Confidential

Louisiana Energy Conference

Clarion Offshore Partners – Kevin Robert
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CLARION
OFFSHORE PARTNERS LLC

Introduction to Clarion Offshore Partners

➢ Clarion Offshore Partners, a Blackstone affiliate, provides financial, strategic and operational solutions to the offshore drilling and related services industry.

➢ Clarion's investment mandate is broad and flexible, but is focused on providing solutions to a wide spectrum of industry participants including, offshore drilling companies, service providers, shipyards, financial institutions, investors, entrepreneurs, and oil and gas operators.

➢ Clarion's financing solutions can include:

- Growth Capital
- Restructuring Capital
- Opportunistic Capital

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Offshore A Year Ago! The outlook was not positive.

- **Commodity price weakness** was driving cost cutting and decreasing capital investment.
  - Oil ~$49/bbl, Henry Hub ~$2/mmbtu and most offshore projects were on hold.

- **Floater fleet utilization** was 55% with 154 rigs under contract, 131 rigs idle and demand near zero.
  - Oil company sublet availability was at an all time high.
  - Drillers were stacking and scrapping.
  - Dayrates for any new contract were slightly above operating costs.

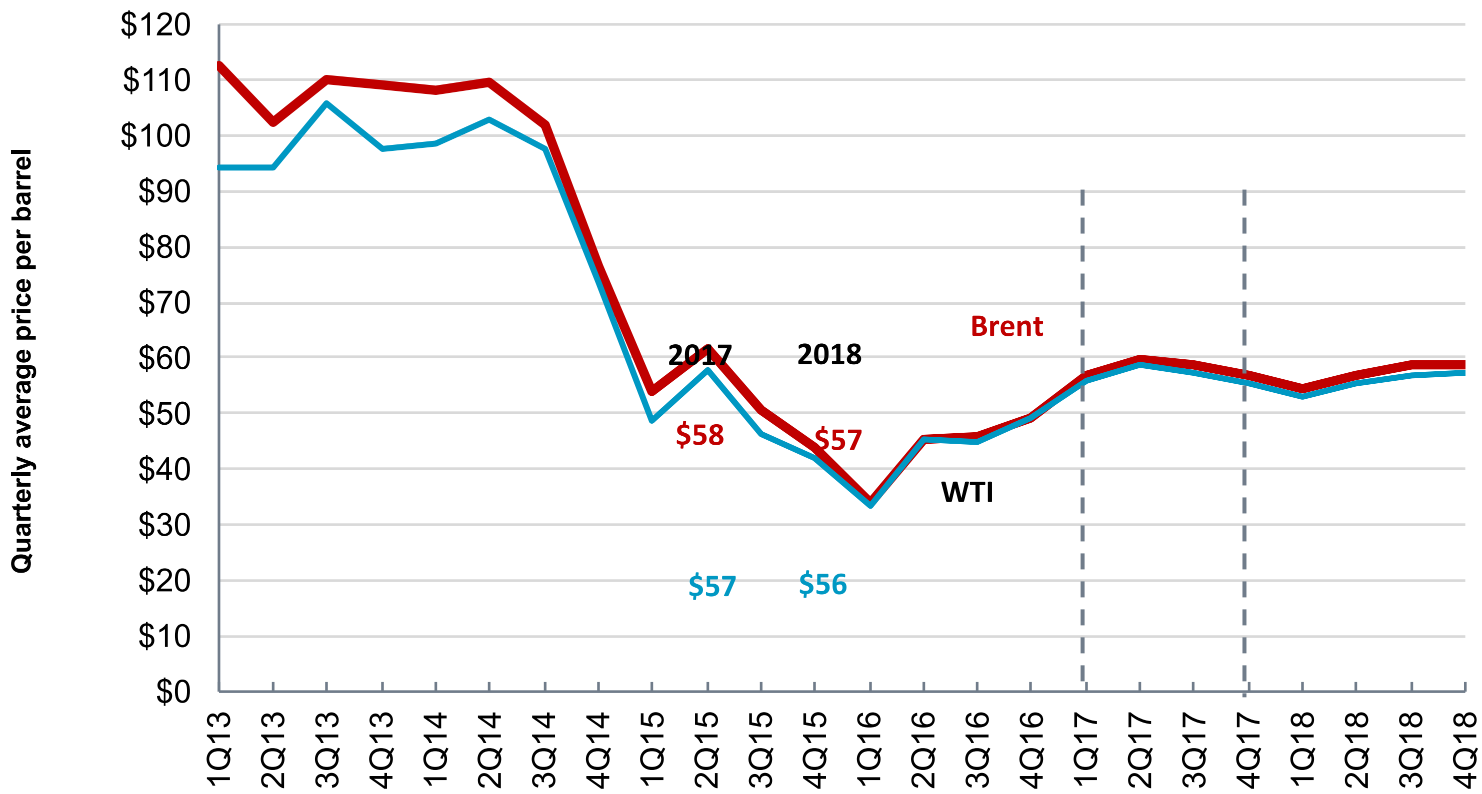
- **Jackup fleet utilization** was 54% with 256 competitive jackups contracted, 217 idle and demand near zero.

