10(b) of this Interim Order, which payments shall be made as required therein);
- (b) Other than with respect to clauses (a), (d), and (f) of this paragraph 11, failure of the Debtors to: (i) comply with any material provision of this Interim Order; or (ii) comply with any other covenant or agreement specified in this Interim Order (other than those described in clause (a) above) in any material respect and such failure to comply with any such other covenant or agreement shall continue unremedied for five (5) business days following notice by the Agents of such failure;
- (c) The Debtors shall create, incur or suffer to exist any post-petition liens or security interests other than: (i) those granted pursuant to this Interim Order; (ii) carriers', maritime, mechanics', operator's, warehousemen's, repairmen's or other similar liens arising in the ordinary course of business; (iii) pledges or deposits in connection with workers' compensation, unemployment insurance and other social security legislation; (iv) deposits to secure the payment of any post-petition statutory obligations, performance bonds and other obligations of a like nature incurred in the ordinary course of business; and (v) any other junior liens or security interests that the Debtors are permitted to incur under the Credit Documents;
- (d) An order shall be entered reversing, amending, supplementing, staying, vacating or otherwise modifying this Interim Order without the consent of the Agents;
- (e) The Debtors shall create, incur or suffer any other claim which is pari passu with or senior to the 507(b) Claim;
- (f) The Court shall have entered an order dismissing any of the Chapter 11 Cases;
- (g) The Court shall have entered an order converting any of the Chapter 11 Cases to a case under chapter 7 of the Bankruptcy Code;
- (h) The Court shall have entered an order appointing a chapter 11 trustee, responsible officer, or any examiner with enlarged powers relating to the operation of the businesses in the Chapter 11 Cases, unless consented to in writing by the Agents; provided that nothing herein shall preclude any party from seeking to appoint an examiner;
- (i) A filing by any Debtor of any motion, pleading, application or adversary proceeding challenging the validity, enforceability, perfection or priority of the liens securing the Revolver Facility Obligations or the Term Loan

Facility Obligations or asserting any other cause of action against and/or with respect to the Revolver Facility Obligations, the Term Loan Facility Obligations or the Prepetition Collateral securing such obligations (or if the Debtors support any such motion, pleading, application or adversary proceeding commenced by any third party).

12. *Remedies upon the Termination Date.* The Debtors shall promptly provide notice to the Agents (with a copy to the U.S. Trustee and the Committee (if any)) of the occurrence of any Termination Event. Upon the occurrence of the Termination Date, (a) the Adequate Protection Obligations, if any, shall become due and payable and (b) the Agents and each of the Prepetition Secured Parties, and, upon five (5) business days written notice to the counsel to the Debtors, the U.S. Trustee, and counsel to the Committee, may (i) setoff amounts in any account of the Debtors maintained with the Agents or such Prepetition Secured Parties, respectively, to the extent necessary for payment of the Adequate Protection Obligations and (ii) exercise the rights and remedies available under the Credit Documents, this Interim Order or applicable law, including without limitation, foreclosing upon and selling all or a portion of the Prepetition Collateral or Adequate Protection Collateral in order to collect the Adequate Protection Obligations. The automatic stay under Section 362 of the Bankruptcy Code is hereby deemed modified and vacated to the extent necessary to permit such actions. In any hearing regarding any exercise of rights or remedies, the only issues that may be raised by any of the Debtors in opposition thereto shall be (x) whether, in fact, the Termination Date shall have occurred and (y) what is the quantum of the Adequate Protection Obligations, and each of the Debtors hereby waives any right to seek relief, including without limitation, under Section 105 of the Bankruptcy Code, to the extent such relief would in any way impair or restrict the rights and remedies of the Agents and the Prepetition Secured Parties set forth in this Interim Order or the Credit Documents. Any delay or failure of a Prepetition Secured Party to exercise rights under any Credit Documents or this Interim Order shall not constitute a waiver of their respective rights

hereunder, thereunder or otherwise, unless any such waiver is pursuant to a written instrument executed in accordance with the terms of the applicable Credit Documents. The Agents shall be entitled to apply the payments or proceeds of the Prepetition Collateral and the Adequate Protection Collateral in accordance with the provisions of the Credit Documents and in no event shall any of the Prepetition Secured Parties be subject to the equitable doctrine of “marshaling” or any other similar doctrine with respect to any of the Prepetition Collateral, the Adequate Protection Collateral or otherwise. The occurrence of the Termination Date, a Termination Event or anything herein shall not affect the validity, priority or enforceability of any and all of the rights, remedies, benefits and protections provided to the Prepetition Secured Parties under this Interim Order, which rights, remedies, benefits and protections shall survive the Termination Date.

