Petrostem Group Limited
Petrostem Rentals Limited
Petrostem International Limited
all in Liquidation (together "the Companies")

Report for the purpose of a meeting of creditors on 4 October 2018

3 October 2018

Ernst & Young LLP

Building a better working world

Abbreviations

The following abbreviations are used in this report:

BoS	Bank of Scotland
Court	The Royal Court of Jersey
date of appointment	28 August 2018
EY	Ernst & Young LLP
FYXX	Financial year ending 31 March 20XX
Innospection Group	Innospection Group Limited and its subsidiary undertakings
Joint Liquidators	CP Dempster, GD Yuill and SA Gardner
Maxtube Group	Maxtube Holdings Limited and its subsidiary undertakings
MRS Group	Machine Rebuilding & Sales Limited and its subsidiary undertakings
NBF	National Bank of Fujairah
PAL	Petrostem Assets Limited
PGL	Petrostem Group Limited – in Liquidation
PIL	Petrostem International Limited – in Liquidation
Pioneer Group	Pioneer Group Ventures Limited and its subsidiary undertakings
PRL	Petrostem Rentals Limited – in Liquidation
PUK	Petrostem (UK) Limited – In administration
the Banking Group	together, the PPG Group, the Petrostem Group and the Maxtube Group
the Companies	Petrostem Group Limited – in Liquidation Petrostem Rentals Limited – in Liquidation Petrostem International Limited – in Liquidation
the Law	Companies (Jersey) Law 1991
the Major Creditors	Salzgitter Mannesmann International (USA) Inc. Salzgitter Mannesmann International GmbH Longulf Trading (UK) Limited Traxys North America LLC
the Petroleum Pipe Group	Petroleum Pipe Group Limited (In Liquidation) and its subsidiary undertakings
the Petrostem Group	The Petrostem Group of Companies, a structure chart for which is provided at Appendix C
WAFRA	Wafra Capital Partners Inc

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1. Introduction and purpose of the meeting

1.1 Introduction

On 28 August 2018, the Royal Court of Jersey ('the Court') ordered that, pursuant to Article 155 of the Companies (Jersey) Law 1991 ('the Law'), Petrostem Group Limited ('PGL'), Petrostem International Limited ('PIL') and Petrostem Rentals Limited ('PRL') (together, 'the Companies') be placed into Just and Equitable Winding Up and that CP Dempster, SA Gardner and GD Yuill be appointed Joint Liquidators for the purposes of such winding up.

Certain statutory information relating to the Companies and the appointment of the Joint Liquidators is provided at Appendix A and a copy of the Act of Court is provided at Appendix B.

The Companies are part of the Petrostem Group of Companies ('the Petrostem Group'). On 29 August 2018, one other company within the Petrostem Group – Petrostem (UK) Limited ('PUK') – also entered insolvency. Specifically, PUK was placed into administration under the supervision of the Court in England and Wales and CP Dempster and GD Yuill were appointed as Joint Administrators.

SA Gardner, CP Dempster and GD Yuill are UK licenced insolvency practitioners and, consequently, are bound by the Insolvency Code of Ethics when carrying out all professional work relating to the liquidations and administration.

1.2 Purpose of the meeting

By the Act of Court under which we were appointed Joint Liquidators, the Court instructed the Joint Liquidators to convene a meeting of creditors for the purposes of laying before that meeting an account of the circumstances giving rise to the insolvency of the Companies, the Joint Liquidators' proposed strategy in relation to the liquidations and the progress of the liquidations to date. This document, including its appendices, provides that account.

As stated above, the Companies are part of the Petrostem Group. Due to the inter-relationships between each company in the Petrostem Group and their common management, throughout this report we refer to the activities of the whole Petrostem Group. This wider context of the Petrostem Group's activities is integral to understanding the circumstances giving rise to insolvency of the Companies and the subsequent appointment of the Joint Liquidators.

Where relevant, we have provided further detail relating to the specific circumstances of PGL, PIL and PRL separately.

1.2.1 Liquidation Committee

In accordance with Article 162 of the Law, a creditors' meeting may elect a liquidation committee of not more than 5 persons to exercise the functions conferred to it by the Law.

Any creditor of the Companies may nominate themselves to be a member of the Liquidation Committee. Should more than 5 persons nominate themselves, the body of creditors who attend the meeting of creditors' shall elect those creditors who will form the Liquidation Committee by way of a vote based on the value of the creditors' claim in the liquidation.

There is no prescribed schedule for the Liquidation Committee to meet with the Joint Liquidators during the course of the liquidation. However, the Joint Liquidators would expect to meet with the Liquidation Committee quarterly with written updates provided on a regular basis.

The Joint Liquidators believe the Liquidation Committee has an important role to play in these Liquidations and, accordingly, encourage creditors to consider standing for election.

2. Circumstances giving rise to the appointment of Joint Liquidators

2.1 Background

The Petrostem Group was formed in 2007 and its principal activity is the rental (and supply) of surface and downhole drilling tools, such as drilling pipe and collars, to drilling contractors / oil field service businesses.

The Petrostem Group trades worldwide, but predominantly in the Middle East.

Historically, most of its revenue was generated from one-off rentals to customers – but over the past 12 months, it has sought to provide a firmer revenue “bedrock” by putting in place longer-term contracts with customers.

PGL is principally a non-trading holding company. Its only assets comprise shareholdings in five wholly-owned subsidiaries, intragroup receivable balances due from certain of those entities and intergroup receivable balances due from the Pioneer and Innospection Groups.

PGL is wholly owned by Petrostem Holdings Limited (a holding company incorporated in Cyprus). Its ultimate owner is the KTT Trust, an irrevocable trust established in Jersey on 9 December 2014 and re-domiciled to the Dubai International Financial Centre on 29 December 2016 under an instrument of third amendment.

PIL is one of five wholly owned subsidiaries of PGL. It is the main ‘operational’ entity within the Petrostem Group. It pays the majority of the employees of the Petrostem Group (who have responsibility for the operation and management of the Petrostem Group) and is the tenant of its key operational facilities in the United Arab Emirates.

PIL’s principal assets comprise office equipment and leasehold improvements, debtor balances due by its customers, intragroup debtor balances due to it by other entities within the Petrostem Group and intergroup debtor balances due to it by certain entities within the Petroleum Pipe Group, Pioneer Group and Innospection Group.

PRL is also a wholly owned subsidiary of PGL. It is the principal asset owning entity within the Petrostem Group. It owns the majority of the Petrostem Group’s rental assets, which assets are then either leased directly by PRL to customers or made available to other entities within the Petrostem Group to rent. It enters into contracts with customers directly for the rental and supply of drill pipe and related equipment, and is the tenant of Petrostem Group’s principal equipment yards in Saudi Arabia, Azerbaijan and Iraq.

The principal assets of PRL, therefore, are rental assets, plant and machinery, debtor balances due by its customers and intragroup debtor balances due to it by other entities within the Petrostem Group. It also holds 100% of the shareholding in Petrostem Assets Limited (‘PAL’), a non-trading subsidiary which holds few assets.

The Petrostem Group has a network of stock yards and offices across the globe. Each of these yards and offices is leased.

The Petrostem Group’s headcount on the date of appointment totalled 49. PGL and PRL do not themselves directly employ any of the Petrostem Group’s workforce. PIL pays 35 employees, 27 of which are based in Dubai and 8 in Erbil, Iraq. Whilst PIL pays these employees, their contracts of employment and VISAs are issued by various entities within the Petrostem Group and Petroleum Pipe Group.

2.2 Financial performance

2.2.1 Historical trading performance

The recent financial results of the Group can be summarised as follows:

Historical trading performance summary

$m	FY14	FY15	FY16	FY17	FY18
Revenue	37.6	42.0	14.2	13.7	21.6
Cost of Sales	(16.7)	(17.0)	(8.1)	(11.3)	(23.3)
Gross profit	20.9	25.0	6.1	2.4	(1.7)
Gross profit margin	*55.5%*	*59.5%*	*42.7%*	*17.4%*	-
Overheads	(7.9)	(12.5)	(10.7)	(9.4)	(8.9)
Other income	-	1.7	-		-
EBITDA	13.0	14.1	(4.7)	(7.0)	(10.6)
Depreciation	(9.3)	(14.9)	(18.4)	(3.0)	(4.2)
Exceptional costs	-	-	(2.0)	(4.0)	-
Interest	(2.6)	(5.3)	(5.8)	(3.8)	(3.3)
Taxation	(0.5)	(0.3)	(0.2)	-	(0.3)
Net profit	0.7	(5.7)	(31.0)	(17.9)	(18.4)

Source: Petrostem Group Management Accounts for FY14-FY18

Following two years of profitability, the Petrostem Group has recorded EBITDA losses since FY16. Over that three year period from FY16, revenue fell $20.4m (49%) and EBITDA losses aggregated $22.3m. These losses have been driven by a substantial reduction in revenue, attributable to the downturn in the oil and gas market in 2014 and the impact of the terrorist activity in the Kurdistan region of Iraq.

Note that FY17 results reflected a one-off asset sale of $5.0m (gross margin - $2.9m), the release of a stock provision ($0.7m), an insurance settlement ($0.4m) and margin / interest charges to the Major Creditors of $6.2m, such that underlying revenues, gross margin and EBITDA losses were $8.7m, $4.5m (52%) and $4.9m respectively. Interest charges are similarly understated by $6.2m.

