



QGM Group LLC
P.O. Box 41834
Hamriyah Free Zone
Sharjah
United Arab Emirates

Att.: C. A. Walton and M. A. Bromham

Oslo, 22 March 2007

Dear Tony and Chris,
THULE DRILLING ASA – QGM GROUP LLC

With reference to our latest phone conversation, enclosed please find a Notice of Default.

To reiterate our position, without prejudice to our legal rights under the contracts with QGM, we would like to invite both of you to Thule's offices in Oslo, to explore the possibility of negotiating a mutually acceptable alternative to that of enforcing our legal rights under the contracts.

We believe the best way to accomplish this is for you to come to Oslo as soon as possible, preferably within a few days.

We look forward to your prompt response to this invitation.

Best regards

A handwritten signature in black ink, appearing to read "Hans Eirik Olav".

Hans Eirik Olav



Attention: C. A. Walton, and M. A. Bromham

QGM Group LLC
P.O. Box 41834
Hamriyah Free Zone
Sharjah
United Arab Emirates

22 March 2007

By fax: + 971 6 5260182 and courier (6 pages)
By email to C. A. Walton and M. A. Bromham

Dear Sirs,

THULE DRILLING ASA AND QGM GROUP LLC – NOTICE OF EVENT OF DEFAULT

We refer to a loan agreement between QGM Group LLC ("**QGM**") and Thule Drilling ASA ("**Thule**") dated on or about 26 September 2006 for the provision of a term loan to QGM in the maximum amount of US\$22 million ("**Loan Agreement**"). Such Loan Agreement was entered into for the purpose of financing QGM in relation to the construction contracts for the projects known as "Thule Force" and "Thule Energy" (together the "**Newbuilds**") and "Thule Power" ("**Construction Contracts**").

This letter is sent to QGM by Thule pursuant to clause 12.16 of the Loan Agreement for the purpose of notifying QGM of the occurrence of numerous events of default as referred to in clauses 12.1 to 12.15 of the Loan Agreement ("**Event of Default**"). In particular:

1. An Event of Default has occurred pursuant to clause 12.6 of the Loan Agreement in that QGM is in cross default as there have been material breaches under the Construction Contracts and any applicable remedy under the Construction Contracts has expired. In particular, under the Construction Contract for Thule Power ("**Thule Power Agreement**"):
 - (a) There have been significant cost overruns by QGM on Thule Power. Clause 5.2 of Exhibit A1 of Section 2 of the Thule Power Agreement ("**Terms and Conditions**") provides that QGM, as contractor, shall not be entitled to additional time for performing the work under the contract and / or additional payment in excess of fixed lump sum prices as set forth in the Thule Power Agreement on account of conditions relating to any installation site or performance of work on Thule Power, unless so agreed by way of a Change Order (as defined in the Thule Power Agreement). The fixed contract price under the Thule Power Agreement was USD 61,102,000 and Thule subsequently issued and agreed Change Orders of USD 7,750,000, and USD 4,800,000 and approved additional Change Orders for USD 2,333,148 giving a total contract price under the Thule Power Agreement of USD 75,985,148 (the "**Revised Contract Price**"). In a letter dated 13 February 2007 from QGM to Thule it is apparent that QGM cannot deliver Thule Power at the Revised Contract Price and requires the amount of USD 95,811,410.21 in order to deliver Thule Power which is clearly substantially higher than the

Revised Contract Price. This is a clear demonstration that there have been substantial cost overruns by QGM under the Thule Power Agreement. Such cost overruns are a breach by QGM of clause 34 of the Terms and Conditions (as amended by an amendment agreement to the Thule Power Agreement dated 8 September 2005 ("**Amendment Agreement**") as the final contract price should not exceed the Revised Contract Price and such an informal attempt at an amendment to the price by QGM is ineffective pursuant to clause 7 of the Amendment Agreement.