13. *Limitation on Charging Expenses against Collateral.* Subject to entry of the Final Order, except to the extent of the Carve Out, no expenses of administration of the Chapter 11 Cases or any future proceeding that may result therefrom, including liquidation in bankruptcy or other proceedings under the Bankruptcy Code, shall be charged against or recovered from the Collateral Agent’s liens on either the Prepetition Collateral or the Adequate Protection Collateral, the Agents or the Prepetition Secured Parties pursuant to Sections 105(a) or 506(c) of the Bankruptcy Code or any similar principle of law or equity, without the prior written consent of the affected party, and no such consent shall be implied from any other action, inaction, or acquiescence by any of the Agents or the Prepetition Secured Parties.

14. *Payments Free and Clear.* Any and all payments or proceeds remitted to the Agents on behalf of the Prepetition Secured Parties or directly to any Prepetition Secured Party pursuant to the provisions of this Interim Order or any subsequent order of this Court shall be

non-refundable and irrevocable (subject to paragraphs 13, 15, 16 and 21 of this Interim Order) and received free and clear of, and not be subject to, any contest, attack, rejection, recoupment, reduction, defense, counterclaim, offset, subordination, recharacterization, avoidance, charge, assessment or other liability, or other claim, cause of action or other challenge of any nature under the Bankruptcy Code, under applicable non-bankruptcy law or otherwise, including without limitation, subject to entry of the Final Order, any such claim or charge arising out of or based on, directly or indirectly, sections 506(c) (whether asserted or assessed by, through or on behalf of the Debtors) or 552(b) of the Bankruptcy Code.

15. *Section 552(b) of the Bankruptcy Code.* The Agents and the other Prepetition Secured Parties shall be entitled to all of the rights and benefits of Section 552(b) of the Bankruptcy Code, and, subject to entry of the Final Order, the “equities of the case” exception under Section 552(b) of the Bankruptcy Code shall not apply to the Agents and the Prepetition Secured Parties.

16. *All Parties’ Reservation of Rights.* All parties reserve their rights to argue that, to the extent that any cash payment of interest, fees and expenses as adequate protection to the Prepetition Secured Parties is not allowed under Section 506(b) of the Bankruptcy Code and not allowed on any other basis (including, without limitation, on account of the Debtors’ use of Prepetition Collateral or under a plan), such payments should be recharacterized and applied as payments of principal owed under the applicable Credit Documents; provided that the Prepetition Secured Parties reserve their rights to assert defenses to any such arguments and to otherwise oppose any such recharacterization or application.

17. *Reservation of Rights of the Agents and Prepetition Secured Parties.* Notwithstanding any other provision hereof, the grant of adequate protection to the Prepetition

Secured Parties pursuant hereto is without prejudice to the right of the Agents and the Prepetition Secured Parties to seek modification of the grant of adequate protection provided hereby so as to provide different or additional adequate protection, and without prejudice to the right of the Debtors or any other party in interest to contest any such modification. Nothing herein shall be deemed to waive, modify or otherwise impair the respective rights of the Agents or the Prepetition Secured Parties under the Credit Documents or under equity or law, and the Agents and the Prepetition Secured Parties expressly reserve all of their respective rights and remedies whether now existing or hereafter arising under the Credit Documents and/or equity or law in connection with all Termination Events and Defaults and Events of Default (as defined in the respective Credit Documents, and whether arising prior to or after the Petition Date).