Both prior to and since FY17, Petrostem Group benefitted from extended credit terms afforded to it by these Major Creditors. Whilst the majority of the debt due by the Major Creditors is contractually due by the PPG Group, we understand that the credit provided by the Major Creditors was predominantly utilised by the Petrostem Group. Accordingly, interest charges were typically recorded in the financial records of Petrostem Group.

Whilst the Petrostem Group’s trading performance in FY18 showed some improvement, with revenue increasing by $7.9m (58%), it nevertheless recorded a significant EBITDA loss of $10.6m driven by losses on asset sales and accruing interest charges in relation to the debt provided by the Major Creditors.

Trading results also reflect in FY17 and FY18 the significant interest costs incurred by the Petrostem Group in respect of its borrowing facilities with Bank of Scotland plc (‘BoS’) and the extended credit terms agreed with the Major Creditors.

Exceptional costs in FY16 and FY17 represent a provision against amounts due to the Petrostem Group by the Pioneer Group in consequence of the political uncertainty in the Kurdistan region of Iraq.

2.2.2 Forecast trading performance

Forecast trading performance summary

$m	FY18	FY19		FY19F	YTDFY19
	Actual	Forecast		Forecast 2m	Actual 2m
Revenue	21.6	23.9		4.0	2.8
Cost of Sales	(23.3)	(13.9)		(2.3)	(6.2)
Gross profit	(1.7)	10.0		1.7	(3.4)
Gross profit margin	-	*41.9%*		*41.9%*	-
Overheads	(8.9)	(8.4)		(1.5)	(1.4)
EBITDA	(10.6)	1.6		0.2	(4.8)
Depreciation	(4.2)	(5.3)		(0.9)	(0.8)
Interest	(3.3)	(0.8)		(0.1)	(0.5)
Taxation	(0.3)	-		-	(0.1)
Net profit	(18.4)	(4.5)		(0.8)	(6.2)

Source: Petrostem Group FY18 and May 2018 Management Accounts; Petrostem Group Financial Projections prepared in February 2018

Notwithstanding the above financial performance, the Petrostem Group believed that improving market conditions in the oil and gas sector would allow it to return to profitability.

In February 2018, it prepared trading projections for FY19 – FY21. These trading projections set out an EBITDA forecast of $1.6m for FY19 driven by a significant forecast increase in underlying revenues (excluding asset sales). This forecast revenue growth exceeded Middle East market forecasts for drill pipe and collars and required Petrostem Group to achieve monthly revenue levels not consistently achieved since July 2015.

Note that the FY19 forecast presented above excludes interest accruing in relation to the extended credit terms agreed with the Major Creditors of c. $8.5m. Such interest charges were forecast separately on a consolidated basis for the Banking Group.

Actual results in the two months to 31 May 2018, however, show an EBITDA loss of $4.8m, a shortfall of over $5m to forecast levels.

2.2.3 Historical and forecast cash flows

Historical and forecast cash flow summary

$m	FY15	FY16	FY17	FY18	FY19
	Actual	Actual	Actual	Actual	Forecast
EBITDA	14.2	(4.7)	(7.0)	(10.6)	1.6
Working capital	10.8	4.4	(23.8)	(6.2)	1.4
Exceptional costs	-	(2.0)	(4.0)	-	-
Operating cash flow	25.0	(2.3)	(34.8)	(16.8)	3.0
Taxation	0.3	(0.2)	-	(0.3)	0.1
Fixed asset (acquisitions) / disposals	(20.9)	(17.1)	(6.1)	19.0	-
Financing cash flows					
Interest	(5.3)	(5.8)	(3.8)	(3.3)	(0.3)
Erbil Loan	(1.8)	3.5	5.0	1.1	-
Intergroup balances	(0.5)	1.8	(2.0)	(0.3)	(0.1)
Petroleum Pipe Group	-	-	37.4	55.6	4.0
Maxtube Group	-	-	12.4	2.8	
Pioneer Group	-	-	(4.1)	(24.2)	-
Innospection Group	-	-	(0.2)	(2.0)	-
WAFRA	-	-	-	-	(5.8)
KTT loan	-	-	2.4	(2.4)	
Total financing cash flows	(7.6)	(0.5)	47.1	27.3	(2.0)
Movement in retained earnings	-	-	-	(2.9)	-
Net cash inflow / (outflow)	(3.2)	(20.1)	6.2	26.3	1.0
Opening cash	(15.7)	(18.9)	(39.0)	(32.8)	(4.2)
Closing cash	(18.9)	(39.0)	(32.8)	(6.5)	(3.2)

Source: Petrostem Group Management Accounts for FY14-FY18 and May 2018; FY19 Petrostem Group Financial Projections, as prepared in February

Notes:

1. *The closing cash balance at 31 March 2018 and the opening balance for the FY19 forecast are different – as the FY19 forecast was prepared on the basis of a forecast cash balance at 31 March 2018.*
2. *Whilst we await confirmation of this, we understand that the movement in retained earnings in FY18 relates to the impact of adjustments to retained earnings brought forward not reflected in the Petrostem Group's management accounts at 31 March 2018.*
3. *An analysis of intergroup balances is awaited. We, however, understand cash flow movements in FY15-FY17 relate to the Banking Group, whilst those in FY18 relate to MRS, Innospection and Pioneer Groups.*

Whilst Petrostem Group recorded an operating cash inflow in FY15, in each of the three years from FY16 to FY18 it recorded an operating cash outflow, driven by its declining trading performance. Over this three year period, aggregate operating cash outflows were $54m.

Notwithstanding this, the Petrostem Group continued to invest in its fixed asset base in anticipation of a recovery in its key markets and to assist its diversification away from Kurdistan. Total net capital expenditure over FY15 to FY17 was $44.1m. Information supplied by the Petrostem Group suggests that utilisation in FY17 averaged 6%. These acquisition were partially funded by WAFRA ($20m provided in FY14). In the period to FY17, the remainder of these fixed asset acquisitions (and Petrostem Group's operating cash outflows) were funded by Petroleum Pipe Group ($37.4m) and Maxtube Group ($12.4m).

In FY18, the Petrostem Group sought to address its deteriorating cash flow position through fixed asset disposals ($19.0m). Further funding of $58.4m was provided by Petroleum Pipe Group ($55.6m) and Maxtube Group ($2.8m).

The cash flow summary presented above also highlights that funding of $30.5m was provided to Pioneer Group ($28.2m) and Innospection Group ($2.2m) in FY17 and FY18. Whilst we await information on the application by Pioneer Group and Innospection Group of this funding, we understand it has been applied to fund trading losses and to invest in their fixed assets.

Note that FY17 working capital cash outflow of $23.8m reflects the reclassification of debts due to the Major Creditors from Petrostem Group's balance sheet to PPG Group's balance sheet (by whom these debts are typically contractually due).

Petrostem Group's cash flow projections for FY19 set out a projected inflow of $1.0m after the repayment in full of the Petrostem Group's outstanding debt due to WAFRA (who held security over certain of the Petrostem Group's assets) and $4.0m of funding from PPG Group. However, these cash flow projections excluded forecast payments of $12.6m to the Major Creditors (excluding BoS). These payments were forecast separately on a consolidated basis for the Banking Group.

2.3 Circumstances giving rise to the appointment of the Joint Liquidators

2.3.1 Options considered by the Group

In light of the above noted financial performance of the Petrostem Group, the Banking Group consistently operated close to its agreed overdraft facility with BoS, who also agreed to the deferral of its scheduled term loan repayments at certain points in order to provide the Banking Group with flexibility whilst it sought to address its financial position.

The directors considered various options in order to try to address its deteriorating financial situation and engaged the services of FRP Advisory to assist therewith. These options are discussed below.

Trade on

In an attempt to address its deteriorating financial position, the Petrostem Group implemented a number of operational changes including headcount reductions and property consolidation which resulted in an improved EBITDA forecast for FY19 of $1.6m.

Trading performance in the two months to 31 May 2018 was, however, materially behind expectations, with an EBITDA loss of $4.8m recorded in that 2 month period.

Further, as illustrated by the Petrostem Group's forecast cash flows, even a return to the forecast level of profitability in FY19 would have been insufficient to service the Petrostem Group's debt repayment obligations, which it estimated to be $18.7m in FY19.

The Petrostem Group considered approaching its Major Creditors to agree a standstill in respect of their debt repayment obligations. It, however, assessed that such discussions would be unsuccessful. Further, in isolation, such a standstill would not have been a cure for the Petrostem Group's financial position – as the Petrostem Group required funding to meet its ongoing trading losses and working capital requirements.

Refinance

The Petrostem Group considered a possible refinancing and, indeed, engaged a third party to assist therewith. An offer was received by the Banking Group from an independent third party in early August, which was rejected as it was incapable of being accepted (in light of the completion timescales proposed). Ultimately the extent of the debts of the Petrostem Group led to discussions with other parties being unsuccessful.

Solvent sale of business

The Petrostem Group fully considered whether a sale of the whole Petrostem Group or its key trading subsidiaries as a going concern was viable, and this was explored by the third party appointed to seek a refinancing of the Banking Group. However, it was concluded that it was unreasonable to expect a third party to acquire the business as a whole in light of its current financial performance and the extent of its debts. A debt forgiveness as part of such a sale was also, for the reasons set out above, considered unachievable.