- **Offshore Services** were suffering worse than drilling due to less backlog and weaker balance sheets.

- **Offshore drilling demand and oil company investment outlook** for 2017 was likely to be lower than year-end 2016 expected results.

Commodity Prices: Roughly balanced oil market in 2017-18 suggests flat prices.

Brent and WTI $/barrel outlook through 2018

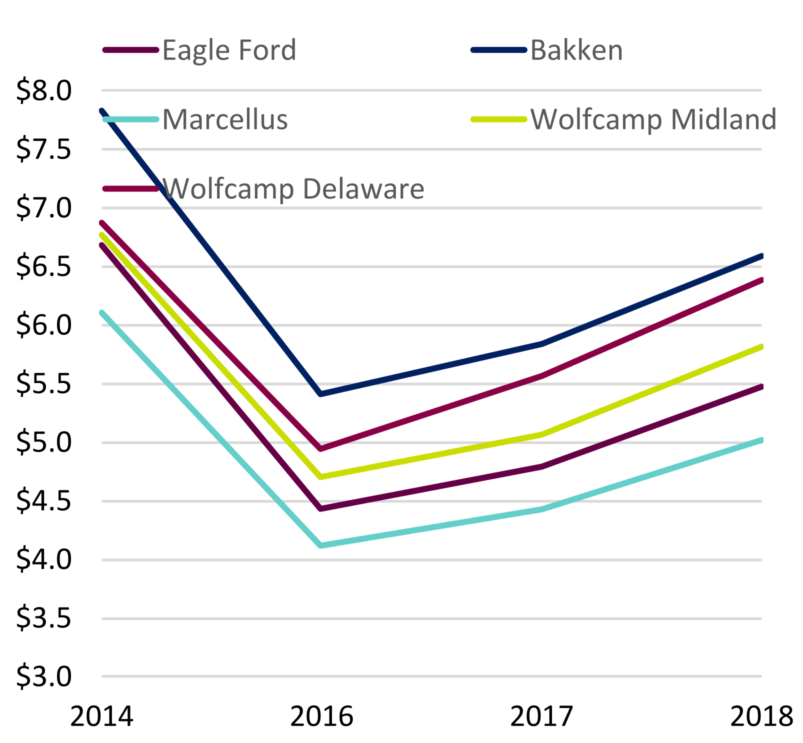


Source: IHS, Argus Media Limited (historical)

US Onshore Drilling & Completion costs fell 40% in 2014-2016. Costs rising, but so is efficiency.