18. *Debtors' Reservation of Rights.* Subject to the Prepetition Secured Parties' rights granted pursuant to paragraph 12 of this Interim Order, the entry of this Interim Order and the grant of adequate protection to the Prepetition Secured Parties and the Agents pursuant to the terms hereof shall be without prejudice to the rights of the Debtors to, following the occurrence of the Termination Date, seek authority to use Cash Collateral and the Prepetition Collateral without the consent of the Prepetition Secured Parties and the Agents, and the Prepetition Secured Parties and the Agents reserve all of their respective rights with respect to contesting any such motion or request by the Debtors or any other person; provided that the Debtors may not utilize Cash Collateral to seek such authority.

19. *Perfection of Adequate Protection Liens.*

- (a) The Collateral Agent is hereby authorized, but not required, to file or record financing statements, intellectual property filings, mortgages, notices of lien or similar instruments in any jurisdiction in order to validate and perfect the liens and security interests granted to them pursuant to this Interim Order. Whether or not the Collateral Agent shall, in its sole discretion, choose to file such financing statements, intellectual

property filings, mortgages, notices of lien or similar instruments, such liens and security interests were deemed valid, perfected, allowed, enforceable, non-avoidable and not subject to challenge, dispute or subordination as of the date of entry of this Interim Order and shall continue to be deemed valid, perfected, allowed, enforceable, non-avoidable and not subject to challenge, dispute or subordination. If the Collateral Agent determines to file any financing statements, notice of liens or similar instruments, the Debtors will cooperate and assist in any such filings as reasonably requested by the Collateral Agent, and the automatic stay shall be modified to allow such filings.

- (b) A certified copy of this Interim Order may, in the discretion of the Collateral Agent be filed with or recorded in filing or recording offices in addition to or in lieu of such financing statements, mortgages, notices of lien or similar instruments, and all filing offices are hereby authorized to accept such certified copy of this Interim Order for filing and recording; provided that the Debtors shall reimburse the Collateral Agent or its respective designees for the payment of any stamp, intangibles, recording or similar tax.
- (c) Any provision of any lease or other license, contract or other agreement that requires (i) the consent or approval of one or more landlords or other parties or (ii) the payment of any fees or obligations to any governmental entity in order for any Debtor to pledge, grant, sell, assign, or otherwise transfer any such leasehold interest, or the proceeds thereof, or other Collateral related thereto, is hereby deemed to be inconsistent with the applicable provisions of the Bankruptcy Code. Any such provision shall have no force and effect with respect to the granting of Adequate Protection Liens on such leasehold interest or the proceeds of any assignment and/or sale thereof by any Debtor in accordance with the terms of the Credit Documents or this Interim Order.

20. *Preservation of Rights Granted Under this Interim Order.*

- (d) Except as expressly provided in this Interim Order, no claim or lien having a priority senior to or pari passu with those granted by this Interim Order to the Agents and Prepetition Secured Parties shall be granted or allowed, and the Adequate Protection Liens shall not be subject or junior to any lien or security interest that is avoided and preserved for the benefit of the Debtors' estates under Section 551 of the Bankruptcy Code or, subordinated to or made pari passu with any other lien or security interest, whether under Section 364(d) of the Bankruptcy Code or otherwise.
- (e) Notwithstanding any order dismissing any of the Chapter 11 Cases under Section 1112 of the Bankruptcy Code or otherwise entered at any time, (x) the 507(b) Claims, the other administrative claims granted pursuant to this Interim Order and the Adequate Protection Liens shall continue in full

force and effect and shall maintain their priorities as provided in this Interim Order until all Adequate Protection Obligations shall have been paid and satisfied in full in cash (and such 507(b) Claims, the other administrative claims granted pursuant to this Interim Order and the Adequate Protection Liens shall, notwithstanding such dismissal, remain binding on all parties in interest); and (y) this Court shall retain jurisdiction, notwithstanding such dismissal, for the purposes of enforcing the claims, liens and security interests referred to in clause (x) above.

