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TO ALL KNOWN CREDITORS

19 October 2018

Ref: CD/GY/SC/PCF
Direct line: 0113 298 2315
John Louden
jlouden@uk.ey.com

Dear Sirs

Petrostem (UK) Limited (in Administration) ("the Company")

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 of Schedule B1 to the Insolvency Act 1986 ('the Act'). I attach formal notice of our appointment for your information.

As licensed insolvency practitioners, we are bound by the Insolvency Code of Ethics when carrying out all professional work relating to the administration.

Joint Administrators' Statement of Proposals

A copy of our Statement of Proposals ('the Proposals'), in accordance with paragraph 49 of Schedule B1 to the Insolvency Act 1986, is enclosed.

The Joint Administrators are of the opinion that the Company has insufficient property to enable a distribution to be made to unsecured creditors other than by virtue of the Prescribed Part and consequently, in accordance with the provisions of paragraph 52(1)(b) of Schedule B1 to the Act, they do not intend to seek a decision of the creditors on the approval of the Proposals.

The Joint Administrators will be obliged to seek a decision of the creditors, if requested to do so, by creditors of the Company whose debts amount to at least 10% of the total debts of the Company. The request must be delivered within 8 business days of the date on which the Proposals are delivered to creditors (or such longer period as the court may allow) and must include the information required by Rule 15.18 of the Insolvency (England and Wales) Rules 2016 ('the Rules').

In accordance with Rule 15.19 of the Rules, the Joint Administrators may require a deposit as security for payment of the expenses associated with convening a decision procedure or deemed consent procedure and will not be obliged to initiate the procedure until they have received the required sum.

In the event that a decision is not requested by creditors under paragraph 52(2)(c) of the Insolvency Act 1986, the Proposals will be deemed to be accepted. The Joint Administrators' remuneration and Category 2 disbursements will be agreed with the secured and preferential creditors in accordance with the provisions of Rule 18.18 and Rule 3.52 of the Insolvency (England and Wales) Rules 2016.



The statutory provisions relating to remuneration are set out in Chapter 4, Part 18 of the Rules. 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 <http://www.icaew.com/en/technical/insolvency/creditors-guides>, or is available in hard copy upon written request to the Joint Administrators.

As the Joint Administrators propose to seek for their remuneration to be fixed on a time-cost basis, they are required to provide creditors with an estimate of the remuneration to be charged and details of expenses incurred and likely to be incurred. This information can be found at Appendix A of this letter.

Creditors' claims

Please note that debts incurred by the Company before our appointment will rank as unsecured non-preferential claims. If you have a claim, 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: ppcgroup@uk.ey.com.

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.

Reporting

The Joint Administrators shall provide a report regarding the conduct of the Administration of the Company 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).

The report will be made available on the following website:

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

Other matters

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.

Should you have any queries relating to this letter or any other aspect of the Administration, please do not hesitate to contact John Loudon of this office on telephone number 0113 298 2315.



Yours faithfully
For the Company

A handwritten signature in blue ink, appearing to read 'Gavin Yuill'.

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.

Enc: Appendix A: Fee Estimate and Statement of Expenses
Administrators' Statement of Proposals
Notice of Administrator's Appointment



Appendix A Fee Estimate and Statement of Expenses

Estimate of remuneration to be charged

The Joint Administrators will seek approval for their remuneration to be fixed on the basis of time properly given based on the hourly rates set out below by the Company's secured and preferential creditors, in accordance with Rule 18.18(4) of the Rules.

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

The total estimate of remuneration in respect of all the administrations is US\$271,445 (plus VAT). An explanation of how this sum has been arrived at is set out below and a breakdown of the expected costs is attached on the following pages.

Explanation of the work proposed to be undertaken

Category of work	Description of work to be completed
Accounting & Administration	<ul style="list-style-type: none"> ▶ Overall management of the case, treasury and accounting functions.
Bank and Statutory Reporting	<ul style="list-style-type: none"> ▶ Regular reporting to the Company's secured creditor. ▶ Preparing the Joint Administrators' Statement of Proposals, six monthly progress reports and final report.
Creditors	<ul style="list-style-type: none"> ▶ Receipt and recording of creditor claims. ▶ Correspondence with creditors. ▶ Processing distributions to the secured, preferential and unsecured creditors (as applicable). ▶ Calculating the Companies' net property and Prescribed Part to be set aside (if applicable). ▶ Distributing the Prescribed Part to the creditors (if applicable)
Debtors	<ul style="list-style-type: none"> ▶ Reviewing the Company's debtor's ledger, collating information on the outstanding balances and realising the book debts.

