

**Petrostem (UK) Limited**  
**In Administration (the "Company")**

Six Monthly Progress Report

In accordance with Rule 18.3 of The Insolvency Rules 2016

28 March 2019

Ernst & Young LLP



## Abbreviations

The following abbreviations are used in this report:

Act	the Insolvency Act 1986
BoS	Bank of Scotland plc
CDDA	Company Directors Disqualification Act 1986
date of appointment	29 August 2018
EY	Ernst & Young LLP
HMRC	HM Revenue and Customs
Joint Administrators	CP Dempster and GD Yuill
the Company	Petrostem (UK) Limited - In Administration
the Petrostem Group	The Petrostem Group of Companies, a structure chart for which is provided at Appendix B
the PPG Group	Petroleum Pipe Group Limited (In Liquidation) and its subsidiary undertakings
the Proposals	Joint Administrators' Statement of Proposals, dated 19 October 2019
the Rules	the Insolvency (England and Wales) Rules 2016

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## **1. Introduction**

### **1.1 Introduction**

I write, in accordance with Rule 18.3 of the Insolvency Rules 2016, to provide creditors with a report on the progress of the Administration. This report covers the period from 29 August 2018 to 28 February 2019 and should be read in conjunction with the Proposals dated 19 October 2018.

On 29 August 2018 the Company entered Administration and CP Dempster and GD Yuill were appointed to act as Joint Administrators.

The appointment was made by the Company's Directors under the provisions of paragraph 22(2) of Schedule B1 to the Insolvency Act 1986. Under the terms of the appointment, any act required or authorised to be done by the Joint Administrators can be done by either of them.

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 administration.

Statutory information about the Company, the Administration and the office holders is given at Appendix A.

### **1.2 Extensions to the Initial Period of Appointment**

There have been no extensions to the initial period of appointment. This will be reviewed in three months' time.

## 2. Progress since the Proposals dated 19 October 2018

### 2.1 Purpose of the Administration

As detailed in the Proposals, the Joint Administrators' strategy in respect of the insolvency of the Company is to:

- ▶ Cease to trade the business to which the Joint Administrators have been appointed (subject to the point noted below in relation to trade debtors);
- ▶ Collect in the trade debtor balances due to the Company. In order to protect the collection of these trade debtor balances, the Joint Administrators 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 Company's rental assets (drilling pipe).

To assist with the insolvency process, 20 of the Petrostem Group's employees were retained, of which 1 was employed by the Company. That employee was made redundant in December 2018.

### 2.2 Asset Realisations for the Company

As detailed in the Proposals, the Company is one of the trading entities within the Petrostem Group. Consequently, the main assets of the Company are trade debtor balances and rental stock.

#### 2.2.1 Fixed assets

As at the date of our appointment, the Company held fixed assets with a net book value of \$17k, located at the premises of DFC Oilfield Supplies Ltd ("DFC"). An independent third-party valuation of these assets was undertaken following our appointment, which assessed the ex situ value of these assets to be \$11k, with a forced sale value of \$4k.

A sale of these assets to DFC for \$8k was agreed in January 2019. The Joint Administrators assessed this offer against the costs of sale including uplifting the assets, storage and commission payable on sale and concluded that the offer from DFC was acceptable.

The amount due from DFC has been offset against other amounts due by the Company to DFC in respect of the period after the appointment of the Joint Administrators. This was undertaken after the period of this report and therefore the realisations from the sale of these fixed assets are not shown in the receipts and payments account at Appendix C, but will be included in the account provided in our next report.

#### 2.2.2 Rental assets

As at the date of our appointment, the Company held rental assets, principally comprising drill pipe and related tools / accessories, with a net book value of \$2.2m (albeit an independent third-party valuation prior to insolvency assessed the ex situ value of these assets to be materially lower).

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 Administrators launched a sale process in respect of these rental assets – and those held by all other companies within the Petrostem Group – on 7 September 2018. On that date, a list of these assets was issued to 41 interested parties across a range of market interests, with a deadline for offers of 11 September 2018.

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 Group or PPG Group. The Joint Administrators / Joint Liquidators accepted (subject to conditions) offers from five separate interested parties across the eight asset packages. Unfortunately, one offer was subsequently withdrawn. Each of the remaining four offers covering seven of the eight asset packages has now fully or partially completed.

The remaining asset package was subsequently re-marketed for sale in February 2019, in a number of individual lots. A closing date for offers of 4 March 2019 was set. On that date, eight offers across the individual lots were received. The Joint Administrators / Joint Liquidators accepted (subject to conditions) offers from three separate interested parties across the various lots. Each of these offers has now fully or partially completed.

In respect of the Company, following a protracted process of agreement of the terms of the sale, on 23 January 2019 the sale of the Company's rental assets completed with net sale proceeds of \$0.4m. The Joint Administrators believe this represents a reasonable outcome given challenging market conditions.