- (f) If any or all of the provisions of this Interim Order are hereafter reversed, modified, vacated or stayed, such reversal, stay, modification or vacatur shall not affect: (i) the validity, priority or enforceability of any Adequate Protection Obligations incurred prior to the actual receipt of written notice by the Agents of the effective date of such reversal, stay, modification or vacatur; or (ii) the validity, priority or enforceability of the Adequate Protection Liens. Notwithstanding any such reversal, stay, modification or vacatur, any use of the Prepetition Collateral or any Adequate Protection Obligations incurred by the Debtors hereunder, as the case may be, prior to the actual receipt of written notice by the Agents of the effective date of such reversal, stay, modification or vacatur shall be governed in all respects by the original provisions of this Interim Order, and the Prepetition Secured Parties shall be entitled to all of the rights, remedies, privileges and benefits granted in Section 363(m) of the Bankruptcy Code with respect to all uses of the Prepetition Collateral and all Adequate Protection Obligations.
- (g) Subject to paragraphs 16 and 21 of this Interim Order, the adequate protection payments made pursuant to this Interim Order shall not be subject to counterclaim, setoff, subordination, recharacterization, defense or avoidance in the Chapter 11 Cases or any subsequent chapter 7 cases (other than a defense that the payment has actually been made).
- (h) Except as expressly provided in this Interim Order, the Adequate Protection Obligations, the 507(b) Claims and the Adequate Protection Liens and all other rights and remedies of the Agents and the Prepetition Secured Parties granted by the provisions of this Interim Order shall survive, and shall not be modified, impaired or discharged by (i) the entry of an order converting any of the Chapter 11 Cases to a case under chapter 7 of the Bankruptcy Code, dismissing any of the Chapter 11 Cases or by any other act or omission, or (ii) the entry of an order confirming a plan of reorganization in any of the Chapter 11 Cases and, pursuant to Section 1141(d)(4) of the Bankruptcy Code, the Debtors have waived any discharge as to any remaining Adequate Protection Obligations. The terms and provisions of this Interim Order shall continue in the Chapter 11 Cases, in any successor cases if the Chapter 11 Cases cease to be jointly administered, or in any superseding chapter 7 cases under the Bankruptcy Code, and the Adequate Protection Liens, the 507(b) Claims, the other

administrative claims granted pursuant to this Interim Order, and all other rights and remedies of the Agents and the Prepetition Secured Parties granted by the provisions of this Interim Order shall continue in full force and effect until all Adequate Protection Obligations are indefeasibly paid in full in cash.

21. *Effect of Stipulations on Third Parties.* As a result of the Debtors' review of the Credit Documents and the facts related thereto, the Debtors have admitted, stipulated and agreed to various matters as set forth in paragraph 4 above and the stipulations and admissions contained in this Interim Order, including without limitation, in paragraph 4 of this Interim Order, shall be binding upon the Debtors and any successor thereto in all circumstances. Subject to entry of the Final Order, the stipulations and admissions contained in this Interim Order, including without limitation, in paragraph 4 of this Interim Order, shall be binding upon all other parties in interest, including any Committee or any chapter 7 or chapter 11 trustee appointed or elected for any of the Debtors (a "**Trustee**"), unless (a) the Committee (if any) or any other party in interest (including any Trustee), in each case, with requisite standing, has duly filed an adversary proceeding or contested matter, as required under the Bankruptcy Rules (subject in either case to the limitations contained herein, including without limitation, in paragraph 22), challenging the validity, enforceability, priority or extent of the Prepetition Obligations or the liens on the Prepetition Collateral securing the Prepetition Obligations or otherwise asserting or prosecuting any avoidance action or any other claims, counterclaims or causes of action, objections, contests or defenses (collectively, the "**Claims and Defenses**") against any of the Agents or the Prepetition Secured Parties or their respective agents, affiliates, subsidiaries, directors, officers, representatives, attorneys or advisors in connection with any matter related to the Prepetition Obligations or the Prepetition Collateral by no later than the date that is (i) the earlier of seventy-five days from the Petition Date or sixty days after the date of appointment of the Committee, if any, and (ii) any such later date agreed to in writing by the respective Agent or