	<ul style="list-style-type: none"> ▶ Reviewing the amounts due by related parties, investigating how best to realise value from these balances and negotiating recoveries where possible.
Employee Matters	<ul style="list-style-type: none"> ▶ Dealing with any employee enquiries. ▶ Processing employee claims.
Immediate Tasks	<ul style="list-style-type: none"> ▶ Completion of work streams requiring immediate attention following the appointments, in order to execute the strategy outlined in the Proposals.
Investigations	<ul style="list-style-type: none"> ▶ Investigations into the Company's affairs in accordance with Statement of Insolvency Practice 2 "Investigations by Office Holders". ▶ The Joint Administrators' reports on the conduct of the directors under the Company Directors Disqualification Act 1986.
Legal Issues	<ul style="list-style-type: none"> ▶ Dealing with any ad hoc legal issues.
Other Assets	<ul style="list-style-type: none"> ▶ Realising value from the Company's residual assets. ▶ Assessing, quantifying and seeking to realise value from assets not recorded in the management accounts of the Company at the date of appointment.
Property	<ul style="list-style-type: none"> ▶ Liaising with the landlords of the Company's offices and yards and exiting the properties when appropriate.
Public Relations	<ul style="list-style-type: none"> ▶ Agreeing and issuing statements to the press as required in pursuit of the administration strategies.
Retention of Title	<ul style="list-style-type: none"> ▶ Assessment and settlement of claims for retention of title from the Companies' suppliers (if applicable).
Statutory Duties	<ul style="list-style-type: none"> ▶ Completion of statutory requirements of the administrations, 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.
Stock and Fixed Assets	<ul style="list-style-type: none"> ▶ Marketing for sale the drill pipe and related tools/accessories together with the negotiation and completion of sales thereafter.
Trading	<ul style="list-style-type: none"> ▶ 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 ▶ Retaining sufficient staff to support the Joint Administrators in completion of their various duties and reviewing the staffing levels during the course of the administration.
VAT & Taxation	<ul style="list-style-type: none"> ▶ Preparing corporation tax and VAT returns, with input from EY VAT and tax specialists. ▶ Assessment of the VAT and tax treatment of transactions and agreements entered into during the administrations. ▶ Preparing claims for VAT bad debt relief (if applicable).



Estimate of the Joint Administrators' remuneration

In accordance with Rule 18.16(4) of the Insolvency (England and Wales) Rules 2016, the Joint Administrators set out below their estimate of remuneration to be charged.

Petrostem (UK) Limited (In Administration)

Summary of Administrators' fee estimate based on time properly given

Hours	Executive Director / Director	Senior Manager	Manager	Senior	Analyst	Total Hours	Total time costs (\$)	Average hourly rate (\$)
Classification of work function								
Accounting and Administration	-	10.0	10.0	50.0	25.0	95.0	33,800	356
Bank & Statutory Reporting	5.0	10.0	5.0	15.0	-	40.0	22,000	550
Creditors	-	5.0	10.0	25.0	25.0	70.0	25,975	371
Debtors	-	-	10.0	30.0	40.0	80.0	34,800	435
Employee Matters	-	2.0	1.0	5.0	10.0	18.0	7,990	444
Immediate Tasks	0.5	2.7	-	39.0	-	42.2	16,163	383
Investigations	2.0	5.0	10.0	20.0	-	37.0	18,210	492
Other Assets	0.5	5.0	5.0	-	-	10.5	6,878	655
Other Matters	-	7.5	5.0	-	-	12.5	8,200	656
Property	-	-	3.0	1.0	-	4.0	2,260	565
Statutory Duties	5.0	10.0	10.0	20.0	10.0	55.0	26,375	480
Stock and Fixed Assets	2.0	5.0	5.0	20.0	20.0	52.0	25,060	482
Trading	2.0	-	30.0	40.0	-	72.0	39,010	542
VAT & Taxation	-	-	5.0	-	5.0	10.0	4,725	473
Total hours	17.0	52.2	109.0	116.0	244.0	60.0	598.2	271,445
Total time costs (\$)	14,535	36,540	64,310	56,840	86,620	12,600	271,445	
Average hourly rate (\$)	855	700	590	490	355	210		