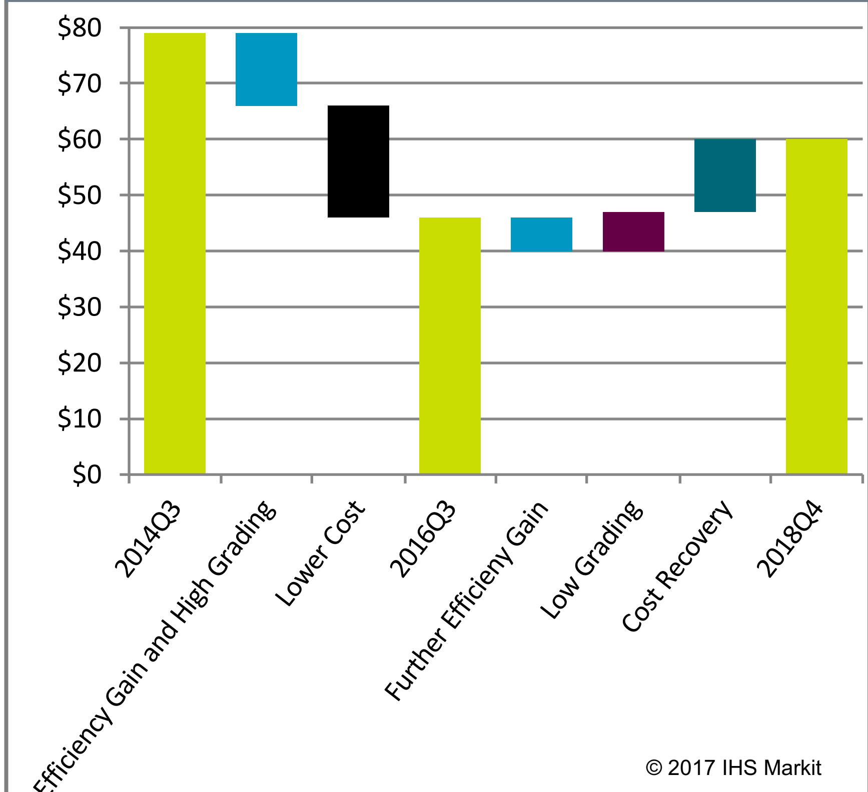
- D&C cost forecast assumes conservative a 5-10% annual growth in lateral length and completions materials consumption per well versus historical >20%

US Drilling and Completion costs/well ($ millions) for major onshore plays



Source: IHS Markit

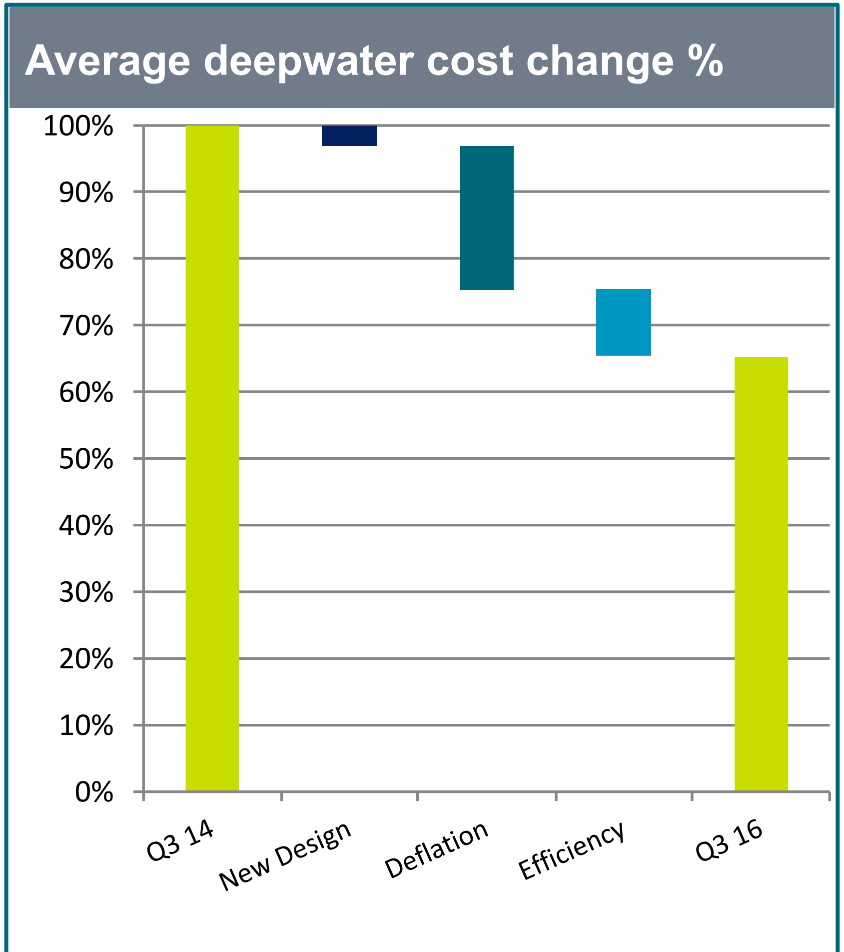
Breakeven $/boe in major US unconventional plays