Prepetition Secured Party in its sole and absolute discretion or as ordered by the Court on any motion by the Committee seeking to extend such time period (such time period, the “**Challenge Period**”) and (b) an order is entered by a court of competent jurisdiction and becomes final and non-appealable in favor of the plaintiff sustaining any such challenge or claim in any such duly filed adversary proceeding or contested matter; provided that, as to the Debtors, all such Claims and Defenses are hereby irrevocably waived and relinquished as of the Petition Date. If no such adversary proceeding or contested matter is timely filed prior to the expiration of the Challenge Period, without further order of this Court: (x) the Prepetition Obligations shall constitute allowed claims, not subject to counterclaim, setoff, subordination, recharacterization, defense or avoidance, for all purposes in the Chapter 11 Cases and any subsequent chapter 7 case; (y) the Collateral Agent’s liens on the Prepetition Collateral shall be deemed to have been, as of the Petition Date, and to be, legal, valid, binding, perfected and of the priority specified in paragraph 4, not subject to defense, counterclaim, recharacterization, subordination or avoidance; and (z) the Prepetition Obligations, the Collateral Agent’s liens on the Prepetition Collateral and the respective Prepetition Secured Parties (and their respective agents, affiliates, subsidiaries, directors, officers, representatives, attorneys or advisors) shall not be subject to any other or further challenge by the Committee or any other party in interest, and any such Committee or party in interest shall be enjoined from seeking to exercise the rights of the Debtors’ estates, including without limitation, any successor thereto (including, without limitation, any estate representative or a Trustee, whether such Trustee is appointed or elected prior to or following the expiration of the Challenge Period). If any such adversary proceeding or contested matter is timely filed prior to the expiration of the Challenge Period, the stipulations and admissions contained in this Interim Order, including without limitation, in paragraph 4 of this Interim

Order, shall nonetheless remain binding and preclusive (as provided in the second sentence of this paragraph) on the Committee and any other person, including any Trustee, except as to any such findings and admissions that were expressly and successfully challenged in such adversary proceeding or contested matter. Nothing in this Interim Order vests or confers on any person, including a Committee or Trustee, standing or authority to pursue any cause of action belonging to the Debtors or their estates. In the event that there is a timely successful challenge brought pursuant to this paragraph 21, the Court shall retain jurisdiction to fashion an appropriate remedy.

22. *Limitation on Use of Collateral.* The Debtors shall use the proceeds of the Prepetition Collateral solely as provided in this Interim Order. Notwithstanding anything herein or in any other order of this Court to the contrary, no Prepetition Collateral or the Carve Out may be used to: (a) object, contest or raise any defense to, the validity, perfection, priority, extent or enforceability of any amount due under the Credit Documents, or the liens or claims granted under this Interim Order or the Credit Documents; (b) assert any Claims and Defenses against any of the Agents or the Prepetition Secured Parties or their respective agents, affiliates, subsidiaries, directors, officers, representatives, attorneys or advisors, (c) seek to modify any of the rights granted to the Agents and the Prepetition Secured Parties under this Interim Order, or (d) pay any amount on account of any claims arising prior to the Petition Date unless such payments are approved by an order of this Court or another court of competent jurisdiction, provided that, notwithstanding anything to the contrary herein, no more than \$50,000 of the Prepetition Collateral or the Carve Out in the aggregate may be used by any Committee to investigate the validity, enforceability or priority of the Prepetition Obligations or the liens on the Prepetition Collateral or investigate any Claims and Defenses or other causes of action

against the Agents or any of the Prepetition Secured Parties; provided, however, that there shall be no such limit on use of cash that is not Cash Collateral with respect to the foregoing.