### **2.2.3 Trade debtor balances**

As at the date of our appointment, trade debtor balances due to the Company aggregated \$0.3m. Accrued income, comprising uninvoiced amounts due in respect of the rental of assets to 28 August 2018, totalled \$0.2m, which were invoiced in full shortly after the date of appointment.

Trade debtor balances comprise a mix of one-off rentals and rentals under framework / rental contracts.

During the period covered by this report, \$0.4m of these amounts had been collected. The Joint Administrators are continuing to pursue the outstanding balances.

As detailed in the Proposals, the Joint Administrators' strategy in relation to the collection of trade debtor balances from ongoing rentals was to seek to agree with the customer a managed handover of their rental contract. This was considered the best approach to facilitate full settlement of any receivable balances. Consequently, the Company has invoiced post-appointment rentals aggregating \$0.3m of which \$0.1m has been collected during the period covered by this report. The Joint Administrators are continuing to pursue the outstanding balances.

### **2.2.4 Cash on appointment**

The Company held no cash in non-BoS bank accounts at the date of appointment.

Petty cash of \$1k was held and has now been deposited into the Company's post-appointment bank accounts.

### **2.2.5 VAT receivable**

The Joint Administrators have submitted a VAT return up to the date of appointment, based on the Company's records, which shows that the Company is due a refund of \$43k. However, HMRC is owed a sum estimated at \$6k in relation to unpaid PAYE and NIC deductions. HMRC is entitled to set these amounts against each other such that a net realisation of \$37k is anticipated from this VAT debtor.

Although the pre-appointment VAT return was submitted in October 2018, we have not yet had a response from HMRC. We continue to chase HMRC and will update creditors on progress in our next report.

## **2.3 Expenditure**

During the period covered by this report, we have incurred expenses totalling \$167k (net of VAT). There is a breakdown of expenses incurred in this period and to date at Appendices C and D of this report.

At present, total expenses have not exceeded the original estimate provided with the Proposals.

An overview of the principal expenditure is detailed below.

### **2.3.1 Employee costs - \$97k**

Employee costs are £22k higher than originally anticipated due to retaining the Company's one employee for a longer period than envisaged given the delays in completing the sale of the Company's rental equipment.

### **2.3.2 Sub-rental costs - \$29k**

Whilst costs paid to date are materially less than estimated, a number of payments are now being made to suppliers now that the Company's trading position has been finalised.

### **2.3.3 Rent - \$3k**

Further costs of \$12k are payable in this regard and, as such, we have reduced our estimated of rent payable such that we anticipate total rent being \$31k lower than originally estimated.

### **2.3.4 Software licence - \$1k**

We have increased our estimate of software licence costs from \$3k to \$11k principally due to the period of wind down being longer than anticipated.

### **2.3.5 Insurance - \$4k**

Whilst the amount paid to date is low, payments made in respect of insurance by other entities in within the Petrostem Group are likely to require reapportionment and, as such, the total expense is expected to remain at the level originally estimated.

### **2.3.6 Agents' fees - \$27k**

Agents' fees paid to date relate to commission paid following the completion of the sale of the Company's rental assets. We have increased our estimate of agents' fees from \$58k to \$60k to reflect the additional complexities of the sale of rental equipment which were not originally anticipated.

## 2.4 Asset realisations for the Petrostem Group

The other insolvent entities within the Petrostem Group are not registered in England and Wales and are therefore subject to insolvency proceedings in other jurisdictions. Accordingly, these entities are not within the remit of this report. Notwithstanding this, the Joint Administrators' recognise the inter-linked nature of the Petrostem Group and therefore detailed discussion of the insolvency proceedings and potential asset realisations for these entities is provided within the separate reports to the creditors of these companies which are available from the following website:

<https://www.ey.com/uk/en/services/transactions/restructuring/ey-ppg-petrostem-insolvencies>

## 2.5 Investigations

The Joint Administrators have performed a thorough review in to the conduct of the directors in the lead up to the insolvency of the Company. Matters reviewed have included:

- ▶ Analysis of funding provided to related parties in the years leading up to the insolvency of the Company;
- ▶ Review of transactions with related parties;
- ▶ Review of any disposals of assets in the lead up to the insolvency of the Company;
- ▶ A review of the movement in trade creditor balances (both in aggregate and individually) from 1 April 2017 to the date of our appointment;
- ▶ A review of individual cash receipts and payments in the period from 1 April 2017 to the date of our appointment;
- ▶ Review of the level of remuneration received by each of the directors in the three financial years ending 31 March 2016, 2017 and 2018, and the five months to August 2018;
- ▶ Review of board minutes for the Company;
- ▶ Review of questionnaires provided by the Directors detailing the circumstances which led to the insolvency of the Company; and
- ▶ Review of the Company's compliance with statutory deadlines in respect of filing of annual returns and accounts and payment of taxes.

On 28 November 2018 we submitted our conduct report to the Insolvency Service in respect of the Company. The contents of these reports are confidential.