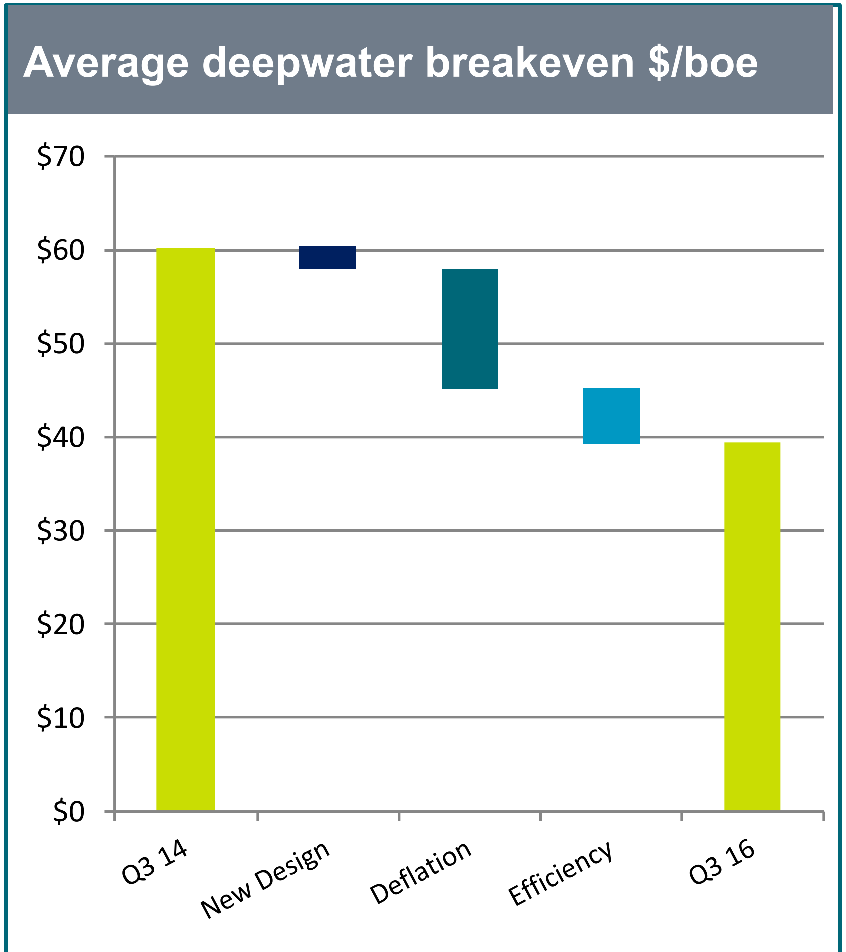
Source: IHS Markit

Global deepwater development costs have dropped 35% since Q3 2014 and still falling

- Based on IHS study of 34 deepwater fields, cost forward basis and 10% IRR.