23. *Maintenance of Letters of Credit.* Following entry of this Interim Order, the Debtors shall be authorized, but not directed, to (i) maintain and renew letters of credit issued or deemed issued under the Revolver Facility on an uninterrupted basis, in accordance with the same practices and procedures as were in effect prior to the Petition Date and subject to the terms and conditions of the Revolver Facility, and to take all actions reasonably appropriate with respect thereto (provided that any Issuing Bank shall have no obligation to extend, renew or otherwise modify any letters of credit, but the obligations of the parties with respect to existing letters of credit shall not be modified by this Interim Order), and (ii) obtain new letters of credit to replace or backstop such existing letters of credit and to cash collateralize such new letters of credit, and to take all actions reasonably appropriate with respect thereto. If any existing letter of credit under the Revolver Facility is renewed and then is subsequently drawn, any Reimbursement Obligation that is not paid by the Debtors shall constitute joint and several allowed administrative expense priority claims against the Debtors as provided in Sections 503(b) and 507(a)(2) of the Bankruptcy Code.

24. *Binding Effect; Successors and Assigns.* The provisions of this Interim Order, including all findings in this Interim Order, shall be binding upon all parties in interest in the Chapter 11 Cases, including without limitation, the Agents and the Prepetition Secured Parties, any Committee and the Debtors and their respective successors and assigns (including any Trustee hereinafter appointed or elected for the estate of any Debtor, an examiner appointed pursuant to Section 1104 of the Bankruptcy Code, or any other fiduciary appointed as a legal representative of any of the Debtors or with respect to the property of the estate of any of the

Debtors) and shall inure to the benefit of the Agents, the Prepetition Secured Parties and the Debtors and their respective successors and assigns, provided that, except to the extent expressly set forth in this Interim Order, the Agents and the Prepetition Secured Parties shall have no obligation to permit the use of the Prepetition Collateral, including Cash Collateral, or extend any financing to any Trustee or similar responsible person appointed for the estate of any Debtor. For all adequate protection and stay relief purposes throughout the Chapter 11 Cases, the Prepetition Secured Parties shall be deemed to have requested relief from the automatic stay and adequate protection as of the Petition Date. For the avoidance of doubt, such request will survive termination of this Interim Order.

25. *Limitation of Liability.* In permitting the use of the Prepetition Collateral or in exercising any rights or remedies as and when permitted pursuant to this Interim Order, subject to entry of the Final Order, the Agents and the Prepetition Secured Parties shall not be deemed to be in control of the operations of the Debtors or to be acting as a “responsible person” or “owner or operator” with respect to the operation or management of the Debtors (as such terms, or any similar terms, are used in the United States Comprehensive Environmental Response, Compensation and Liability Act, 42 U.S.C. §§ 9601 et seq. as amended, or any similar federal or state statute). Furthermore, nothing in this Interim Order shall in any way be construed or interpreted to impose or allow the imposition upon the Agents or the Prepetition Secured Parties of any liability for any claims arising from the prepetition or post-petition activities of any of the Debtors and their respective affiliates (as defined in Section 101(2) of the Bankruptcy Code).

26. *Effectiveness.* This Interim Order shall constitute findings of fact and conclusions of law and shall take effect immediately upon entry hereof, and there shall be no stay of

execution of effectiveness of this Interim Order. To the extent that any finding of fact shall be determined to be a conclusion of law it shall be so deemed and vice versa.

27. *Proofs of Claim.* Neither the Revolver Agent, the Term Loan Agent nor the Prepetition Secured Parties will be required to file proofs of claim in any of the Chapter 11 Cases or successor cases, and the Debtors' stipulations in paragraph 4 herein shall be deemed to constitute a timely filed proof of claim. Any order entered by this Court in relation to the establishment of a bar date for any claim (including without limitation, administrative claims) in any of the Chapter 11 Cases or successor cases shall not apply to the Revolver Agent, the Term Loan Agent or the Prepetition Secured Parties with respect to the Prepetition Obligations. Notwithstanding the foregoing, each of the Revolver Agent and the Term Loan Agent, on behalf of itself and the applicable Prepetition Secured Parties, is hereby authorized and entitled, in its sole discretion, but not required, to file (and amend and/or supplement, as it sees fit) a single master proof of claim in respect of the Revolver Facility Obligations or the Term Loan Facility Obligations, as applicable, (each such proof of claim is referred to herein as a "**Master Proof of Claim**") against each of the Debtors. Upon the filing of a Master Proof of Claim against each of the Debtors, the applicable Agent and each Prepetition Lender Party, and each of their respective successors and assigns, shall be deemed to have filed a proof of claim in the amount set forth opposite its name therein in respect of its claims against each of the Debtors of any type or nature whatsoever with respect to Revolver Loan Facility Documents or the Term Loan Facility Documents, as applicable, and the claim of each Prepetition Secured Party (and each of its respective successors and assigns), named in a Master Proof of Claim shall be treated as if such entity had filed a separate proof of claim in each of these Cases. The Agents shall not be required in a Master Proof of Claim to identify whether any Prepetition Secured Party acquired