The Joint Administrators continue to investigate certain matters raised by our investigations and have formally written to the Directors in this regard. On receipt of their response, we will consider whether any further action is warranted.

No funding has been provided by any third parties to meet the costs of these investigations.



### 3. Outcome for creditors

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.

#### 3.1 Secured creditors

The principal lender to the Petrostem Group is Bank of Scotland plc (BoS). As at 29 August 2018, the debt due by the Petrostem 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 its lending to certain companies within the PPG and Maxtube Groups.

The Company has granted in favour of BoS an English law debenture covering the whole property and undertaking of the Company. Accordingly, all assets of the Company are secured to BoS.

The likely recovery to BoS in respect of the amounts due to it by the Company is currently estimated to be c.\$0.2m.

#### 3.2 Preferential creditors

Preferential creditor claims have been quantified at \$8k in respect of claims for employees' holiday pay.

We currently estimate that preferential claims will be paid in full.

#### 3.3 Unsecured non-preferential creditors

The Company's records indicate that non-preferential creditors may aggregate to \$4.7m.

As discussed further at Section 3.4 below, on 31 January 2019, we wrote to all known creditors of the Companies and advised them that any claims in the insolvency of the Companies required to be notified to the Joint Liquidators by 22 March 2019. We are currently reviewing the claims received. Therefore, the final balance of creditor claims may be higher due to contingent claims and other non-priority creditor amounts not included in the Companies' records.

As the Company's assets are secured to BoS, we do not expect any recovery for unsecured non-preferential creditors of the Company from its insolvency process, other than by virtue of the Prescribed Part (further detail is provided at Section 3.5).

#### 3.4 Creditor claims

As detailed above, the last date for proving claims was set at 22 March 2019.

BoS has not yet submitted its claim in the Company and has requested additional time to do so. The Joint Liquidators have given BoS until 19 April 2019 to submit its formal claims. If

creditors do not prove their debt by the last date for proving they may be excluded from the interim dividend which the Joint Administrators intend to declare within a period of two months from 22 March 2019.

If you have not yet submitted a formal claim in the Administration and would like to participate in the interim dividend please complete and return the enclosed proof of debt form along with any supporting documentation (invoices, statements, contracts, etc.) to John Louden at this office or by email to [petrostemgroup@uk.ey.com](mailto:petrostemgroup@uk.ey.com). The proof of debt form can also be downloaded from the following web site:

<https://www.ey.com/uk/en/services/transactions/restructuring/ey-ppg-petrostem-insolvencies>

Certain debts due from the Company may be preferential in accordance with Section 386 of the Insolvency Act 1986. 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 Company's possession, please forward details to me as soon as possible.

Any sums due to the Company 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.

### 3.5 The Prescribed Part

The Prescribed Part is a proportion of floating charge assets set aside for unsecured creditors pursuant to section 176A of the Insolvency Act 1986. The Prescribed Part applies to floating charges created on or after 15 September 2003. The relevant charge for the Company was created on 25 June 2015.

The Joint Administrators do not currently intend to make an application to the Court under section 176A(5) of the Insolvency Act 1986 for an order not to distribute the Prescribed Part.

The value of the prescribed part is estimated to be c.£50,000 based on present information.

## 4. Administrators' receipts and payments

A summary of the Administrators' receipts and payments for the period from 29 August 2018 to 28 February 2019 is attached at Appendix C.

## 5. Administrators' remuneration, expenses, disbursements and payments to other professionals

### 5.1 Remuneration

The statutory provisions relating to remuneration are set out in Chapter 4, Part 18 of the Insolvency (England and Wales) Rules 2016. Further information is given in the Association of Business Recovery Professionals' publication 'A Creditors' Guide to Administrators' Fees', a copy of which may be accessed from the website of the Institute of Chartered Accountants in England and Wales at <https://www.icaew.com/en/technical/insolvency/creditors-guides> or is available in hard copy upon written request to the Joint Administrators.

In certain circumstances, creditors are entitled to request further information about our remuneration or expenses, or to apply to court if they consider the costs to be excessive (Rules 18.9 and 18.34 of the Insolvency (England and Wales) Rules 2016). Further information is provided in 'A Creditors' Guide to Administrators' Fees' referred to above.

The Joint Administrators' remuneration was fixed on the basis of time properly given by the Joint Administrators and their staff in dealing with matters arising in the Administration at the hourly rates set out below (and in accordance with the fee estimate dated 19 October 2019) by a resolution of the preferential creditors and secured creditor on 21 December 2018.

In addition, the Joint Administrators were permitted to draw, as an interim claim, their remuneration for the period from the date of their appointment to Friday 5 October 2018 and thereafter the Joint Administrators may draw their remuneration four weekly in arrears subject to the provision in advance of a statement of such costs.