Source: IHS Markit

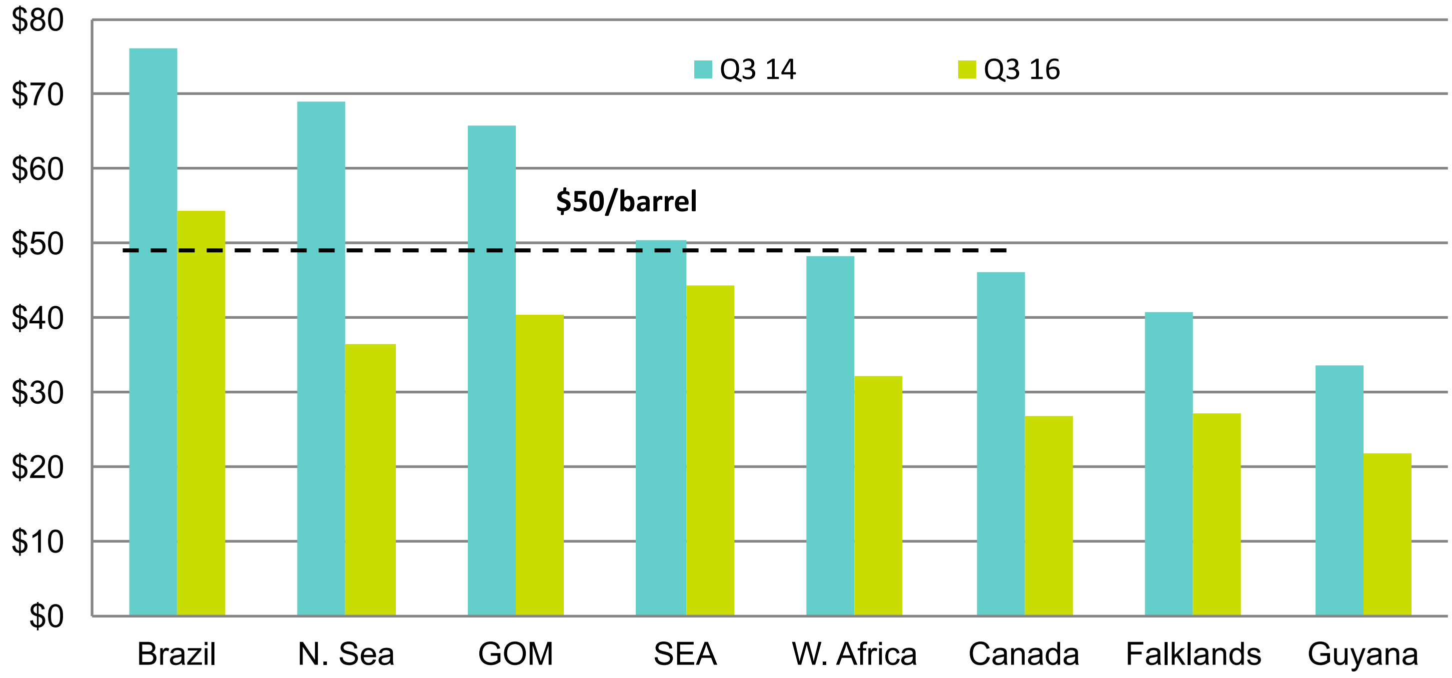


Source: IHS Markit

Deepwater development break-evens have declined significantly since end 2014

- **The North Sea and US Gulf of Mexico achieved the greatest cost reductions.**