its claim from another party and the identity of any such party or to amend a Master Proof of Claim to reflect a change in the holders of the claims set forth therein or a reallocation among such holders of the claims asserted therein resulting from the transfer of all or any portion of such claims. The Agents shall not be required to file with a Master Proof of Claim any instruments, agreements or other documents evidencing the obligations owing by each of the Debtors to the Prepetition Secured Parties, which instruments, agreements or other documents will be provided upon written request to counsel to the Agents. Any proof of claim filed by the Revolver Agent or the Term Loan Agent shall be deemed to be in addition and not in lieu of any other proof of claim that may be filed by any of the Prepetition Secured Parties.

28. *Jurisdiction.* This Court shall retain jurisdiction to enforce the terms of this Interim Order and to adjudicate any and all matters arising from or related to the interpretation or implementation of this Interim Order.

29. *Final Hearing.* The Final Hearing is scheduled for _____, 2016 at _____ .m., prevailing Eastern time, before this Court. The Debtors shall promptly mail copies of this Interim Order (which shall constitute adequate notice of the Final Hearing) to the parties having been given notice of the Interim Hearing, and to any other party that has filed a request for notices with this Court and to any Committee. Any party in interest objecting to the relief sought at the Final Hearing shall serve and file written objections; which objections shall be served upon (a) Weil, Gotshal & Manges LLP, 767 Fifth Avenue, New York, New York 10153-0119, Attention: Gary T. Holtzer, Esq. and Stephen A. Youngman, Esq., attorneys for the Debtors, (b) Richards, Layton & Finger, P.A., One Rodney Square, 920 N. King Street, Wilmington, Delaware 19801, Attention: Mark D. Collins, Esq, co-counsel for the Debtors, (c) Simpson Thacher & Bartlett LLP, 425 Lexington Avenue, New York, New York 10017, Attention: Sandeep Qusba, Esq.,

Kathrine A. McLendon, Esq., and Morris J. Massel, Esq., attorneys for the Revolver Agent and the Collateral Agent, (d) Landis Rath & Cobb LLP, 919 Market Street, Wilmington, DE 19801, Attention: Adam G. Landis, Esq. and Kerri Mumford, Esq., co-counsel for the Revolver Agent and the Collateral Agent, (e) Kaye Scholer LLP, 250 West 55th Street, New York, NY 10019-9710, Attention: Mark F. Liscio, Esq. and Scott D. Talmadge, Esq., attorneys for the Term Loan Agent, and (f) the Office of the U.S. Trustee, and shall be filed with the Clerk of the United States Bankruptcy Court, District of Delaware, in each case to allow actual receipt by the foregoing no later than _____, 2016 at 4:00 p.m., prevailing Eastern time.

30. *Controlling Effect of Interim Order.* To the extent any provision of this Interim Order conflicts or is inconsistent with any provision of the Motion, or any order entered by the Court approving the Cash Management Motion, the provisions of this Interim Order shall control to the extent of such conflict.