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

To 28 February 2018, the Joint Administrators have incurred time costs (based on the above hourly rates) of \$296,079. Of this sum, \$Nil has been paid in the period to 28 February 2019. A payment of \$98,736 was made on 14 March 2019 and, accordingly, does not appear in the receipts and payments account at Appendix C, but will be included in the account provided in our next report.

Time costs incurred to date currently exceed the fee estimate (\$271k - see Appendix F). The principal reason for this is due to the time spent in respect of realising the Company's rental assets being significantly higher than estimated as a result of the complexities of that sale and the resultant significant delays in agreeing a contractual position with the purchaser.

We anticipate that our remuneration will exceed the fee estimate by c. \$100k (to \$375k). We will not draw remuneration in excess of the fee estimate without the prior approval of the secured and preferential creditors of the Company. The Joint Administrators propose to discuss the quantum of fees once the outcome of the realisations process is fully known.

Attached at Appendices E, F and G is a detailed analysis of time spent and charge out rates for each grade of staff for the various areas of work carried out to 28 February 2019 as required by the Association of Business Recovery Professionals' Statement of Insolvency Practice No. 9.

## 5.2 Joint Administrators Statement of expenses incurred

During the period covered by this report, we have incurred expenses totalling \$167k (net of VAT, and excluding the Joint Administrators' fees and disbursements). There is a breakdown of expenses incurred in this period and to date at Appendix D of this report.

At present, expenses have not exceeded the original estimate provided with the Proposals.

## 5.3 Disbursements

Appendix D also includes a breakdown of the Joint Administrators' Category 1 and 2 disbursements.

On 21 December 2018, the Joint Administrators received the approval of the secured creditor and preferential creditors to charge and draw disbursements in accordance with the charging policy set out in Appendix H and estimate provided with the Proposals.

## 5.4 Payments to other professionals

The Joint Administrators have engaged the services of the following during the course of the Administration:

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

Details of the fees paid to date are included in the receipts and payments account attached at Appendix C.

## 6. Other Matters

### 6.1 Future conduct of the Administration

The Joint Administrators will continue to manage the affairs, business and property of the Company to achieve the purpose of the Administration. This will include, inter alia:

- ▶ Continuing to collect in the trade debtor balances due to the Company;
- ▶ Dealing with corporation tax and VAT matters, which includes filing statutory returns;
- ▶ Distributing realisations to the secured and preferential creditors of the Company;
- ▶ Agreeing unsecured creditor claims and distributing the Prescribed Part;
- ▶ Ensuring all statutory reporting and compliance obligations are met; and
- ▶ Finalising the Administration, including payment of all Administration liabilities.

### 6.2 The end of the Administration

The Administration of the Company will end automatically after twelve months following the date of the Joint Administrators' appointment, although this period can be extended by either the creditors or an application to Court.

If the only distribution to unsecured creditors is from the Prescribed Part, as is expected, then the Joint Administrators are required to distribute the Prescribed Part during the Administration, rather than placing the Company into liquidation simply for this purpose.

It is proposed that the Administration will end either through a subsequent liquidation or via dissolution depending on whether there are any assets remaining at the end of the Administration.

Currently, the Joint Administrators do not anticipate that there will be any assets remaining at the end of the Administration. Accordingly, it is proposed that if at the end of the Administration the Company has no property which might permit a distribution to its creditors other than by way of the Prescribed Part, the Joint Administrators will send a notice to that effect to the Registrar of Companies. On registration of the notice the Joint Administrators' appointment will come to an end. In accordance with the provisions of paragraph 84(6) of Schedule B1 to the Insolvency Act 1986 the Company will be deemed to be dissolved three months after the registration of the notice.

### 6.3 Matters to be brought to the attention of the Joint Administrators

If there are any matters concerning the Company's 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

I will report to you again at the conclusion of the Administration or in six months' time, whichever is the sooner.

The report will be 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 John Loudon on 0113 298 2315.

Yours faithfully  
for the Company



Gavin Yuill  
Joint Administrator

C P Dempster and G D Yuill are licensed in the United Kingdom to act as Insolvency Practitioners by The Institute of Chartered Accountants of Scotland.

The affairs, business and property of the Company are being managed by the Joint Administrators, C P Dempster and G D Yuill, who act as agents of the Company only and without personal liability.

The Joint Administrators 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 Administrators. Personal data will be kept secure and processed only for matters relating to the Joint Administrator's appointment. The Office Holder Data Privacy Notice can be found at [www.ey.com/uk/officeholderprivacy](http://www.ey.com/uk/officeholderprivacy).