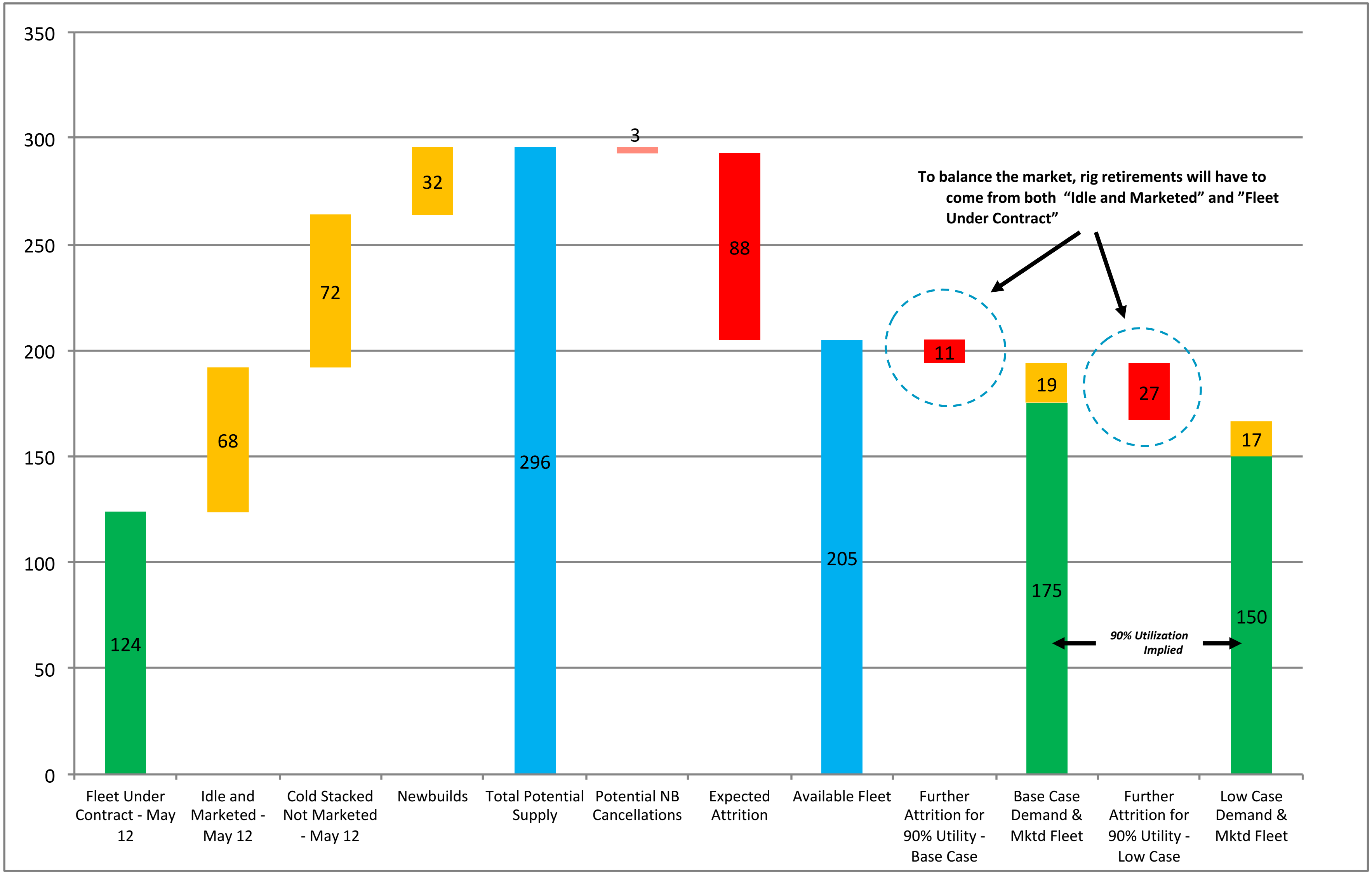
Deepwater $/barrel break-evens, 34 sample projects (development economics, excluding exploration)



Source: IHS, February 2017
Canada, Falklands, Guyana only 1 project each
Point forward includes capex plus opex, excludes exploration

