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Liquidation Valuation Letter of the QGOG Constellation MODU fleet

1st October 2018

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1 Description

An offshore drilling unit is an advanced industrial plant that happens to be afloat. The real value of the unit is its ability to complete the task of drilling complicated wells for oil companies. The unit itself is an expensive tool, but the value creation is the competence and service of the owner/drilling contractor managing the unit. This competence is not that readily available or interchangeable.

When Fearnley Offshore typically perform valuations, we stress the fact that the valuations are on a "going concern" basis, i.e. that the drilling contractor is operating the unit with crew and fully operational and in a favourable class position.

In this letter we are completing a Liquidation Valuation on the QGOG Constellation MODU fleet prepared on the basis of and subject to the terms and conditions set out in the Engagement Letter dated 24. September 2018 between us and you., By Liquidation Valuation we mean the value of the units in a voluntary process of closing down the business so that its assets can be sold within a period of 90 – 120 days in order to generate cash to pay off creditors. We exclude from the Liquidation Valuation the value of the units in an enforced sale of the units by security holders and sale under bankruptcy proceedings

With few relevant comparable transactions, this requires a large degree of hypothetical analysis and assumptions. Accordingly we have analysed our internal data base and it shows that the drilling market has always been a cyclical business, with upturns and downturns. However, the downturn experienced from January 2015 until now has been close to the worst ever. Only in 1985 – 1989 did something similar occur, as the overall demand decline in the market has been comparable in these two periods. In this evaluation we have looked closely at previous downturn transactions, but mostly analysed the current downturn. Majority of our focus is related to actual transactions, stranded UDW units at various shipyards, other midwater (MW), deepwater (DW) and ultra deepwater (UDW) potential sales candidates, NAV valuations and newbuilding comparison. Fearnley Offshore is also analysing dayrate trends, Opex development and our full requirements base analysing potential requirements which can be realistic opportunities for these the QGOG Constellation MODU fleet.

We have therefor analysed the data available from all these parameters closely. We believe our total data gathering and analysis to be a reasonable assumptions for a "Liquidation" transactions of the various units in the QGOG Constellation fleet.

2 Distressed / Liquidation Transactions 2015 - 2018

We considered the following recent transactions relative for this analysis in the market:

- April 2016 Cerrado: sold at auction for USD65m from Schahin Oil and Gas to Ocean Rig. The sales price reflects major operational issues with the unit. This is defined as a distressed sales price is therefore not applicable with respect to the a "Deadlock price Scenario".
- October 2017 Deepsea Metro 2: sold from bank consortia for USD154m to the Turkish Petroleum Corporation (TPAO). The construction price of a drillship of comparable design and age is roughly USD630 - 650m.
- June 2018 – the owners of UDW DS Sertao (build 2012) completed an auction to sell the drillship at highest possible price. Credit holders received no offers close to asking price of about USD 90-100 million, consequently the auction was cancelled.

Of the above listed three rigs we define all to be 6th gen rigs.

3 Market Status 3rd Quarter 2018

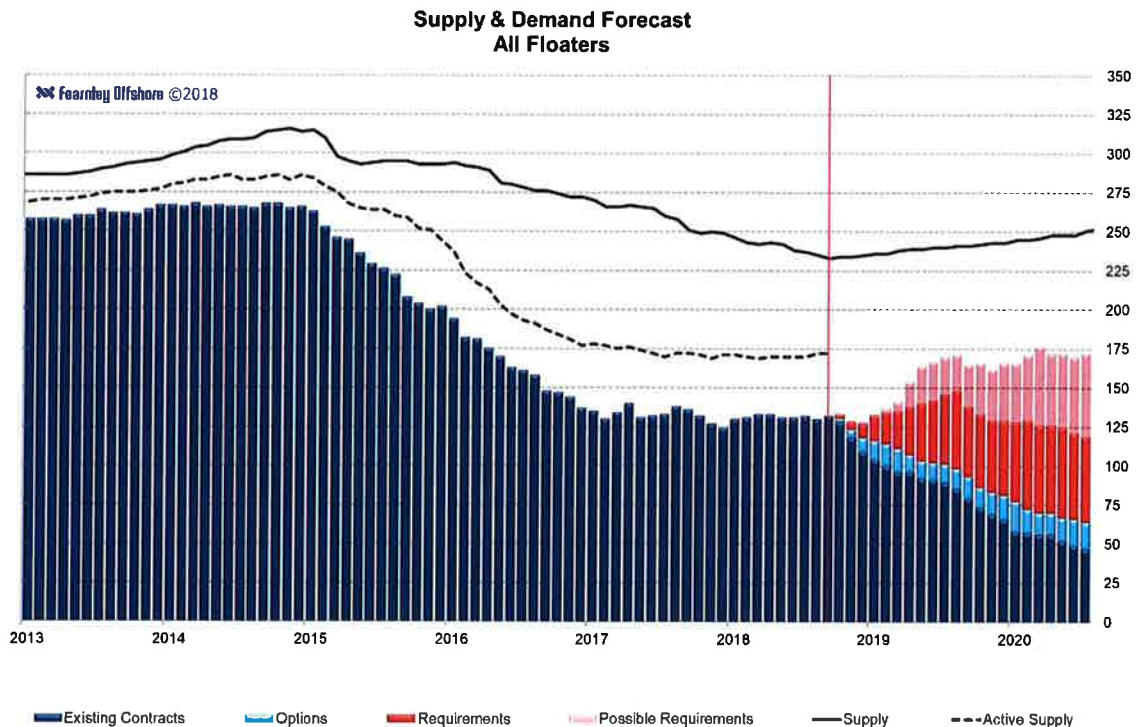
The floater drilling market are still under a huge pressure as we move into the fall of 2018. The number speak for itself as the utilization for all floaters is at 57%. Over the next 3 years we expect additional 27 newbuilds to enter the market. The majority of these units are UDW units competing for new contracts against an already over constructed UDW fleet. If we divide the floater numbers down into each segment we can see some improvement in the utilization ratio.