- (b) QGM has failed to meet its obligations under the Thule Power Agreement as it is not in a position to comply with the scheduled completion date for delivery of Thule Power. The scheduled completion date was originally contractually agreed to be 9 July 2006 pursuant to clause xiii of the Amendment Agreement dated 8 September 2005 ("**Delivery Date**") and such Delivery Date was mutually extended in writing to 31 January 2007 as evidenced pursuant to clause 6.1 of the Loan Agreement. Whilst Thule agreed to such extension of the Delivery Date until 31 January 2007 it should be noted that it was left with no choice other than to agree to such revised Delivery Date and to also continue with its funding of Thule Power in an attempt to finalise Thule Power for delivery under a separate contract that Thule has in place with Saudi Aramco. However, the extended Delivery Date has now expired and Thule Power has not, as at the date of this letter, been delivered to Thule and QGM is thus in breach of clause 22 of the Terms and Conditions. QGM has failed to comply with the rate of progress as set out therein and, as noted above under paragraph (a) QGM is not entitled under clause 5.2 of the Terms and Conditions any additional time in performing the work on Thule Power. In addition, QGM has unilaterally attempted to amend the terms of the Thule Power Agreement by providing a new Delivery Date of 22 May 2007 and such a variation cannot be made to the Thule Power Agreement without the agreement of both Thule and QGM in writing pursuant to clause 47 of the Terms and Conditions. QGM has not formally requested an extension of the Delivery Date until 22 May 2007 and thus Thule is not obliged to accept and nor is it willing to do so and such an attempted amendment to the Delivery Date by QGM is ineffective pursuant to clause 7 of the Amendment Agreement. QGM is therefore in breach of the Thule Power Agreement in failing to deliver Thule Power on time.
- (c) QGM has failed to attempt to mitigate the delay in the delivery of Thule Power as highlighted above at paragraph (b) in that it has failed to drawdown further sums available to it under the Loan Agreement. A further tranche of USD 5,000,000 has been made available for drawdown by Thule under the Loan Agreement and notice of such availability has been made known to QGM on several occasions. QGM has refused to provide a notice of drawdown, despite being in serious financial peril, and such failure to request drawdown is only going to hinder delivery even further. QGM has therefore made no effort to mitigate such delay in delivery as it is obliged to do so under clause 3.3 of the Terms and Conditions. Accordingly, QGM is in breach of clause 3.3 of the Terms and Conditions.
- (d) Mr Bromham was designated by QGM as being the Contractor's Representative in accordance with clause 9 of the Terms and Conditions. In relation to such Contractor's Representative clause 9.3 of the Terms and

Conditions goes on to provide that the Contractor's Representative should not be engaged on, nor spend any time working on, any other project during the period when working as the Contractor's Representative. QGM has failed to comply with clause 9.3 of the Terms and Conditions as it has neglected to ensure that Mr Bromham was only engaged on working on Thule Power as it has come to Thule's attention that Bromham has also been engaged in working on repairs on other projects and has obtained bids for QGM on other projects. In addition, he has established his own companies to which fees have been paid and he has subsequently subcontracted work under the Thule Power Agreement to such companies. Such failure by QGM to ensure compliance with clause 9.3 of the Terms and Conditions has had a detrimental effect on the completion date for Thule Power as the Contractor's Representative has been otherwise engaged with his own business interests and has ultimately had to be replaced with Mr Kettlewell.

- (e) Under the terms of the Thule Power Agreement at clause 10.3 of the Terms and Conditions QGM is required to provide appropriately skilled personnel to work on Thule Power. QGM has failed to provide such appropriately skilled personnel as a commissioning manager, a drilling systems engineer and an engineer. The drilling systems engineer is critical to completion of the drill floor of Thule Power and this lack of an appropriately skilled workforce has added to the delay in delivery of Thule Power as noted under paragraph (b). The lack of an appropriately skilled engineering manager has also meant that too much control has been left to the various engineering subcontractors.
- (f) QGM is in breach of clause 10.5 of the Terms and Conditions as it has failed to provide to Thule copies of all site labour or similar agreements in respect of personnel and applicable to the site. In particular, such failure to provide the documents required under clause 10.5 of the Terms and Conditions has not fully happened for personnel.
- (g) QGM is in breach of its requirements in relation to the appointment of subcontractors. In particular, QGM has appointed Top Star as a subcontractor but has failed to obtain the prior approval of Thule to such appointment in accordance with the requirements as set out in clause 11.1 of the Terms and Conditions. In addition, QGM should not only obtain the prior approval of Thule to all subcontractors, but should also clearly demonstrate under clause 11.6 of the Terms and Conditions that competitive tenders have been placed for all subcontractors in order for the work of such subcontractors to be reimbursed by Thule. Such competitive tenders have not always taken place and thus QGM has breached the terms of clause 11.6 by requesting reimbursement for such subcontractors work without demonstrating such competitive tender. In particular, the engineering work, electrical installation work and the third party dimensional control work for Thule Power were not competitively tendered and no competitive tender documents have been produced by QGM despite several requests by Thule. The contracts for such work were instead awarded to Zee Engineering, Dragon, Topstar and CSME, all of which are companies connected to Mr Bromham.
- (h) QGM has failed to ensure suitable storage for equipment and material supplied by Thule under the Thule Power Agreement. Such requirement is contained in clause 12.1(c) of the Terms and Conditions and no such suitable storage facility has been provided for the equipment despite written requests being provided to QGM by Thule on at least three separate occasions.