Pre-packaged sale of business

A pre-packaged sale of the trade and assets of the Petrostem Group to an independent third party immediately on insolvency was also considered. However, the Petrostem Group concluded that this was unachievable given the recent trading performance of the Petrostem Group and that its key customer contracts were capable of being terminated by the customer on insolvency.

Insolvency

Based on the above, the Petrostem Group assessed that all options other than a full insolvency and managed wind-down of the Petrostem Group was unavoidable. Accordingly, the directors of the Companies made arrangements to place the Companies into Just and Equitable Winding Up by means of an Act of the Royal Court of Jersey.

2.4 Initial Introduction to the Group

EY were introduced to the Petrostem Group in November 2017 by BoS. Following that introduction, we were engaged on 1 December 2017 by BoS to undertake an independent business review of the Banking Group. That original engagement was subject to an addendum dated 16 March 2018 and an extension of scope dated 12 June 2018.

Our scope of work included a review of the short term cash flow forecast of the Banking Group, an analysis of their balance sheets as at 31 October 2017, financial diligence in respect of their medium term trading forecasts, the provision of an illustrative outcome statement for BoS as at 31 October 2017, and an assessment of options available to BoS. Note that a detailed analysis of the historical trading and cash flow position of the Banking Group was not part of our scope of work.

In total, EY received a fee of $0.6m in respect of this engagement. In line with our Code of Professional Ethics, we have carefully considered whether this engagement constitutes a conflict of interest which precludes us from acting as Joint Liquidators of PGL, PIL and PRL. We are satisfied that it does not.

3. Purpose and conduct of the liquidation

3.1 Purpose of the liquidation

As set out above, the directors of the Petrostem Group concluded that the trading performance of the Petrostem Group rendered all insolvency options other than an insolvency and managed wind-down of the full Petrostem Group as not viable.

Accordingly, on 28 August 2018, we were appointed Joint Liquidators of PGL, PRL and PIL; whilst on 29 August 2018, we were appointed Joint Administrators of PUK. All other entities within the Petrostem Group will be wound-down on a managed business by their existing directors, subject to the supervision of the Joint Liquidators of PGL. These companies are Petrostem Assets Limited, Petrostem Asia Pte Limited and Petrostem Malaysia Sdn Bhd. We discuss at Section 3.2.1 below the likely return to PGL from its shareholding in these subsidiaries.

The Joint Liquidators also formed the opinion that it was not appropriate to continue to trade the business of PGL, PRL or PIL in insolvency whilst a going concern sale was sought. This was predominantly due to the low levels of utilisation of the Petrostem Group's rental assets, the fact that the Petrostem Group's key customer contracts were all capable of being terminated on insolvency and the requirement to fund the repair and maintenance of rental equipment. To do so would likely have been detrimental to the position of the creditors of the Petrostem Group.

Accordingly, the Joint Liquidators strategy in respect of the insolvency of the Petrostem Group, including PGL, PRL and PIL, is to:

- Cease to trade the business of each of the entities to which the Joint Liquidators have been appointed (subject to the point noted below in relation to trade debtors);
- Collect in the trade debtor balances due to the Companies. In order to protect the collection of these trade debtor balances, the Joint Liquidators determined that it was appropriate to allow existing customers to continue to use existing equipment on hire whilst a managed handover of their rental contracts to a new supplier over an agreed period is arranged. No new rentals will, however, be commenced.
- Market for sale the individual assets, primarily the Petrostem Group's rental assets (drilling pipe).

To assist in the above the Joint Liquidators have retained 20 of Petrostem Group's employees. Of these employees, 19 are paid by PIL (15 are based in Dubai and 4 in Erbil, Iraq) and one by PUK. The remaining employees of PIL (16) and PUK (2) were made redundant immediately prior to the appointment of the Joint Liquidators. We will carefully assess the staffing requirements on an ongoing basis and will make further headcount reductions as appropriate. However, the Joint Liquidators anticipate that the retained employees will be retained for 2-3 months to support the liquidations.

3.2 Asset realisations – PGL

The principal assets of PGL comprise its shareholdings in its five wholly-owned subsidiaries, intragroup receivable balances due from certain of those entities and intergroup receivables due from the Pioneer and Innospection Groups.

3.2.1 Shareholdings in subsidiaries

As set out above, each of the entities within the Petrostem Group will be wound-down in insolvency (in the case of PIL, PRL and PUK) or on a managed business by their existing directors, subject to the supervision of the Joint Liquidators of PGL. Based upon their balance sheet position as at 31 May 2018, the Joint Liquidators do not currently anticipate that material sums will be realised from the shareholdings of PGL's subsidiaries.

Clearly, the balance sheet position of these entities at the date of our appointment may be different to that as at 31 May 2018, and we will update our assessment of potential recoveries from the shareholdings of these subsidiaries on review of the directors' Statement of Affairs.

3.2.2 Intragroup and intergroup balances

As at 31 May 2018, PGL's balance sheet reflected intergroup and intragroup receivables of $23.9m and $30.7m respectively, a summary of which is provided below.

Clearly, the intergroup and intragroup receivables at the date of our appointment may be different to the below balances at 31 May 2018. On review of the directors' Statement of Affairs we will update our assessment of these balances.

Intragroup receivable balances

	At 31 May 2018 ($m)	Comments
Petrostem UK Limited	4.4	Subject to UK administration proceedings – no recovery anticipated
Petrostem Asia Pte Limited	14.0	Discussed below
Petrostem Malaysia Sdn Bhd	5.5	Discussed below
Total	23.9	

The operations of both Petrostem Asia Pte Limited ('PSing') and Petrostem Malaysia Sdn Bhd ('PSM') will be wound down by their existing directors on a managed basis, subject to the supervision of the Joint Liquidators of PGL.

The principal assets of both PSing and PSM are its rental assets. These assets were included in the rental asset sale process discussed at Section 3.4.2 below. In light of the offers received, and our understanding of the liabilities of these entities to external creditors, the Joint Liquidators of PGL have a reasonable expectation of some recovery of the intragroup receivable balances due by each entity. We, however, await further information from PSing and PSM to be able to accurately quantify that potential recovery.

Intergroup receivable balances

	At 31 May 2018 ($m)	Comments
Pioneer Group	28.6	
Innospection Group	2.2	
Total	30.7	

Based on an initial review of Pioneer and Innospection Groups, the Joint Liquidators understand them to be significantly insolvent on a balance sheet basis (Pioneer – net liabilities $27.5m; Innospection – net liabilities $11.2m) and that crystallisation of the debts due to Petrostem Group by these groups would result in the insolvency of both Pioneer and Innospection with negligible returns for Petrostem Group.

In light of that, we have been approached by the Pioneer and Innospection Groups with a proposed settlement offer in relation to the amounts due to both the PPG and Petrostem Groups (Pioneer Group - $32.7m; Innospection Group - $10.6m). This proposal is to settle the amounts due at the higher of $0.3m and the amount determined as payable by Pioneer and Innospection Groups based on a proposed valuation of their assets.

This proposal would involve the Joint Liquidators undertaking a valuation of the assets of the Pioneer and Innospection Groups, which will include an independent valuation by a third party of their fixed assets and stock. The Joint Liquidators will compare these asset values to the debts of these groups to estimate a dividend for creditors in an insolvency. The debts due by the Pioneer and Innospection Groups and are proposed to be settled at the higher of $0.3m and the dividend calculated as above.

In addition to the above valuation, the Joint Liquidators would:

- Review the historic and forecast financial performance of the Pioneer and Innospection Groups to confirm (or otherwise) that these Groups are insolvent without a material further cash injection.
- Review the application of the funding provided by Petrostem Group to the Pioneer and Innospection Groups to assess whether a right of action against the directors of these groups exists.

Cash in settlement of the debt is proposed to be paid as follows: a) $0.1m on confirmation of the debt payable by the Pioneer and Innospection Groups (based on the proposed formula set out above, and split between the PPG and Petrostem Groups proportionately); and b) the remaining balance following completion of the Joint Liquidators assessment of whether there is a right of action against the directors of the Pioneer and Innospection Groups.

We propose to discuss this proposal with the Liquidation Committee (assuming one is formed).

3.2.3 Cash on appointment

PGL had no cash at bank at the date of appointment.

3.3 Asset realisations – PIL

PIL's principal assets comprise office equipment and leasehold improvements, debtor balances due by its customers and intragroup debtor balances due to it by other entities within the Petrostem Group, and certain entities within the Petroleum Pipe Group, Pioneer Group and Innospection Group.

3.3.1 Fixed assets and stock

PIL's balance sheet at 31 May 2018 recorded owned fixed assets with a net book value of $1.2m. These fixed assets comprised:

- Rental assets and stock owned by PIL with a net book value of $1.2m, which we understand were sold prior to PIL's insolvency. We understand that the cash received from the sale of these assets was applied to meet salary costs in June and July 2018.

- Plant, machinery and office equipment with negligible net book value. We do not anticipate material recoveries from them.

3.3.2 Trade debtor balances

As at the date of our appointment, trade debtor balances due to PIL aggregated $0.4m. Accrued income, comprising uninvoiced amounts due in respect of the rental of assets to 28 August 2018, totalled $0.4m. PIL is currently raising invoices for this unbilled revenue.