Wilmington, Delaware
Date: _____, 2016

THE HONORABLE _____
UNITED STATES BANKRUPTCY JUDGE

EXHIBIT A

(Budget)

Paragon Offshore plc, et al.
 Weekly Cash Flow Forecast
 (\$000s)

Week	Fcst	Fcst	Fcst	Fcst	Fcst	Fcst	Fcst	Fcst	Fcst	Fcst	Fcst	Fcst	Fcst	TOTAL
Week Ending	1	2	3	4	5	6	7	8	9	10	11	12	13	13 Week
	02/19/16	02/26/16	03/04/16	03/11/16	03/18/16	03/25/16	04/01/16	04/08/16	04/15/16	04/22/16	04/29/16	05/06/16	05/13/16	
Total Receipts	5,563	14,745	10,991	37,729	6,056	4,621	15,000	33,986	22,799	6,161	14,568	24,182	24,922	221,324
Total Operating Disbursements	(4,912)	(7,326)	(7,940)	(3,855)	(4,889)	(3,944)	(7,417)	(6,830)	(5,441)	(6,617)	(5,985)	(6,029)	(4,803)	(75,989)
Total Capital Expenditures	(288)	(522)	(2,309)	(1,121)	(1,422)	(1,147)	(2,157)	(3,918)	(3,122)	(3,796)	(3,434)	(1,664)	(1,325)	(26,225)
Total Payroll & Benefits	-	-	(5,068)	-	(14)	-	(10,136)	-	(14)	-	(9,546)	-	-	(24,778)
Total Other	(624)	(1,368)	(2,072)	(1,071)	(1,122)	(613)	(1,303)	(1,673)	(1,673)	(1,139)	(4,484)	(1,122)	(1,516)	(19,780)
Total I/C Disbursements to Non Debtor Entities	(668)	(1,509)	(5,834)	(944)	(2,435)	(966)	(8,934)	(2,716)	(19,243)	(2,631)	(7,893)	(1,775)	(2,681)	(58,229)
Total Disbursements	(6,492)	(10,725)	(23,223)	(6,991)	(9,881)	(6,670)	(29,948)	(15,137)	(29,492)	(14,183)	(31,343)	(10,590)	(10,325)	(205,000)
Net Operating Cash Flow	(929)	4,020	(12,232)	30,738	(3,825)	(2,049)	(14,948)	18,849	(6,693)	(8,021)	(16,775)	13,592	14,596	16,324
Deposits														
Utility Deposits	(250)	-	-	-	-	-	-	-	-	-	-	-	-	(250)
Total Deposits	(250)	-	-	-	-	-	-	-	-	-	-	-	-	(250)
Total Debt Service	-	-	(10,267)	-	-	-	(3,942)	-	-	-	(3,820)	-	-	(18,028)
Total Professional Fees	-	-	-	-	-	(1,395)	-	(1,190)	-	-	(2,590)	(1,780)	-	(6,955)
Total Non-Operating Disbursements	(250)	-	(10,267)	-	-	(1,395)	(3,942)	(1,190)	-	-	(6,410)	(1,780)	-	(25,233)
Net Cash Flow	(1,179)	4,020	(22,499)	30,738	(3,825)	(3,444)	(18,889)	17,659	(6,693)	(8,021)	(23,184)	11,812	14,596	(8,909)
Debtor Beginning Cash Balance - Encumbered	78,339	77,159	81,179	58,680	89,418	85,593	82,149	63,260	80,919	74,226	66,205	43,021	54,833	78,339
Net Cash Flow	(1,179)	4,020	(22,499)	30,738	(3,825)	(3,444)	(18,889)	17,659	(6,693)	(8,021)	(23,184)	11,812	14,596	(8,909)
Debtor Ending Cash Balance - Encumbered	77,159	81,179	58,680	89,418	85,593	82,149	63,260	80,919	74,226	66,205	43,021	54,833	69,430	69,430
Debtor Cash Balance - Unencumbered	343,576	343,576	343,576	343,576	343,576	343,576	343,576	343,576	343,576	343,576	343,576	343,576	343,576	343,576
Total Debtor Cash Balance	420,735	424,755	402,256	432,994	429,169	425,725	406,836	424,495	417,802	409,781	386,596	398,409	413,005	413,005
Non Debtor Ending Cash Balance	348,823	348,099	345,754	352,112	356,596	356,015	352,571	357,981	359,322	358,270	354,968	360,999	359,643	359,643
Total Debtor & Non Debtor Ending Cash Balance	769,558	772,854	748,010	785,106	785,764	781,739	759,407	782,476	777,124	768,051	741,564	759,408	772,648	772,648