Subsequently damage and theft to the equipment has taken place in part. Furthermore, as a result of QGM's breach of clause 12.1(c) extra work and cost has been required to remedy the problems of keeping the sensitive equipment outside and directly exposed to light, sand and heat.

- (i) Pursuant to clause 13.2 of the Terms and Conditions QGM is required to provide an itemised list of plant and temporary work to Thule prior to the use of such plant or temporary work. QGM is in breach of this obligation.
- (j) In addition to the requirement referred to at paragraph (h) above, QGM is also obliged under clause 14 of the Terms and Conditions to take good care of work and material on Thule Power and to provide security and storage for such work and material. QGM is also in breach of the obligations placed on it pursuant to clause 14 of the Terms and Conditions as such work and material has not been appropriately cared for or secured. Several items of equipment have been damaged, a lot of equipment has been opened and cleaned causing extra time and cost to be incurred and a few smaller items have been stolen. Thule has expressed concern about the lack of appropriate measures undertaken by QGM in this regard but no action has been undertaken by QGM and thus it remains in breach of its obligations under clause 14 of the Terms and Conditions. In addition, QGM has failed to provide adequate fire fighting equipment or comply with fire fighting recommendations as per the surveys conducted by SCUA. Pursuant to clause 14.2 of the Terms and Conditions QGM is specifically required to ensure that the equipment is properly protected against fire and is thus in breach of this clause. Such breach of clause 14.2 of the Terms and Conditions by QGM has resulted in the Delay of Delivery Insurance taken out by Thule being cancelled.
- (k) Pursuant to clause 15.1 of the Terms and Conditions QGM is to be fully responsible and accountable for the protection of health, safety and the environment ("HSE"). QGM has failed to meet its obligations under clause 15 and is thus in breach as the yard has recently failed to meet its HSE commitments by not complying with the fire fighting recommendations as per the surveys conducted by SCUA and as a consequence the Delay of Delivery Insurance taken out by Thule was cancelled. Furthermore, several audits have been undertaken by Thule's representative, Noble Denton, and numerous recommendations have been outstanding for considerable time. Full copies of all audits are available for review if required. In general, QGM have failed to fully implement all necessary HSE measures and is thus in breach of clause 15 of the Terms and Conditions.
- (l) QGM has breached clause 19.4 of the Terms and Conditions on numerous occasions as it has been reluctant to perform rectification works to Thule Power. QGM has been presented with in excess of 400 comment response forms by Thule against incorrect work as required to operate Thule Power. As at the date of this letter, only half of the comment response forms have been answered or have been inadequately or inappropriately answered. A full list of all items requiring rectification has been retained by Nobel Denton and many relate to engineering issues which goes back to the lack of appropriately skilled personnel as outlined under paragraph (e) above but essentially QGM continues, on a constant basis, to be in breach of clause 19.4 of the Terms and Conditions.