Trade debtor balances comprise a mix of one-off rentals and rentals under framework / rental contracts. Customer contracts are typically terminable on insolvency and contain terms which entitle customers to retain the use of the rented assets on insolvency and to set off incremental costs they incur. Given the above, our strategy in relation to the collection of trade debtor balances has been:

- Where a rental contract is ongoing, seek to agree with the customer a managed handover of their rental contract to a new supplier over an agree period during which they can continue to use PIL's rental assets in exchange for a) full settlement of the current receivable balance; and b) continued payment of ongoing rentals; and

- Where a rental contract is not ongoing, seek repayment of the receivable balance in the normal manner.

As at 21 September 2018, $0.1m of these amounts had been collected. The Joint Liquidators are continuing to pursue the remaining balances and further realisations are expected.

3.3.3 Intragroup and intergroup receivable balances

As at 31 May 2018, PIL's balance sheet reflected intergroup and intragroup receivable balances totalling $6.7m and $0.1m respectively, a summary of which is provided below.

Clearly, the intragroup and intergroup receivables at the date of our appointment may be different to the below balances at 31 May 2018. On review of the directors' Statement of Affairs we will update our assessment of these balances.

Intragroup receivable balances

	At 31 May 2018 ($m)	Comments
Petrostem Group Limited (In Liquidation)	6.5	Subject to Jersey liquidation proceedings – no recovery anticipated
Petrostem Asia Pte Limited	0.1	Discussed below
Petrostem Malaysia Sdn Bhd	0.1	
Total	6.7	

As set out at Section 3.2.2 above, the operations of both PSing and PSM will be wound down by their existing directors on a managed basis, subject to the supervision of the Joint Liquidators of PGL. Whilst the Joint Liquidators of PIL have a reasonable expectation of some recovery of the intragroup receivable balances due by each entity, we await further information from PSing and PSM to be able to accurately quantify that potential recovery. In light of the quantum of debts due by each to PIL any recovery is, however, unlikely to be material.

Intergroup receivable balances

The intergroup receivable balances due to PIL aggregate $0.1m and comprise small amounts due by three connected entities. No material recovery from these balances is anticipated.

3.3.4 Cash on appointment

PIL had cash at bank totalling $0.2m held at NBF and Standard Bank at the date of appointment. This amount has been transferred into the Joint Liquidators' bank accounts.

3.4 Asset realisations – PRL

PRL is the principal asset owning entity within the Petrostem Group. Its principal assets comprise rental assets, plant and machinery, debtor balances due by its customers and intragroup debtor balances due to it by other entities within the Petrostem Group. It also holds 100% of the shareholding in Petrostem Assets Limited ('PAL'), a non-trading subsidiary which holds few assets.

3.4.1 Transactions in advance of insolvency

Prior to the appointment of the Joint Liquidators, the directors of PRL novated the contract held by PRL with RASGAS for the rental of drill pipe in Qatar to Petrostem Qatar Limited ('PQL') for a consideration based on a the profit generated from this contract until its expiry in 2021. A non-refundable deposit in respect of this consideration of $0.1m has been agreed.

PQL is not part of the Petrostem Group but is connected to it as both it and Petrostem Group are ultimately owned by Julian Tyacke (through a beneficial trust, in the case of Petrostem Group).

Whilst this transaction was implemented by the directors of PRL prior to its insolvency, as proposed Joint Liquidators of that entity, we carefully considered its proposed terms and reached the conclusion that the terms of this transaction were in the best interest of the creditors of PRL for the following reasons:

- The Joint Liquidators consider that the RASGAS contract is not capable of being "traded on" in insolvency. It is terminable on insolvency. Further, to be able to continue to trade this contract, Joint Liquidators would require to continue to fund the repair and maintenance of rental equipment, etc.

- Assignment of the contract will facilitate a greater return from collection of the trade debtor balances due by RASGAS to PRL by mitigating RASGAS's right of set off for incremental costs in the event of the insolvency of PRL. As at the date of the Joint Liquidators' appointment, RASGAS was due $0.5m to PRL (trade debtor balance - $0.2m; accrued but uninvoiced revenue - $0.3m), of which $0.2m has been received.

- On the basis of PQL's revenue forecast and gross margin estimate, PRL is likely to receive consideration of $0.2m in respect of the novation in the period to November 2021. No such consideration would be received if the contract was not novated.

- The novation will also remove any potential claim from RASGAS in respect of breach of its supply contract and so improve the outcome for other creditors.

Note that formal documentation of the terms of the above transfer was completed after the appointment of the Joint Liquidators. This legal agreement also transferred to PQL the Petrostem trade name (an asset of PGL) for a consideration of $20k. The agreed consideration in respect of the sale of the Petrostem trade name was supported by a valuation from an independent third party.

3.4.2 Rental assets

As at the date of our appointment, PRL held rental assets, principally comprising drill pipe and related tools / accessories, with a net book value of $5.9m.

With assistance from ANM Group Limited (a firm of specialist plant and equipment disposal agents with experience of dealing with assets located in the Middle East) and Dean Foster (a director of Petrostem Group, with detailed knowledge of the rental assets), the Joint Liquidators launched a sale process in respect of these rental assets on 7 September 2018. On that date, a list of these assets – together with rental assets held by PUK, PSM, PSing and PPC Limited (a company within the PPG Group) – separated into eight individual asset packages was issued to 41 interested parties across a range of market interests, with a deadline for offers of 11 September 2018.

The short closing date for offers was set for specific reasons, including to minimise the transition period for rental assets to new suppliers.

On the closing date, offers from 11 interested parties were received, each of whom submitted offers over one or more of the eight asset packages. No offers were received from parties connected with the Petrostem or PPG Groups. The Joint Liquidators accepted (subject to conditions) offers from five separate interested parties across the eight asset packages. Unfortunately one offer has subsequently been withdrawn. Each of these offers were submitted subject to inspection of the rental assets and / or certification. Accordingly, there remains completion risk associated with these offers. However, if completed at current levels, these offers would generate net sale proceeds of c. $0.8m for PRL. We anticipate completion of each of the remaining four sales taking place during October 2018.

3.4.3 Other fixed assets

As at 31 May 2018, PRL held fixed assets with a net book value of $0.4m. These assets predominantly comprise plant and machinery located in Dubai and Saudi Arabia. As these assets are currently required to support ongoing rentals with customers, the Joint Liquidators do not intend to seek a sale thereof until all rentals have either ceased or been transferred to new suppliers.

3.4.4 Trade debtor balances

As at the date of our appointment, trade debtor balances due to PRL aggregated $1.4m. Accrued income, comprising uninvoiced amounts due in respect of the rental of assets to 28 August 2018, totalled $0.9m, of which PRL has subsequently billed $0.4m.

Our strategy in relation to these trade debtor balances is as outlined at Section 3.3.2 above for PIL. As at 21 September 2018, $0.4m of these amounts had been collected. The Joint Liquidators are continuing to pursue the remaining balances and further realisations are expected.

3.4.5 Intragroup balances

As at 31 May 2018, PRL had intragroup receivable balances totalling $22.2m due to it by PGL ($20.8m) and PIL ($1.4m). As both PGL and PIL are subject to liquidation proceedings in Jersey, these receivable balances will represent a claim in the insolvency of both entities. The recovery from these balances will, therefore, depend on the outcome of each individual insolvency process, but the Joint Liquidators currently do not anticipate a material recovery therefrom.

Clearly, the intragroup receivables at the date of our appointment may be different to the above balances at 31 May 2018. On review of the directors' Statement of Affairs we will update our assessment of these balances.

3.4.6 Investments

PRL has one wholly-owned investment, Petrostem Assets Limited ('PAL'). Based on its balance sheet at 31 May 2018, PAL was a special purpose vehicle set up in connection with the funding provided by WAFRA. Following its repayment, PAL served no purpose, and holds no assets other than an intragroup receivable balance of $1.9m due by PGL, which is subject to insolvency proceedings. No recovery from PRL's shareholding in PAL is anticipated and, accordingly, PAL will be dissolved in due course.

3.4.7 Cash on appointment

PRL had cash at bank totalling $9k at the date of appointment. This amount has been transferred into the Joint Liquidators' bank accounts.

3.5 Asset realisations – PUK

PUK is registered in England and Wales and is subject to administration proceedings in the UK. Accordingly, PUK is not within the remit of this report to creditors. Further, the assets of PUK are secured to BoS. Notwithstanding this, for transparency, we discuss below in outline the principal assets of PUK.

3.5.1 Rental assets

As at the date of our appointment, PUK held rental assets, principally comprising drill pipe and related tools / accessories, with a net book value of $2.3m (albeit an independent third party valuation prior to insolvency assessed the ex situ value of these assets to be materially lower). These assets were included in the rental asset sale process discussed at Section 3.4.2 above. Whilst the accepted offers have yet to be completed, if completed at current levels, these offers would generate net sale proceeds of c. $0.2m for PUK. We anticipate completion of each of the remaining four sales taking place during early / mid October 2018.

3.5.2 Trade debtor balances

As at the date of our appointment, trade debtor balances due to PUK aggregated $0.3m. Accrued income, comprising uninvoiced amounts due in respect of the rental of assets to 28 August 2018, totalled $0.2m, which has now been invoiced in full.

Our strategy in relation to these trade debtor balances is as outlined at Section 3.3.2 above for PIL. As at 21 September 2018, $16k of these amounts had been collected. The Joint Liquidators are continuing to pursue the remaining balances and further realisations are expected.