## Appendix A Statutory information

### Company Information

Company Name:	Petrostem (UK) Limited - in Administration
Registered Office Address:	c/o Ernst & Young LLP 1 Bridgewater Place Water Lane Leeds LS11 5QR
Registered Number:	03581607
Date of incorporation:	15 June 1998
Trading Name(s):	n/a
Trading Address(es):	DFC House, Claymore Drive, Bridge of Don, Aberdeen, AB23 8GB Salyan Highway, Garadag, Baku City, Azerbaijan

### Details of the Administrators and of their appointment

Administrators:	Colin Peter Dempster and Gavin David Yuill
IP number:	8908 and 14218
Date of Appointment:	29 August 2018
By Whom Appointed:	The appointment was made by the Company's Directors
Court Reference:	High Court of Justice, Business and Property Courts of England and Wales: CR-2018-007195

Any of the functions to be performed or powers exercisable by the administrators may be carried out/exercised by any one of them acting alone or by any or all of them acting jointly.

### Statement concerning the EC Regulation

The EC Council Regulation on Insolvency Proceedings does apply to this administration and the proceedings are main proceedings. This means that this Administration is conducted according to UK insolvency legislation and is not governed by the insolvency law of any other European Union Member State.

### Share capital

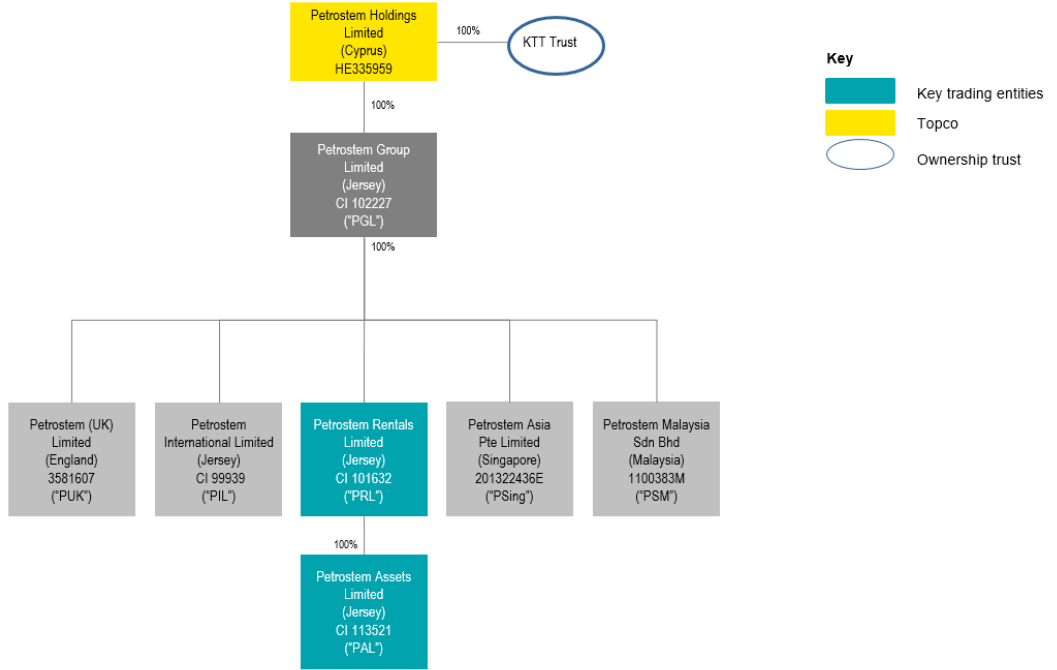
Class	Authorised		Issued and fully paid	
	Number	£000	Number	£000
Ordinary (£1)	10,000	10,000	10,000	10,000



**Directors and their shareholdings**

Name	Director or Secretary	Date appointed	Date resigned	Current shareholding
Richard Gordon Morrice	Director	23 March 1999	-	-
Julian Charles Tyacke	Director	28 February 2018	-	-
Peter Duthie	Director	3 May 2016	11 January 2018	-
Petroleum Pipe Secretaries Limited	Company secretary	9 October 2008		-

## Appendix B The Petrostem Group Structure



## Appendix C Joint Administrators' receipts and payments account for the period from 29 August 2018 to 28 February 2019

Petrostem (UK) Limited (In Administration)  
Receipts and Payments for the period from 29 August 2018 to 28 February 2019