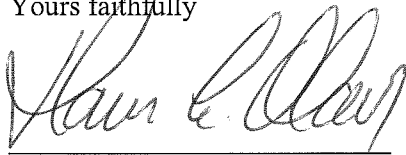
- (m) As has already been noted, QGM is in material breach of the Thule Power Agreement in that there has been severe delay and cost overruns. In addition to this, QGM is in breach of clause 22.1 of the Terms and Conditions as it has modified the Performance Schedule referred to in clause 22.1 on several occasions (now on revision H). Such modifications may only be made if one or more of the items listed at clause 22.1 (a) to (c) of the Terms and Conditions have occurred. None of these items have occurred and instead the Performance Schedule has been modified as a simple result of QGM's inability to plan the work scope accurately and accordingly QGM is in breach of clause 22.1.
 - (n) QGM has breached clause 45 of the Terms and Conditions as QGM should not accept commissions or any like compensation from bidders, subcontractors, vendors or any other party connected with Thule Power. However, it has come to the attention of Thule that an incident occurred where a specific vendor informed Noble Denton that a 10% commission had been levied towards QGM upon their request. This is a clear breach of the Thule Power Agreement by QGM.
2. In addition to the numerous breaches of the Thule Power Agreement as outlined above there has been an independent breach of the Loan Agreement as a Material Adverse Effect (as defined under clause 2.1 of the Loan Agreement) has occurred under clause 12.13 of the Loan Agreement. There has been a series of events that have occurred which in the totality create a Material Adverse Effect for Thule in that the business and financial condition of QGM have been effected and QGM's ability to meet its financial obligations under the Loan Agreement have been effected. In particular, and as noted earlier, QGM has failed to make a further drawdown under the Loan Agreement, despite having a serious net deficit, and thus is unable to pay suppliers and vendors and thus ultimately carry out work and complete Thule Power. Thule have, by a letter dated 6 March 2007, formally informed QGM of the serious financial consequences of such failure to request drawdown and the effect that this will have on both the Loan Agreement and the Construction Contracts. QGM have not remedied this position and thus the position of the business and QGM's ability to meet its repayment obligations continue and a Material Adverse Effect as arisen under clause 12.13 of the Loan Agreement. In addition, and as noted above, QGM have informed Thule, in its letter dated 13 February 2007, that the required price to complete Thule Power by QGM is USD 95,811,410.21. Had Thule known from the outset that the contract price and such substantial cost overruns would reach the current levels then it would not have proceeded to enter into the Loan Agreement on the current terms as these extra costs that have arisen clearly have an effect on the ability of QGM to repay sums advanced and thus create a Material Adverse Effect for Thule.
3. There has also been a breach of clause 12.2 of the Loan Agreement as QGM has failed in its due performance and observation of the provisions of the Loan Agreement including its covenant and undertaking as set out in clause 10.15 of the Loan Agreement. In particular, it has come to Thule's attention that QGM has effectively given away a piece of land leased by it by granting a long leasehold interest in such land to Dragon Offshore Industries LLC for nominal consideration only and has permitted the usage of the building constructed on such land for also a nominal consideration. Such an action is in breach of QGM's undertaking not to dispose of material assets without first obtaining the prior written consent of Thule as required under clause 10.15. Such a breach of clause 10.15 by QGM is in turn an Event of Default pursuant to clause 12.2 of the Loan Agreement.

Accordingly, there have been several substantial Events of Default which have occurred under the Loan Agreement and, pursuant to clause 12.16 of the Loan Agreement, Thule is entitled to notify QGM, in writing, of such Events of Default. **Therefore, this notice of default is served upon QGM by Thule pursuant to clause 12.16 of the Loan Agreement and, as a result of the service of this notice of default, all obligations of Thule under the Loan Agreement shall terminate forthwith, and all amounts outstanding under the Loan Agreement are immediately repayable by Thule and Thule shall now be entitled to proceed to take such steps to enforce its security rights as provided for in the Loan Agreement. Please therefore take this letter as notice that Thule will immediately seek enforcement of the Security Documents (as defined in the Loan Agreement) in accordance with clause 12.16(ii) of the Loan Agreement.**

This notice is served by fax and by email in accordance with clause 16.1(vii) of the Loan Agreement and accordingly shall be deemed to have duly given at the time of such receipt of fax and email.

Thule hereby reserves its right to plead any further Events of Default and also reserves any other rights which it has under the Construction Contracts, the Loan Agreement or any other related document.

Yours faithfully

A handwritten signature in cursive script, appearing to read 'Hans E. Olav', written over a horizontal line.

Hans Eirik Olav

For and on behalf of Thule Drilling ASA