3.5.3 Intragroup balances

As at 31 May 2018, PUK had intragroup receivable balances totalling $0.3m due to it by PIL ($0.2m) and PRL ($0.1m). As both PIL and PRL are subject to liquidation proceedings in Jersey, these receivable balances will represent a claim in the insolvency of both entities. The recovery from these balances will, therefore, depend on the outcome of each individual insolvency process, but the Joint Liquidators currently do not anticipate a material recovery therefrom.

Clearly, the intragroup receivables at the date of our appointment may be different to the above balances at 31 May 2018. On review of the directors' Statement of Affairs we will update our assessment of these balances.

3.5.4 Cash on appointment

PUK held no cash at the date of appointment.

3.6 Connected party transactions

We are aware that the Petrostem Group entered into a number of transactions with connected parties in the five years prior to the insolvency of PGL, PIL and PRL. We are currently preparing a summary of these transactions before considering what further assessment is appropriate.

We anticipate discussing the output of the above in due course with the Liquidation Committee (assuming one is formed).

4. Statement of Affairs

The directors submitted their Statement of Affairs relating to the Companies on 1 October 2018. A summary of the Statement of Affairs for the Companies is included at Appendix J for reference. The full Statement of Affairs for each will be made available on the website we have established in relation to the insolvency of the Companies, the website address for which is https://www.ey.com/uk/en/services/transactions/restructuring/ey-ppg-petrostem-insolvencies

Whilst we have not reviewed these Statement of Affairs in detail we would note that a number of creditor claims have yet to be quantified and may be different to that indicated. We further note that the claim by BoS is shown as a secured debt in each of the Statement of Affairs. We discuss at Section 4.1 below the security held by BoS.

We provide below, for information, an indication of the current position with regard to creditors' claims. The figures have been compiled by the Companies' management and have not been subject to independent review or audit.

4.1 Secured creditors

The principal lender to the Companies is Bank of Scotland plc ("BoS"). As at 28 August 2018, the debt due by the Group to BoS was $30.7m. This debt comprises amounts directly owed by the Petrostem Group to BoS, and amounts due to BoS by the Petrostem Group under cross-guarantees granted in favour of BoS in relation to lending to certain companies within the PPG and Maxtube Groups. The balance is comprised of:

- An overdraft facility ($10m facility, drawn to $10.8m);
- Term loan ($0.5m);
- Revolving credit facility ($15m);
- Guarantee facility ($5m, drawn to $4.3m of which $2.8m relates to Maxtube Group, which continues to trade out with insolvency as a going concern); and
- Credit card facilities exposure of $0.1m.

The details of the security held by BoS in relation to the Companies as follows:

- PGL – a share pledge in respect of PUK, and a debenture effectively covering UK located assets. Such assets are, however, restricted to PGL's shareholding in and intragroup debtors due from PUK.
- PIL – debenture effectively covering UK located assets including fixed assets and stock. As PIL predominantly trades with customers out with the UK and its rental assets are held predominantly out with the UK, in effect, this debenture does not provide BoS with security over the key assets of PIL.

BoS holds no security in relation to PRL.

4.2 Priority creditors

Neither PGL nor PRL employed any employees. Accordingly, we currently estimate priority creditors of $Nil in respect of claims for employees' salaries and holiday pay. We are also currently not aware of any other priority creditors under the Law.

Whilst PIL paid 35 employees, their contracts of employment were held with and VISAs issue by various entities, including some entities out with the Petrostem Group. Accordingly, whether all of these employees have any priority claims against PIL under employment law is yet to be ascertained. Based on the information available to us, we assess the maximum quantum of potential priority claims from these employees to be $0.2m in relation to arrears of wages and holiday pay. We are currently not aware of any other priority creditors under the Law.

4.3 Unsecured non-priority creditors

The records of PPG, PIL and PRL indicate that claims of non-priority creditors may aggregate $70.1m, $14.8m and $71.9m respectively.

Creditor claims may be higher due to contingent claims and other non-priority creditor amounts not included in the Companies' records.

It remains too early to accurately indicate the level of potential recovery to unsecured non-priority creditors of the Companies. However, as an indication only, based on the balance sheets of these Companies at 31 May 2018, the Joint Liquidators initial estimate of potential recoveries for creditors was minimal in respect of PGL and PIL, and potentially 1-2% in respect of PRL (albeit we note that this estimate was based on a net book value of PRL's fixed assets at 31 May 2018 which we understand now to be materially lower).

4.4 Creditor claims

Please note that debts incurred by PGL, PRL or PIL before our appointment will rank as unsecured claims against the respective company. If you have a claim against either company, please forward details together with supporting documentation (e.g. invoices, statements and agreements) to the Ernst & Young LLP, G1, 5 George Square, Glasgow, G2 1DY, marked for the attention of Sanjay Chita or, alternatively, to the following email address: petrostemgroup@uk.ey.com

Certain debts due from the Companies may have priority in accordance with Article 166 of the Law. If you consider that you have a claim in this category, please advise me immediately. If you hold any security for your claim or you consider that you have title to any assets in the Companies' possession, please forward details to me as soon as possible.

Any sums due to the Companies arising after our appointment must be paid in full and without set-off against any debts incurred by the relevant company prior to our appointment.

5. Costs of the liquidation, the Joint Liquidators' remuneration, disbursements and payments to other professionals

5.1 Cost of the liquidation

In accordance with Article 165 of the Law, all costs, charges and expenses properly incurred in a winding up, including the remuneration of the liquidator, are payable out of the company's assets in priority to all other claims.

5.2 Remuneration and disbursements

By order of the Act of Court, the Joint Liquidators are permitted to charge their remuneration and any reasonable costs, charges and expenses of the Joint Liquidators in accordance with Article 165 of the Law.

The above, in accordance with Article 163 of the Law, is subject to agreement between the Joint Liquidators and the Liquidation Committee or, if there is no Liquidation Committee, between the Joint Liquidators and the creditors or, failing such an agreement, as is fixed by the Court.

The Joint Liquidators have engaged managers and other staff to work on the liquidations. The work required is delegated to the most appropriate level of staff taking account of the nature of the work and the individual's experience. Additional assistance is provided by accounting and treasury executives dealing with the Companies' bank accounts and statutory compliance diaries. Work carried out by all staff is subject to the overall supervision of the Joint Liquidators.

All time spent by staff working directly on case-related matters is charged to a time code established for each entity. Time is recorded in units of six minutes. Each member of staff has a specific hourly rate, which is subject to change over time. The average hourly rate for each category of staff over the period is shown at Appendices G, H and I. The current hourly rates are shown below.

The Joint Liquidators will write to the relevant body separately in due course to agree the basis of the Joint Liquidators' remuneration. It is, however, the Joint Liquidators' intention to request that their remuneration is fixed on the basis of the time properly incurred by the Joint Liquidators and their staff and the following hourly rates:

Grade	Hourly rate ($)	Equivalent hourly rate (£)
Partner	855	658
Executive Director / Director	700	538
Senior Manager	590	454
Manager	490	377
Senior (Level 3)	450	346
Senior (Level 1 / 2)	355	273
Analyst	210	162
Intern	185	142

Note: Equivalent hourly rate is based on exchange rate of £1 / $1.30

The Joint Liquidators further intend to seek permission to draw their remuneration four weekly in arrears, with a one-off initial payment covering their remuneration from 28 August 2018 to Friday 21 September 2018 (such remuneration to be fixed on the basis outlined above).

To 21 September 2018, the Joint Liquidators have incurred time costs (based on the above hourly rates) of $15,254, $89,792 and $78,993 in respect of PGL, PRL and PIL respectively. Attached at Appendices G, H and I is a detailed analysis of these time costs.

The time has principally been spent in relation to the following activities:

- Fulfilling the statutory obligations required of the Joint Liquidators including preparation of this report, notifying the Joint Liquidators' appointment to all known creditors and addressing correspondence received from creditors;

- Liasing with employees of the Companies, instructing payment to them of their employment costs and addressing queries received from them;

- Liasing with customers of the Companies, including advising them of the appointment of the Joint Liquidators, discussing with them a handover of existing rentals to a new supplier, addressing ongoing requirements in relation to ongoing rentals, collecting amounts due to the Companies from these customers and raising invoices in respect of accrued but uninvoiced revenue at the date of our appointment;

- Liasing with landlords of yards at which the Companies' rental assets are held and of offices occupied by the Companies;

- Marketing for sale the rental assets of the Companies, including preparing, in conjunction with our appointed agents, an appropriate sales and marketing strategy, appropriate asset lists and marketing documents, and reviewing offers received from interested parties;

- Finalising the novation of the RASGAS contract and Petrostem trade name to PQL.

To date, the Joint Liquidators have not drawn any fees in relation to their time costs.

Appendices G, H and I also include a statement of the Joint Liquidators' policy for charging disbursements. In the event that a Liquidation Committee is not formed, the Joint Liquidators propose that they be permitted to charge and draw disbursements in accordance with the charging policy set out in those appendices.

5.3 Payments to other professionals

By order of the Act of Court the Joint Liquidators are permitted to engage other such professional advisors as the Joint Liquidators may deem appropriate or necessary and providing for their fees and expenses (whether incurred before or after the date on which the Companies were placed into liquidation in accordance with Article 155 of the Law) to be settled in accordance with Article 165 of the Law.