Estimated to realise as per Directors' Statement of Affairs	Period from 29 Aug 2018 to 5 Oct 2018	Period from 6 Oct 2018 to 28 Feb 2019	Total period from 29 Aug 2018 to 28 Feb 2019
US\$	US\$	US\$	US\$
<b>Receipts</b>			
- Cash at Bank	-	672	672
672 Cash in Hand - petty cash	672	(672)	-
200,000 Stock and rental equipment	-	444,975	444,975
Other fixed assets	-	-	-
42,274 Pre-appointment debtor collections	41,793	222,819	264,612
- Accrued income	-	171,284	171,284
46,696 VAT receivable	-	-	-
- Bank interest received	1	200	200
- Interaccount transfers	-	201,527	201,527
- Trading surplus / (deficit) (see separate account)	-	85,550	85,550
<b>289,642</b>	<b>42,466</b>	<b>1,126,355</b>	<b>1,168,820</b>
<b>Payments</b>			
Net wages and salaries	8,547	75,123	83,670
Employers' NIC	-	11,043	11,043
Pension contributions	-	2,510	2,510
Office and yard costs	-	3,000	3,000
Agents' fees and expenses	-	26,699	26,699
Legal fees	-	6,314	6,314
IT	-	1,035	1,035
Insurance	-	4,099	4,099
Sundry expenses	-	163	163
Public notices	-	224	224
Bank charges and interest	-	92	92
Interaccount transfers	-	201,702	201,702
	<b>8,547</b>	<b>332,003</b>	<b>340,550</b>
<b>Net Receipts / (Payments) for the period</b>	<b>33,919</b>	<b>794,351</b>	<b>828,270</b>
<b>Represented by:</b>			
Cash in hand	672		-
Bank balances as at end of each period			
Royal Bank of Scotland	5,408		1,005,137
Bank of Scotland	36,385		42,383
VAT receivable / (payable)	-		(74,858)
Intragroup - PSA	-		(97,300)
Intragroup - PRL	-		455
Intragroup - PIL	(8,547)		(47,547)
	<b>33,919</b>		<b>828,270</b>

Summary of the Joint Administrators' trading account for the period from 29 August 2018 to 28 February 2019

	Period from 29 Aug 2018 to 5 Oct 2018	Period from 6 Oct 2018 to 28 Feb 2019	Total period from 29 Aug 2018 to 28 Feb 2019
	US\$	US\$	US\$
<b>Trading receipts</b>			
Post-appointment trading income	-	114,049	114,049
	-	<b>114,049</b>	<b>114,049</b>
<b>Trading Payments</b>			
Equipment rental	-	28,500	28,500
	-	<b>28,500</b>	<b>28,500</b>
<b>Trading Surplus / (deficit)</b>	<b>-</b>	<b>85,550</b>	<b>85,550</b>

1. Payments are likely to require reapportionment between the four entities within the Petrostem Group which are subject to insolvency proceedings (e.g. where multiple entities utilise staff, yard space, etc. but are paid for by one entity) and as such are subject to amendment once final costs are known.
2. Receipts and payments are stated net of VAT or other applicable goods and services taxes.
3. These accounts do not reflect estimated future realisations or associated costs.
4. The following exchange rates have been applied to the above: GB£:US\$, 1.3.
5. The difference between interaccount receipts and payments represents (i) bank transfer fees and/or (ii) exchange differences.

## Appendix D Summary of Joint Administrators' expenses incurred for the period from 29 August 2018 to 28 February 2019

Payments made from the estate which are not disbursements (see notes 1 and 2 at the end of this table)

\$	Per Estimate Dated 19 October 2018	Paid to 28 February 2019	Outstanding	Total
Sub-rental costs	95,000	28,500	66,500	95,000
Inspection and repair costs	25,000	Nil	25,000	25,000
Employee costs	75,000	97,223	Nil	97,223
Employee expenses	1,500	Nil	Nil	Nil
Software license	3,500	1,035	10,000	11,035
Rent	46,500	3,000	12,000	15,000
Utility charges	13,000	Nil	13,500	13,500
Agents' fees	57,500	26,699	33,301	60,000
Legal fees	20,000	6,314	13,686	20,000
Storage	1,000	Nil	1,000	1,000
Insurance	52,500	4,099	48,401	52,500
Statutory costs	2,000	387	1,500	1,887
Bank charges	500	92	408	500
Corporation tax	2,000	Nil	2,000	2,000
<b>Total</b>	<b>395,000</b>	<b>167,349</b>	<b>227,296</b>	<b>394,645</b>

#### Category 1 disbursements (see Note 2)

\$	Per Estimate Dated 19 October 2018	Paid to Date	Outstanding	Total
Accommodation and subsistence	2,500	2,201	-	2,201
Travel costs (excl. mileage)	4,000	3,035	-	3,035
Specific Bond	210	-	273	273
Postage and printing	500	-	68	68
<b>Total</b>	<b>7,210</b>	<b>5,236</b>	<b>341</b>	<b>5,578</b>

**Note:** In the period of this report, \$Nil has been paid in respect of category 1 disbursements. A payment of \$5,236 was made in on 14 March 2019, and, accordingly, does not appear in the receipts and payments account at Appendix C, but will be included in the account provided in our next report.

#### Category 2 disbursements (note 2)

\$	Per Estimate Dated 19 October 2018	Paid in Period	Outstanding	Total
Mileage	Nil	Nil	Nil	Nil
<b>Totals</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>	<b>Nil</b>

#### Notes

- Statement of Insolvency Practice 9 (SIP 9) defines **expenses** as amounts properly payable from the insolvency estate which are not otherwise categorised as office holders' remuneration or distributions to creditors.
- SIP 9 defines **disbursements** as a type of expense which is met by, and reimbursed to, an office holder in connection with an insolvency appointment. Disbursements fall into two categories: Category 1 and Category 2.
  - ▶ Category 1 disbursements are payments to independent third parties where there is specific expenditure directly referable to the appointment
  - ▶ Category 2 disbursements are expenses which are directly referable to the appointment but not a payment to an independent third party. They may include shared and allocated costs.