Current charge out rates

	\$	£
Partner	855	667
Executive Director / Director	700	546
Senior Manager	590	460
Manager	490	382
Senior (Level 3)	450	351
Senior (Level 1 / 2)	355	277
Analyst	210	164
Intern	185	144

Estimated Joint Administrators' expenses and disbursements

Details of expenses incurred and anticipated to be incurred

Expenses comprise sums paid or to be paid to third parties and sums paid or payable to the Joint Administrators' firm in respect of out of pocket expenses and costs which include an element of shared or allocated costs. Total expenses in the administrations expected to be incurred are US\$395,000 (plus VAT).

The expenses incurred and anticipated to be incurred from the Company's estate can be summarised into the following categories:

Category of expense	Description of expense incurred or to be incurred	Estimated costs US\$
Sub-rental costs	▶ Costs of rental of equipment from suppliers and transport costs	95,000
Inspection and repair costs	▶ Costs of inspection and repair of equipment upon return from customers	25,000
Employee costs	▶ Salary costs (including PAYE, NIC and Pension contributions) and Health insurance relating to the employees retained by the Joint Administrators during the course of the Administration.	75,000
Employee expenses	▶ Expenses incurred by retained employees in connection with their employment.	1,500
Software license	▶ Licensing charges for software during the course of the Administration.	3,500
Rent	▶ Rent for the offices and storage yards taken on by the Joint Administrator for the protection of the Company's assets.	46,500
Utility charges	▶ Utility costs (electricity, gas, telephone & IT costs) incurred principally in respect of the offices retained by the Joint Administrators.	13,000
Agents' fees	▶ Use of specialists to maximise recovery from the Company's tangible assets.	57,500
Legal fees	▶ Legal advice regarding such matters required to maximise realisations from the Company's estate.	20,000
Storage	▶ Costs to arrange collection and storage of the Company's books and records for minimum periods required under legislation.	1,000
Insurance	▶ Costs to insure the Company's assets and operations during the course of the Administration.	52,500
Statutory costs	▶ Costs of completing statutory requirements of the Administration, including advertising and filing costs.	2,000
Bank charges	▶ Charges associated with operation of the Company's bank accounts during the Administration. ▶ Bank charges include foreign exchange transaction costs.	500
Corporation tax	▶ Corporation tax which may become payable following the preparation and submission of Corporation tax returns, principally in connection with bank interest received.	2,000
Estimated total		US\$395,000



Disbursements

Disbursements comprise of sums paid or to be paid to third parties, or payable to the Joint Administrators' firm in respect of out of pocket expenses and costs which include an element of shared or allocated costs.

Category 1 disbursements

Category 1 disbursements are defined as specific expenditure met by and reimbursed to the office holder's firm, relating to the Administration of the insolvent's affairs and referable to payment to an independent third party. We have estimated the likely Category 1 disbursements in the table below.

Disbursement	Description of disbursement incurred	Estimated costs US\$
Accommodation and subsistence costs	▶ Those costs incurred by the Joint Administrators and their staff in respect of their work on the administrations, whilst operating from or attending various sites operated by the Company or third parties.	2,500
Travel costs (excluding mileage)	▶ Those costs incurred by the Joint Administrators, and their staff in respect of their work on the administration, to travel to various sites operated by the Company, or third parties (excluding mileage cost).	4,000
Specific Bond	▶ A form of insurance required by insolvency law.	210
Postage and printing	▶ Those costs incurred by the Joint Administrators in printing and posting the Joint Administrators' Statement of Proposals and subsequent progress reports and other written communication to all relevant creditors and shareholders.	500
Estimated total		7,210

Category 2 disbursements

Category 2 disbursements are charges made by the office holder's firm that include elements of shared or overhead costs and we have estimated the likely Category 2 disbursements in the table below.

Disbursement	Description of disbursement incurred	
Mileage	<ul style="list-style-type: none"> ▶ Those costs relating to mileage incurred by the Joint Administrators and their staff in respect of their work on the administration, whilst operating from or attending sites operated by the Company prior to Administration and third party locations to attend meetings with key stakeholders. ▶ Current mileage rates are 45p/mile. 	Nil
Estimated total		Nil



Exceeding estimates of remuneration 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.