The Joint Liquidators have engaged the services of the following during the course of the liquidations:

Name of firm	Nature of service	How contracted to be paid
Pinsent Masons	Legal advisors – UK and UAE	Time costs
Carey Olsen	Legal advisors – Jersey and Cayman Islands	Time costs
ANM Group ('ANM')	Asset safeguarding and realisation strategy	Time costs
Dean Foster (former director of the Petrostem Group)	Asset marketing and realisation	Combination of day rate and commission

The Joint Liquidators have selected ANM for three key reasons:

- ANM is well-known to the Joint Liquidators and have worked together successfully on a number of projects over the years;
- ANM has the requisite experience of the international oil and gas industry including experience of selling assets overseas. Their credentials include a drilling pipe / accessories rental business, but they also have recent experience with 8 other oilfield services businesses.
- The specific individual that the Joint Liquidators are working with at ANM Group has lived and worked in the Middle East for several years. His work experience over that period includes some significant oil and gas related projects.

In addition, the Joint Liquidators have commissioned the services of Dean Foster, a former director of the Petrostem Group, who has deep experience of this specific sector and also the Petrostem Group rental assets. Dean is responsible for actively marketing and encouraging interest in the rental assets.

6. Other matters

6.1 Future conduct of the liquidations

The Joint Liquidators will continue to manage the affairs, business and property of the Companies to achieve the purpose of the liquidations. This will include, inter alia:

- Finalising the novation of the RASGAS contract and Petrostem trade name, and arranging collection of monies due to PRL thereafter;
- Collecting in the trade debtor balances due to PRL and PIL, and agreeing a formal handover of any ongoing rentals to a new supplier;
- Finalising the sale of the rental assets of PRL, and marketing for sale any rental assets not so included;
- Realising any other assets of the Companies, including the other fixed assets of PIL and PRL, and the intragroup and intergroup debts due to the Companies;
- In their capacity as Joint Liquidators of PGL, supervising the managed wind-down of the other subsidiaries of PGL which are not subject to insolvency proceedings;
- Dealing with tax matters, which includes filing returns;
- Dealing with creditor enquiries;
- Carrying out investigative procedures, including investigating the conduct of the Directors leading up to the Joint Liquidators' appointment;
- Distributing realisations to the secured and priority creditors of the Companies;
- If appropriate, agreeing unsecured creditor claims and making distributions to unsecured creditors;
- Ensuring all statutory reporting and compliance obligations are met; and
- Finalising the liquidations, including payment of all liquidation liabilities.

6.2 The end of the liquidations

At the end of the liquidations the Joint Liquidators shall apply to the Court to close the liquidations and will send a notice to that effect to the Jersey Registrar of Companies. The Companies will be dissolved shortly after registration of the notice.

6.3 Matters to be brought to the attention of the Joint Liquidators

In accordance with Article 184 of the Law, the Joint Liquidators are required to report possible misconduct to the Attorney General.

If there are any matters concerning the Companies' affairs which you consider may require investigation and consequently should be brought to our attention, please forward the details to me in writing as soon as possible

6.4 Reporting

The Joint Liquidators shall provide a report regarding the conduct of the liquidations of the Companies covering each six month period from the date of appointment. The report will be provided within one month of each six month period (i.e. by 28 March 2019 in respect of the report covering the six months to 28 February 2019).

Notice of the report will be provided by post with the report itself made available on the following website: https://www.ey.com/uk/en/services/transactions/restructuring/ey-ppg-petrostem-insolvencies

Should you wish to discuss any aspect of this report, please contact Gavin Yuill on 0141 226 9054.

Yours faithfully
for the Companies

Gavin Yuill
Joint Liquidator

C P Dempster and G D Yuill are licensed in the United Kingdom to act as an Insolvency Practitioner by The Institute of Chartered Accountants of Scotland. S A Gardner is licensed in the United Kingdom to act as an Insolvency Practitioner by The Institute of Chartered Accountants in England and Wales.

The Joint Liquidators may act as data controllers of personal data as defined by the General Data Protection Regulation 2016/679, depending upon the specific processing activities undertaken. Ernst & Young LLP and/or the Company may act as a data processor on the instructions of the Joint Liquidators. Personal data will be kept secure and processed only for matters relating to the Joint Liquidators appointment. The Office Holder Data Privacy Notice can be found at www.ey.com/uk/officeholderprivacy.

Appendix A Statutory information

Company Information

Company Name:	Petrostem Group Limited – in Liquidation Petrostem Rentals Limited – in Liquidation Petrostem International Limited – in Liquidation
Registered Office Address:	c/o Ernst & Young LLP Liberation House Castle Street St Helier Jersey, JE1 1EY
Registered Number:	102227 101632 99939
Trading Name(s):	Petrostem

Details of the Liquidators and of their appointment

Liquidators:	CP Dempster, GD Yuill and SA Gardner
Date of Appointment:	28 August 2018
By Whom Appointed:	The appointment was made by an Act of the Royal Court of Jersey
Court Reference:	220 of 2018.

All powers and obligations granted or imposed upon the Joint Liquidators by Acts of the Royal Court of Jersey, the Law or otherwise may be exercised by the Joint Liquidators on a joint and several basis such that both act together or one may act without the other (and by so doing will bind the other) in the exercise of their said powers and obligations.

Share capital

Petrostem Group Limited (in Liquidation) is wholly owned by Petrostem Holdings Limited, a company registered in Cyprus.

Both Petrostem Rentals Limited (in Liquidation) and Petrostem International Limited (in Liquidation) are wholly owned by Petrostem Group Limited (In Liquidation).

Directors and their shareholdings

Petrostem Group Limited

Name	Date appointed	Date resigned	Current shareholding
Richard Gordon Morrice	2 December 2008	n/a	-
Julian Charles Tyacke	2 December 2008	n/a	-
Samuel Dennis Allan Taylor	12 June 2013	n/a	-
Dean Foster	5 September 2017	n/a	-
Peter Duthie	2 December 2008	1 December 2017	-

Petrostem Rentals Limited

Name	Date appointed	Date resigned	Current shareholding
Richard Gordon Morrice	28 August 2008	n/a	-
Julian Charles Tyacke	28 August 2008	n/a	-
Dean Foster	5 September 2017	n/a	-
Peter Duthie	28 August 2008	1 December 2017	-

Petrostem International Limited

Name	Date appointed	Date resigned	Current shareholding
Richard Gordon Morrice	8 February 2008	n/a	-
Julian Charles Tyacke	8 February 2008	n/a	-
Dean Foster	1 May 2016	n/a	-
Peter Duthie	8 February 2008	1 December 2017	-

Appendix B Act of the Royal Court of Jersey

In the Royal Court of Jersey

Samedi Division **2018/220**

In the year two thousand and eighteen, the twenty-eighth day of August.

Before Timothy John Le Cocq, Esquire, Deputy Bailiff of Jersey, assisted by Jurats Rozanne Barbara Thomas and Jane Ronge.

IN THE MATTER OF THE REPRESENTATION OF JULIAN CHARLES TYACKE AND IN THE MATTER OF AN APPLICATION PURSUANT TO ARTICLE 155 OF THE COMPANIES (JERSEY) LAW 1991

Upon reading the Representation of Julian Charles Tyacke (hereinafter "the Representor") and upon hearing the Advocate for the Representor, the Advocate for Salzgitter Mannesmann International GmbH and Salzgitter Mannesmann International (USA) Inc, the Advocate for Longulf Trading (UK) Limited and a representative of the Viscount's Department, the Court ordered that:-

1. Petroleum Pipe Group Limited ("PPGL"), Pipeline Supplies Bahrain WLL Limited ("PSBL"), Petrostem Group Limited ("PGL"), Petrostem International Limited ("PIL") and Petrostem Rentals Limited ("PRL") (collectively, the "Jersey Companies"), shall be wound up pursuant to Article 155 of the Companies (Jersey) Law 1991 (the "1991 Law");
2. Stuart Arthur Gardner of Ernst & Young LLP, Liberation House, Castle Street, St. Helier, Jersey, JE1 1EY, Colin Peter Dempster of Ernst & Young LLP, Atria One, 144 Morrison Street, Edinburgh, United Kingdom, EH3 8EX and Gavin David Yuill of Ernst & Young LLP, G1 5 George Square, Glasgow, United Kingdom, G2 1DY be appointed as Joint Liquidators;
3. the Court shall give such directions and make such orders as may be proper in all the circumstances to ensure that the winding up of the Jersey Companies shall proceed in an orderly manner in particular to prescribe to the said Joint Liquidators such powers as are set out in Part 21 of the 1991 Law and/or as the Court shall deem necessary, including but not limited to:
   (a) calling a meeting of creditors;

(b) publishing such notices as the Joint Liquidators deem necessary or expedient with a view to inviting claims;

(c) requiring the directors and former directors of each of the Jersey Companies to make a statement as to its affairs and verifying the same by affidavit;

(d) sanctioning the Joint Liquidators exercising any of the powers of the Jersey Companies as may be required for its beneficial winding up;

(e) convening general meetings of the Jersey Companies, for the purposes of obtaining their sanction by resolution or for any other legitimate purpose as the Joint Liquidators may think fit;

(f) exercising the power to disclaim onerous property under Articles 171 and 172 of the 1991 Law as the Joint Liquidators may deem appropriate or necessary;

(g) exercising those powers contained at Articles 170, 173, 174 and 176 to 185 of the 1991 Law as the Joint Liquidators may deem appropriate or necessary;

(h) charging their remuneration and any reasonable costs, charges and expenses of the Joint Liquidators in accordance with Article 165 of the 1991 Law;

(i) engaging such professional advisors as the Joint Liquidators may deem appropriate or necessary and providing for their fees and expenses (whether incurred before or after the date on which the Jersey Companies are placed into a winding up under Article 155 of the 1991 Law) to be settled in accordance with Article 165 of the Law; and

(j) applying to the Court for a revision or extension of any of their powers and for sanctioning or ratification of any of their acts or omissions.