#### Exceeding estimates of remuneration, disbursements and expenses

As required by the Rules, the Proposals included the Joint Administrators' estimate of remuneration, disbursement and expenses.

These estimates may be exceeded, in which case an explanation will be provided in the appropriate progress report. The Joint Administrators will only draw remuneration in excess of the estimate with the prior agreement of the approving body, in accordance with Rule 18.30 the Insolvency (England and Wales) Rules 2016.

## Appendix E Joint Administrators' time costs for the period from 29 August 2018 to 28 February 2019

	Staff Grade						Total Hours	Time Cost	Average Hourly Rate	Cumulative time cost to date (\$)
	Partner	Director	Senior Manager	Manager	Executive	Analyst				
Accounting and Administration	1.5	0.3	18.5	29.7	63.8	2.0	115.8	50,030	432	50,030
Bank & Statutory Reporting	8.0	4.8	18.3	1.0	5.5	-	37.6	23,440	623	23,440
Creditors	-	1.1	2.2	14.0	17.0	-	34.3	14,960	436	14,960
Debtors	-	-	7.3	45.0	24.0	-	76.3	34,877	457	34,877
Employee Matters	-	2.3	1.5	2.2	17.1	-	23.1	9,644	417	9,644
Immediate Tasks	0.5	2.7	-	-	38.0	-	41.2	15,808	384	15,808
Investigation/CDDA	4.5	9.1	2.9	2.5	13.0	-	32.0	17,769	555	17,769
Job Acceptance & Strategy	-	0.8	-	-	-	-	0.8	560	700	560
Other assets	0.5	4.1	-	-	-	-	4.6	3,298	717	3,298
Other Matters	-	10.9	7.5	14.0	-	-	32.4	18,915	584	18,915
Property	-	-	-	1.0	-	-	1.0	490	490	490
Statutory Duties	-	3.1	1.6	5.0	28.9	-	38.6	15,824	410	15,824
Trading	1.5	0.7	34.4	11.0	-	5.3	52.9	28,572	540	28,572
VAT & Taxation	-	-	5.8	0.7	2.4	-	8.9	4,617	519	4,617
Prescribed Part Distribution	-	-	-	-	-	-	-	-	-	-
Stock and Fixed Assets	1.5	5.8	2.9	93.8	12.0	-	116.0	57,276	494	57,276
<b>Total Hours</b>	<b>18.0</b>	<b>45.7</b>	<b>102.9</b>	<b>219.9</b>	<b>221.7</b>	<b>7.3</b>	<b>615.5</b>			
<b>Time Costs (\$)</b>	<b>15,390</b>	<b>31,990</b>	<b>60,711</b>	<b>107,751</b>	<b>78,704</b>	<b>1,533</b>		<b>296,079</b>		
<b>Average Hourly Rate (\$)</b>	855	700	590	490	355	210		481		
<b>Cumulative time cost to date (\$)</b>	<b>15,390</b>	<b>31,990</b>	<b>60,711</b>	<b>107,751</b>	<b>78,704</b>	<b>1,533</b>				<b>296,079</b>
<b>Category 1 Disbursements (\$)</b>										
Accommodation	1,681									
Airfare	2,277									
Ground transportation - taxi	475									
Subsistence	520									
Ground transportation - rail	283									
Bonding	273									
Postage	68									
	<b>5,578</b>									
<b>Category 2 Disbursements (\$)</b>	-									
	<b>5,578</b>									

Note: Time is charged in 6 minute intervals

## Appendix F Joint Administrators' time costs for the period from 29 August 2018 to 28 February 2019 and a comparison with the fee estimate dated 19 October 2018

	Per fee estimate dated 19 October 2019			Actual in this reporting period			Total to 28 February 2019		
	Total hours	Time costs (\$)	Average hourly rate (\$)	Total hours	Time costs (\$)	Average hourly rate (\$)	Total hours	Time costs (\$)	Average hourly rate (\$)
Accounting and Administration	95.0	33,800	356	115.8	50,030	432	115.8	50,030	432
Bank & Statutory Reporting	40.0	22,000	550	37.6	23,440	623	37.6	23,440	623
Creditors	70.0	25,975	371	34.3	14,960	436	34.3	14,960	436
Debtors	80.0	34,800	435	76.3	34,877	457	76.3	34,877	457
Employee Matters	18.0	7,990	444	23.1	9,644	417	23.1	9,644	417
Immediate Tasks	42.2	16,163	383	41.2	15,808	384	41.2	15,808	384
Investigation/CDDA	37.0	18,210	492	32.0	17,769	555	32.0	17,769	555
Job Acceptance & Strategy	-	-	-	0.8	560	700	0.8	560	700
Other assets	10.5	6,878	655	4.6	3,298	717	4.6	3,298	717
Other Matters	12.5	8,200	656	32.4	18,915	584	32.4	18,915	584
Property	4.0	2,260	565	1.0	490	490	1.0	490	490
Statutory Duties	55.0	26,375	480	38.6	15,824	410	38.6	15,824	410
Trading	72.0	39,010	542	52.9	28,572	540	52.9	28,572	540
VAT & Taxation	10.0	4,725	473	8.9	4,617	519	8.9	4,617	519
Stock and Fixed Assets	52.0	25,060	482	116.0	57,276	494	116.0	57,276	494
<b>Total</b>	<b>598.2</b>	<b>271,445</b>	<b>454</b>	<b>615.5</b>	<b>296,079</b>	<b>481</b>	<b>615.5</b>	<b>296,079</b>	<b>481</b>