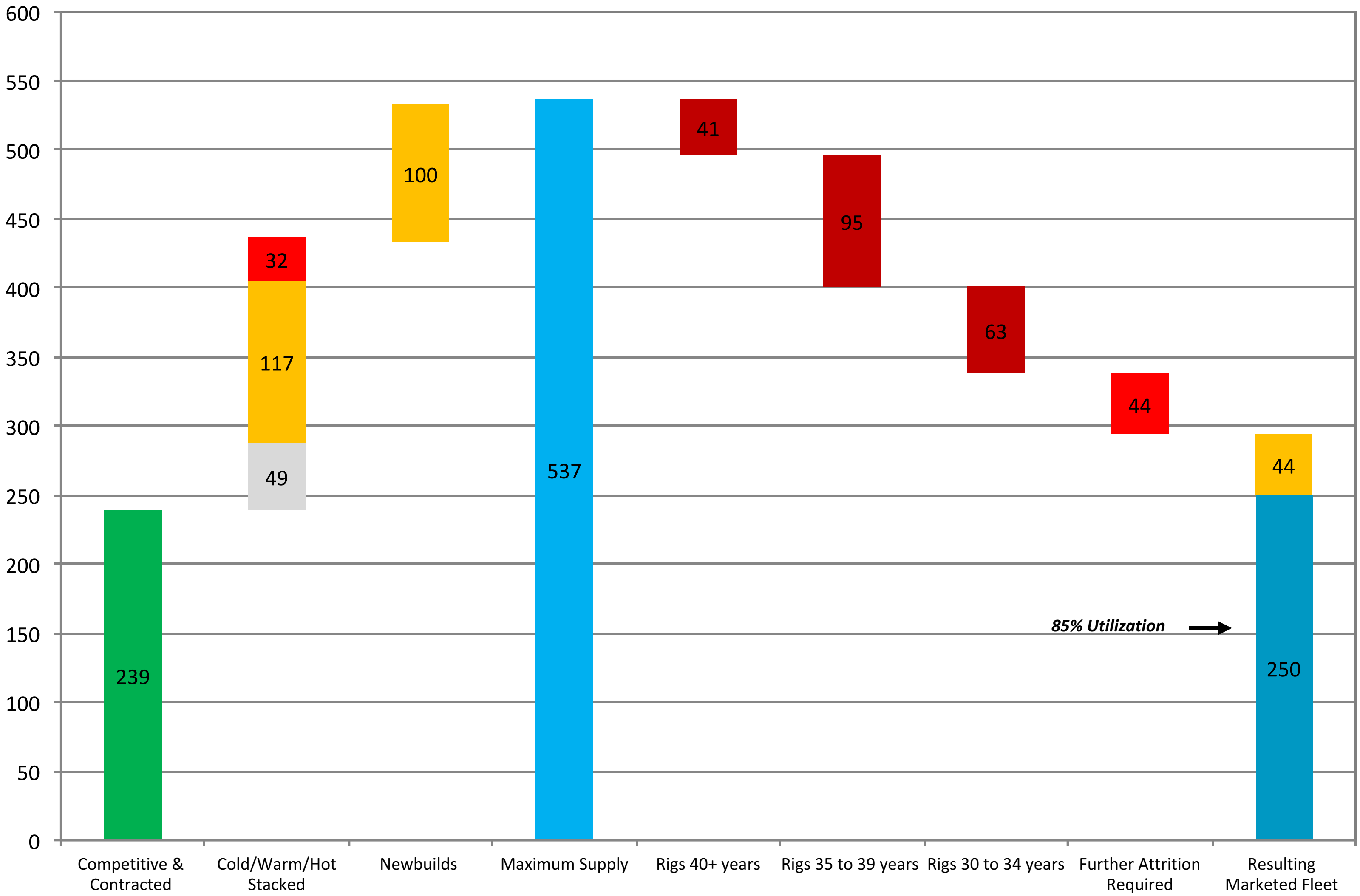
Floater Fleet: Expected Supply & Demand Development through 2021 at $60+/bbl

Achieving market balance (defined as 90% utilization) requires 99 rig retirements in the Base Case and 126 in the Low Demand Case.



WW Competitive Independent Leg Jackup Fleet: 199 Rigs 30+ years old

Competitive Jackup Fleet balances at 85% marketed utilization if all rigs 30+ years old retire plus another 44. Assumes all newbuilds are delivered and 250 rig years of demand. Excludes 35 mat rigs and 67 Owner/Operated rigs. Source: IHS Markit May 15, 2017.



Sector Observations: Offshore is worse than a year ago!

- **Commodity Prices: Spot Brent ~$53/bbl and gas ~$3.24/mmbtu.**
  - Oil Prices are expected to be lower for longer for the next several years as the ability to increase and sustain US production continues to surprise.
- **Capital Spending: Oil Companies favor onshore investments in spite of falling offshore project break evens.**
  - US Onshore efficiency gains are enabling more wells to be drilled and Offshore investments are not compelling at current commodity prices and development costs.
- **Offshore Drilling Demand: The next demand recovery is unlikely to occur before 2021 – 2022.**
  - Floaters: Dayrates are at cash breakeven or lower and more contracts beginning to include integrated services, which increases risk and lowers margin. **124 rigs are contracted and 140 are idle, 47% utilization.**
  - Jackups: National Oil Companies are contracting rigs for long terms to lock in low rates. Demand increases depend on higher commodity prices. **235 competitive rigs are contracted, 237 are idle, 50% utilization.**
  - Harsh Environment rig demand is increasing and could result in rig shortages in 2019 - 2021.
- **Offshore Drilling Supply: "Silent retirement" and cold stacking of "non-core" rigs reduce ready supply, but there is still demand for older rigs as 73 rig years become available in 2017/18.**
  - Stranded rigs "price to sell" is surprisingly high given the market outlook.
  - Lenders continue to relax covenants, delaying restructuring and breathing life into some "zombies".
  - Jack-up attrition is not occurring quickly enough to balance the market.
  - Consolidation must occur: Ensco and Atwood likely the first of more to come, but note the deal was "all stock".
- **Offshore Services:** Record low demand is forcing restructuring, supply consolidation and regional focus.