4. Article 166 of the 1991 Law relating to the application of the law relating to Désastre shall apply to the winding up of the Jersey Companies;

5. Article 186A of the 1991 Law conferring a power for the Joint Liquidators, contributories and/or creditors to apply to the Court shall apply to the winding up of the Jersey Companies;

6. all powers and obligations granted or imposed upon the Joint Liquidators by Acts of Court, the Law or otherwise may be exercised by the Joint Liquidators on a joint and several basis such that both act together or one may act without the other (and by doing so will bind the other) in the exercise of their said powers and obligations;

7. Article 159(4) of the 1991 Law, shall be applied, which confirms that on the commencement of the winding up no action shall be taken or proceeded with or against

each of the Jersey Companies except by leave of the Court and subject to such terms as the Court may impose;

8. within 14 days of the date of their appointment, the Joint Liquidators are to give notice of their appointment to known or prospective creditors, by way of notice in writing and/or by advertisement in the *Gazette*;

9. within 7 days of notice having been given pursuant to paragraph 8 above, any creditor of each of the Jersey Companies has liberty to apply in respect of the identity of the Joint Liquidators;

10. the Joint Liquidators will exercise their best endeavours to hold a meeting of the creditors of the Jersey Companies within six weeks of the date of this order or as soon as possible thereafter;

11. the Joint Liquidators shall provide to proving creditors a report regarding the conduct of the liquidation of the Jersey Companies in respect of each period of six months commencing from the date of their appointment (such report to be delivered to creditors within 28 days of the end of each such six month period) until the liquidations of the Jersey Companies are closed;

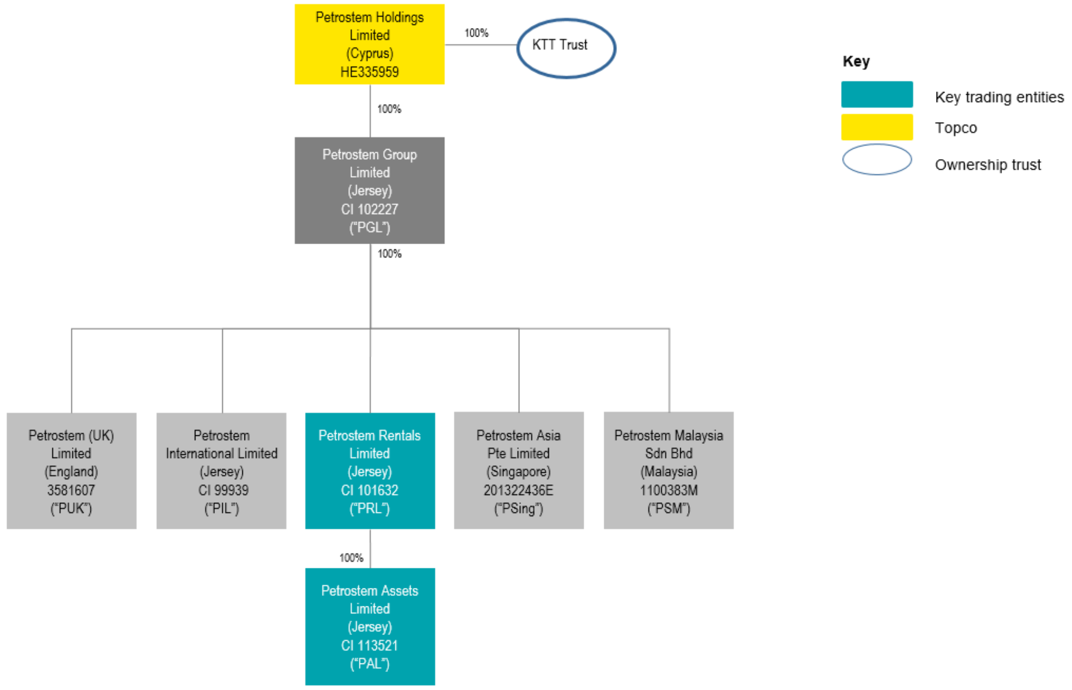
12. upon the winding up of each of the Jersey Companies being completed the Joint Liquidators shall apply to the Court to close the liquidations and discharge the orders made herein; and

13. the Representor's costs of the action above shall rank as costs of the liquidation, to be taxed on the standard basis if not agreed.

Greffier Substitute

CO (JG)
CC (SH)
Ogier (JA)

Appendix C Group structure



Appendix D Receipts and Payments – PGL

Petrostem Group Limited (In Liquidation)
Receipts and Payments for the period from 28 August 2018 to 21 September 2018

			Total
Receipts	US$	GB£	US$
Pre-appointment debtor collections	-	-	-
Total Receipts	-	-	-
Payments			
Bank charges	-	-	-
Total Payments	-	-	-
Net Receipts / (Payments) for the period	-	-	-
Represented by:			
Bank balances at at 21 September 2018			
Royal Bank of Scotland	-	-	-
	-	-	-

Notes

1. Receipts and payments are stated net of VAT or other applicable goods and services taxes.
2. These accounts do not reflect estimated future realisations or associated costs.
3. The following exchange rates have been applied to the above: GB£:US$, 1.3; and US$:AED, 3.673.

Appendix E Receipts and Payments – PRL

Petrostem Rentals Limited (In Liquidation)
Receipts and Payments for the period from 28 August 2018 to 21 September 2018

				Total
Receipts	US$	GB£	AED	US$
Cash on appointment	181	-	32,101	8,921
Pre-appointment debtor collections	391,443	8,886	-	402,994
Bank interest received	1	-	5	2
Total Receipts	391,625	8,886	32,106	411,917
Payments				
Intercompany transfers	4,900	-	31,601	13,504
Security costs	2,100	-	-	2,100
Repairs and maintenance	750	-	-	750
Telephone and IT expenses	1,800	-	-	1,800
Employee expenses and benefits	10,720	-	-	10,720
Utilities	5,700	-	-	5,700
Equipment rental	2,100	-	-	2,100
Bank charges and interest	105	-	260	176
Total Payments	28,175	-	31,861	36,850
Net Receipts / (Payments) for the period	363,450	8,886	245	375,068
Represented by:				
Bank balances at at 21 September 2018				
Royal Bank of Scotland	-	-	-	-
Bank of Scotland	-	-	-	-
Standard Bank Jersey	354,153	8,886	-	365,704
National Bank of Fujairah	9,297	-	245	9,364
	363,450	8,886	245	375,068

Notes

1. Receipts and payments are stated net of VAT or other applicable goods and services taxes.
2. These accounts do not reflect estimated future realisations or associated costs.
3. The following exchange rates have been applied to the above: GB£:US$, 1.3; and US$:AED, 3.673.

Appendix F Receipts and Payments – PIL

Petrostem International Limited (In Liquidation)
Receipts and Payments for the period from 28 August 2018 to 21 September 2018

				Total
Receipts	US$	GB£	AED	US$
Cash on appointment	176,847	40	31,046	185,351
Pre-appointment debtor collections	54,340	-	48,158	67,451
HMRC refund	5,705	-	-	5,705
Interaccount transfers	4,611	-	734	4,810
Intercompany transfers	13,470	-	-	13,470
Total Receipts	254,971	40	79,938	276,787
Payments				
Interaccount transfers	200	40	16,757	4,814
Trading suppliers	-	-	12,538	3,413
Wages and salaries	-	-	4,471	1,217
Employee expenses	-	-	1,986	541
Bank charges and interest	145	-	47	158
Total Payments	345	40	35,799	10,143
Net Receipts / (Payments) for the period	254,626	-	44,139	266,643
Represented by:				
Bank balances at at 21 September 2018				
Royal Bank of Scotland	220,645	-	-	220,645
Standard Bank Jersey	33,614	-	-	33,614
National Bank of Fujairah	367	-	44,139	12,384
	254,626	-	44,139	266,643

Notes

1. Receipts and payments are stated net of VAT or other applicable goods and services taxes.
2. These accounts do not reflect estimated future realisations or associated costs.
3. The following exchange rates have been applied to the above: GB£:US$, 1.3; and US$:AED, 3.673.

Appendix G Time properly given analysis – PGL

Summary of Liquidators' time costs for the period from 28 August 2018 to 21 Sep 2018

Hours	Partner	Executive Director	Senior Manager	Senior	Total Hours	Total time costs ($)	Average hourly rate ($)
Classification of work function							
Accounting and Administration			0.2	1.8	2.0	757	379
Bank & Statutory Reporting	1.0	0.1	0.1		1.2	984	820
Creditors		0.8	0.2		1.0	678	678
Immediate Tasks	0.5	2.8			3.3	2,388	723
Investigation/CDDA		0.1			0.1	70	700
Other Matters		3.9			3.9	2,730	700
Statutory Duties	0.5	2.2		16.0	18.7	7,648	409
Total hours	2.0	9.9	0.5	17.8	30.2	15,254	505
Total time costs ($)	1,710	6,930	295	6,319		15,254	
Average hourly rate ($)	855	700	590	355			

Joint Liquidators’ charging policy for disbursements

Statement of Insolvency Practice No. 9 divides disbursements into two categories.