## Appendix G Joint Administrators' time costs – explanation of the work done and ongoing

Category of work	Description of work done and ongoing
Accounting & Administration	<ul style="list-style-type: none"> <li>▶ Overall management of the case, treasury and accounting functions.</li> </ul>
Bank and Statutory Reporting	<ul style="list-style-type: none"> <li>▶ Regular reporting to the Company's secured creditor.</li> <li>▶ Preparing the Joint Administrators' Statement of Proposals, six monthly progress reports and final report.</li> </ul>
Creditors	<ul style="list-style-type: none"> <li>▶ Receipt and recording of creditor claims.</li> <li>▶ Correspondence with creditors.</li> <li>▶ Processing distributions to the secured, preferential and unsecured creditors.</li> <li>▶ Calculating the Companies' net property and Prescribed Part.</li> </ul>
Debtors	<ul style="list-style-type: none"> <li>▶ Reviewing the Company's debtor's ledger, collating information on the outstanding balances and realising the book debts.</li> <li>▶ Reviewing the amounts due by related parties, investigating how best to realise value from these balances and negotiating recoveries where possible.</li> </ul>
Employee Matters	<ul style="list-style-type: none"> <li>▶ Dealing with any employee enquiries.</li> <li>▶ Processing employee claims.</li> </ul>
Immediate Tasks	<ul style="list-style-type: none"> <li>▶ Completion of work streams requiring immediate attention following the appointments, in order to execute the strategy outlined in the Proposals.</li> </ul>
Investigations	<ul style="list-style-type: none"> <li>▶ Investigations into the Company's affairs in accordance with Statement of Insolvency Practice 2 "Investigations by Office Holders".</li> <li>▶ The Joint Administrators' report on the conduct of the directors under the Company Directors Disqualification Act 1986.</li> </ul>
Legal Issues	<ul style="list-style-type: none"> <li>▶ Dealing with any ad hoc legal issues.</li> </ul>
Other Assets	<ul style="list-style-type: none"> <li>▶ Realising value from the Company's other assets (excluding debtors, property, stock and fixed assets).</li> <li>▶ Assessing, quantifying and seeking to realise value from assets not recorded in the management accounts of the Company at the date of appointment.</li> </ul>
Property	<ul style="list-style-type: none"> <li>▶ Liaising with the landlords of the Company's offices and yards and exiting the properties when appropriate.</li> </ul>
Statutory Duties	<ul style="list-style-type: none"> <li>▶ Completion of statutory requirements of the administration, including notifications to creditors and members, advertising the appointment, reporting to creditors on a 6-monthly basis and at the conclusion of the administration together with appropriate filing at Companies House</li> </ul>
Stock and Fixed Assets	<ul style="list-style-type: none"> <li>▶ Marketing for sale the drill pipe and related tools/accessories together with the negotiation and completion of sales thereafter.</li> </ul>
Trading	<ul style="list-style-type: none"> <li>▶ Reviewing outstanding rental contracts and liaising with suppliers and customers thereto with a view to agreeing a managed handover of those rental contracts, as outlined in the Proposals.</li> <li>▶ Managing staff retained to support the Joint Administrators in completion of their various duties.</li> </ul>
VAT & Taxation	<ul style="list-style-type: none"> <li>▶ Preparing corporation tax and VAT returns.</li> <li>▶ Assessment of the VAT and tax treatment of transactions and agreements entered into during the Administration.</li> </ul>

## Appendix H Statement of administrators' charging policy for remuneration and disbursements pursuant to Statement of Insolvency Practice No.9

The Joint Administrators have engaged managers and other staff to work on the Administration. 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 Company's bank accounts and statutory compliance diaries. Work carried out by all staff is subject to the overall supervision of the Joint Administrators.

All time spent by staff working directly on case-related matters is charged to a time code established specifically for this engagement. 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 below:

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

### Administrators' 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 Creditors' 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 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.

Details of Category 1 or Category 2 expenses incurred to date are included at Appendix D.

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