As of October 2018 the worldwide floater fleet consists of 242 units. (+ 27 under construction)

- 159 UDW units (incl. 43 cold stacked / 31 warm & idle)
 - 54% fleet utilization
 - 19 units under construction (only 1 with a charter contract)
 - Average age: 8 years

- 40 DW units (incl. 9 cold stacked / 4 warm stacked)
 - 59% fleet utilization
 - 8 units under construction
 - Average age: 27 years

- 43 MW units (incl. 11 cold stacked / 5 warm & idle)
 - 65% fleet utilization
 - Average age: 32 years



Fearnley Offshore forecast a better market in late 2019 and 2020/2021, but we are clearly of the opinion that a number of drilling contractors will continue to put pressure on the dayrate. In almost every tender outstanding a drilling contractor is willing to bid at OpEx or below. This trend will continue until utilization is climbing up towards ~85%. The dayrate level for all rigs, but specifically the UDW units are putting pressure on the second hand valuations.

4 Liquidation Valuations

The following table provides our Liquidation Values for the QGOG Constellation MODU fleet.

All values in USD million.

Rig	Rig type	Built	Liquidation Value (USDM)
"Brava Star"	Drillship	2015	USD 250 – 280 Mill.
"Amaralina Star"	Drillship	2012	USD 90 – 140 Mill.
"Laguna Star"	Drillship	2012	USD 90 – 140 Mill.
"Alpha Star"	Sem-sub	2011	USD 50 – 80 Mill.
"Lone Star"	Sem-sub	2010	USD 50 – 80 Mill.
"Gold Star"	Sem-sub	2009	USD 50 – 80 Mill.
"Atlantic Star"	Sem-sub	1976	USD 0 – 5 Mill.
"Olinda Star"	Sem-sub	1983	USD 5 – 7 Mill.

These valuations and particulars are statements of opinion only and are not to be taken as representation of facts. The figures relate solely to our opinion of the Liquidation Valuation as of the date given and should not be taken to apply to any other date.

The valuations are given with due consideration to prevailing market conditions, also considering the outlook on the longer term. The valuations are based on no explicit additional value of any charter contracts.

We have neither made physical inspection of the units, nor have we inspected the units' classification records. Our opinion is based on information of the units' specification provided by the owner or as stipulated in standard reference books.

We have assumed for the purposes of the valuations that the units are in good and seaworthy condition, in a favourable class position and fully operational.

Any persons contemplating entering into a transaction or otherwise relying upon these valuations should satisfy himself by inspection of the units or otherwise as to the correctness of the statements and assumptions which the valuations contains. No assurance can be given that the values can be sustained or are realizable in an actual liquidation transaction.

The valuations are provided solely for the use of the person to whom it is addressed and no responsibility can be accepted to any other person. However, we give you permission to use the Liquidation Valuation Report as an independent third party report for use in present or future litigation or arbitration in various jurisdiction, provided always that we are fully indemnified by you for any Liabilities (as defined below) related thereto. The valuations should not be published or circulated without our prior written permission.

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This valuation letter is governed by Norwegian law with Oslo District Court as the exclusive legal venue.

Yours faithfully,
FEARNLEY OFFSHORE AS



Rolf Bjørne



Knut Georg Barth

End Liquidation Values

Enclosed – brief specification QGOG Constellation Fleet



Spec Olinda
Star.pdf



Spec Lone Star.pdf



Spec
Laguna_Star.pdf



Spec Gold Star.pdf



Spec Atlantic
Star.pdf



Spec Amaralina
Star.pdf



Spec Alpha Star.pdf



Brava_Star_Technica
I_Details.pdf