Category 1 disbursements are defined as specific expenditure relating to the administration of the insolvent’s affairs and referable to payment to an independent third party. Such disbursements can be paid from the insolvent’s assets without approval from the Liquidation Committee or the general body of creditors. In line with Statement of Insolvency Practice No. 9, it is our policy to disclose Category 1 disbursements drawn but not to seek approval for their payment. We are prepared to provide such additional information as may reasonably be required to support the disbursements drawn.

Category 1 disbursements	Incurred (£)	Drawn to date (£)	Outstanding (£)
Statutory notice – Jersey Evening Post	355.20	-	355.20
TOTAL	355.20	-	355.20

Category 2 disbursements are charges made by the office holder’s firm that include elements of shared or overhead costs. Statement of Insolvency Practice No. 9 provides that such disbursements are subject to approval as if they were remuneration.

It is our policy, in line with the Statement, to seek approval for Category 2 disbursements before they are drawn. To date, no Category 2 expenses have been incurred. It is proposed that Joint Liquidators’ be permitted to draw any future expenses.

Appendix H Time properly given analysis – PRL

Summary of Liquidators' time costs for the period from 28 August 2018 to 21 September 2018

Hours	Partner	Executive Director	Senior Manager	Manager	Senior	Total Hours	Total time costs ($)	Average hourly rate ($)
Classification of work function								
Accounting and Administration			4.7		14.7	19.4	7,992	412
Bank & Statutory Reporting	1.0	0.1	1.2		3.0	5.3	2,698	509
Creditors		1.2	2.1	10.0		13.3	6,979	525
Debtors		1.1	3.3	42.5	24.5	71.4	32,240	452
Employee Matters				5.0		5.0	2,450	490
Immediate Tasks	0.5	2.8	6.1	2.5		11.9	7,212	606
Investigation/CDDA		1.3				1.3	910	700
Other Assets		3.7				3.7	2,590	700
Other Matters		3.6	2.0			5.6	3,700	661
Statutory Duties	0.5	1.1			17.6	19.2	7,446	388
Stock and Fixed Assets	1.5	3.5	3.1	4.0	15.0	27.1	12,847	474
Trading		3.9				3.9	2,730	700
Total hours	3.5	22.3	22.5	64.0	74.8	187.1	89,792	480
Total time costs ($)	2,993	15,610	13,275	31,360	26,554		89,792	
Average hourly rate ($)	855	700	590	490	355			

Joint Liquidators' charging policy for disbursements

Statement of Insolvency Practice No. 9 divides disbursements into two categories.

Category 1 disbursements are defined as specific expenditure relating to the administration of the insolvent's affairs and referable to payment to an independent third party. Such disbursements can be paid from the insolvent's assets without approval from the Liquidation Committee or the general body of creditors. In line with Statement of Insolvency Practice No. 9, it is our policy to disclose Category 1 disbursements drawn but not to seek approval for their payment. We are prepared to provide such additional information as may reasonably be required to support the disbursements drawn.

Category 1 disbursements	Incurred (£)	Drawn to date (£)	Outstanding (£)
Statutory notice – Jersey Evening Post	355.20	-	355.20
TOTAL	355.20	-	355.20

Category 2 disbursements are charges made by the office holder's firm that include elements of shared or overhead costs. Statement of Insolvency Practice No. 9 provides that such disbursements are subject to approval as if they were remuneration.

It is our policy, in line with the Statement, to seek approval for Category 2 disbursements before they are drawn. To date, no Category 2 expenses have been incurred. It is proposed that Joint Liquidators' be permitted to draw any future expenses.

Appendix I Time properly given analysis – PIL

Summary of Liquidators' time costs for the period from 28 August 2018 to 21 Sep 2018

Hours	Partner	Executive Director	Senior Manager	Manager	Senior	Total Hours	Total time costs ($)	Average hourly rate ($)
Classification of work function								
Accounting and Administration			4.4		17.6	22.0	8,844	402
Bank & Statutory Reporting	1.0	0.1	1.2		3.0	5.3	2,698	509
Creditors		0.6	0.6	11.0		12.2	6,164	505
Debtors			5.2	23.5	14.5	43.2	19,731	457
Employee Matters			8.4	3.0		11.4	6,426	564
Immediate Tasks	0.5	2.8	6.1	2.5		11.9	7,212	606
Investigation/CDDA		0.1	0.2			0.3	188	627
Other Assets		3.0	0.2			3.2	2,218	693
Other Matters		3.6	2.0			5.6	3,700	661
Retention of Title	0.5					0.5	428	855
Statutory Duties	1.5	3.3			21.0	25.8	11,048	428
Stock and Fixed Assets	1.5		2.4	4.0	15.0	22.9	9,984	436
Trading			0.6			0.6	354	590
Total hours	5.0	13.5	31.3	44.0	71.1	164.9	78,993	479.0
Total time costs ($)	4,275	9,450	18,467	21,560	25,241		78,993	
Average hourly rate ($)	855	700	590	490	355			

Joint Liquidators' charging policy for disbursements

Statement of Insolvency Practice No. 9 divides disbursements into two categories.

Category 1 disbursements are defined as specific expenditure relating to the administration of the insolvent's affairs and referable to payment to an independent third party. Such disbursements can be paid from the insolvent's assets without approval from the Liquidation Committee or the general body of creditors. In line with Statement of Insolvency Practice No. 9, it is our policy to disclose Category 1 disbursements drawn but not to seek approval for their payment. We are prepared to provide such additional information as may reasonably be required to support the disbursements drawn.

Category 1 disbursements	Incurred (£)	Drawn to date (£)	Outstanding (£)
Air travel	647.06	-	647.06
Subsistence	384.47	-	384.47
Accommodation	700.68	-	700.68
Ground travel	68.66	-	68.66
Visa application fees	131.00	-	131.00
Statutory notice – Jersey Evening Post	355.20	-	355.20
TOTAL	2,287.07	-	355.20

Category 2 disbursements are charges made by the office holder's firm that include elements of shared or overhead costs. Statement of Insolvency Practice No. 9 provides that such disbursements are subject to approval as if they were remuneration.

It is our policy, in line with the Statement, to seek approval for Category 2 disbursements before they are drawn. To date, no Category 2 expenses have been incurred. It is proposed that Joint Liquidators' be permitted to draw any future expenses.

Appendix J Summary of Directors' Statement of Affairs

	PGL	PGL	PIL	PIL	PRL	PRL
	Book value	Estimate to realise	Book value	Estimate to realise	Book value	Estimate to realise
Summary of Assets	US$	US$	US$	US$	US$	US$
Assets subject to security						
Investments	-	-	-	-	2,000,151	-
Cash at bank	384	-	9,323	9,323	181,996	179,378
Trade debtors	-	-	448,743	366,771	2,050,864	420,382
Tangible assets	-	-	-	-	5,869,004	800,000
Receivable from subsidiaries	21,623,410	-	-	-	-	-
Receivable from parent company	-	-	7,623,028		17,021,196	-
Other receivables	-	-	205,889	-	51,522	-
Receivables from related parties	30,675,971	300,000	5,518	-	1,914,647	-
	52,299,765	300,000	8,292,501	376,094	29,089,380	1,399,760
Secured debts						
Bank overdraft	(5,860,109)	(5,860,109)	(1,690,358)	(1,690,358)	-	-
RCF	-	-	-	-	-	-
Term loan	-	-	-	-	-	-
BoS - Obligations under cross-guarantees	-	(22,791,644)	-	(26,961,395)	-	-
	(5,860,109)	(28,651,753)	(1,690,358)	(28,651,753)	-	-
(Shortfall) / surplus to secured creditors		(28,351,753)		(28,275,659)		1,399,760
Assets not subject to security						
Nil	-	-	-	-	-	-
Summary of Liabilities						
Estimated total assets available for priority creditors		-		-		1,399,760
Priority creditors	-	-	(42,756)	(42,756)	(85,150)	(85,150)
Estimated deficiency as regards priority creditors		-		(42,756)		-
Estimated total assets available for unsecured creditors		-		-		1,314,611
Unsecured non-priority claims						
Trade creditors	-	-	(1,288,156)	(1,288,156)	(2,666,444)	(2,666,444)
Related parties	(43,441,768)	(43,441,768)	(3,904,467)	(3,904,467)	(69,211,155)	(69,211,155)
Longulf Trading	-	-	(9,603,258)	(9,603,258)	-	-
Subsidiaries	(26,644,376)	(26,644,376)	-	-	-	-
	(70,086,144)	(70,086,144)	(14,795,881)	(14,795,881)	(71,877,599)	(71,877,599)
Estimated deficiency as regards non-priority creditors (excluding shortfall to secured creditors)		(70,086,144)		(14,795,881)		(70,562,989)
Shortfall to secured creditors brought down		(28,351,753)		(28,275,659)		-
Estimated deficiency as regards creditors		(98,437,897)		(43,114,296)		(70,562,989)
Preference shares issued		-		-		-
Estimated deficiency as preference shareholders		(98,437,897)		(43,114,296)		(70,562,989)
Issue and called-up share capital		(2,282,002)		(2,282,002)		(2,000,002)
Estimated deficiency as regards members		(100,719,899)		(45,396,298)		(72,562,991)

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Ernst & Young LLP, 1 More London Place, London, SE1 2AF.

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