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For the attention of Frances Pacitti

19 April 2018

Dear Sirs

Project Harris
Report in relation to pre-drawdown diligence

Background

Overview

On 17 April 2018, Burntisland Fabrications Limited (**the Company**) was acquired by DF Barnes Services Limited (**DFB**). The acquisition was dependent on agreement of a deal between DFB and The Scottish Government (**SG**): this was executed on 17 April 2018.

The purpose of the DFB/SG deal was to agree the terms on which SG would engage with the Company going forward (including provision of future financial support). Whilst we have not had sight of the executed agreement/loan documentation signed by DFB and SG on 17 April 2018 we understand that the following has been agreed (**the April Agreement**):

- Existing debt of £19.00 million (advanced to the Company under the terms of the Original SG Loan Agreement) to be converted to equity in 2018
- Additional debt facilities to be made available to the Company (subject to approval of future drawdown of the funds by SG in line with the terms set out in the April Agreement) of up to:
  - £26.00 million for the purpose of funding the completion of the Siemens Contract and the SHL Contract (top-up debt) – this includes the £4.00 million advanced to the Company by SG on 23 March 2018
  - £10.00 million restructuring loan (post-acquisition debt)
- The debt advanced to the Company for completion of the Contracts (being up to £41.00 million based on the original £15.00 million of debt and new facility of £26.00 million) will be converted to equity: it is agreed that SG will hold up to a 38% shareholding in the Company
- Prior to conversion, interest will accrue on the top-up debt at a rate of 22% per annum
- Interest will initially accrue on the post-acquisition debt at a rate of 18% per annum (until such time that DFB grants security to SG and/or trading performance improves)

The circumstances leading to the signing of the April Agreement relate back to the discussions held between the Company, SG and various Company stakeholders in November 2017 (which, as a result of, the Original SG Loan Agreement was entered in to). This background is, of course, well known to SG and consequently we have not restated it in this report in detail.

At the time of signing the Original SG Loan Agreement it was the intention that the maximum facility agreed in November 2017 (£15.00 million) would be sufficient to fund the Company's expected requirements for cash to complete the Siemens Contract and SHL Contract.

However, over the period post 17 November 2017 (the date of agreeing the Original SG Loan Facility in principle), the Company repeatedly reported increased total expected costs on the Contracts and Management stated that without additional funding support, the Company would be unable to complete the Contracts.

This initially led to an amendment to the Original SG Loan Agreement (increasing the facility by £4.00 million, which was subsequently advanced to the Company on 23 March 2018). SG's view at this time that the difference between additional sums advanced (£4.00 million) and the sums considered required due by Management to complete the Contracts should (i) be funded by DFB post-acquisition, failing reaching agreement on this then (ii) be advanced to the Company under a new loan agreement on commercial terms post-acquisition (ie once SG had more certainty as to the future of the Company).

On 5 April 2018, as part of on-going DFB/SG negotiations, DFB advised SG that as a result of diligence undertaken it was of the view that the funding shortfall on the Contracts meant that the sum of £26.00 million was the overall sum required (in addition to the original £15.00 million) to fund completion of the Contracts and that but for funds being made available for this purpose by SG it would not proceed with the acquisition[1].

Post-acquisition, Management of the Company has changed (with DFB representatives now directors of the Company[2]) and it is from this Management team that a formal request for partial drawdown of the top-up debt in the sum of £7.60 million was received by SG on 18 April 2018, with a request that these sums be advanced to the Company prior to 20 April 2018. The sum is in line with the expected request outlined in an email from PwC (as advisors to the Company) to SG dated 11 April 2018[3].

In advance of any drawdown of top-up debt or post-acquisition debt by the Company, SG has stated that it will require pre-drawdown diligence to be undertaken on each request. SG has therefore instructed Grant Thornton to prepare a report (and accountant's certificate) in respect of this request. Our work is being carried out in line with our Letter of Addendum for our Phase Five work.

You may find it helpful to consider our report in conjunction with our prior reports (in particular our first Phase Five report dated 22 March 2018).

A glossary of terms used in this report is contained at Appendix 1 and our scope of work is appended in Appendix 2.

All numbers in this report are reported in £millions, unless otherwise stated. Please note that whilst we have challenged the assumptions of Management and DFB around a number of figures reported in the cash flow forecasts provided by the Company and DFB, we have assumed that the underlying calculations which derived the figures in the models are correct.

Key messages

We summarise below the key messages arising from this report:

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[1] To note that on 13 April 2018 DFB provided a revised cost estimate that was [redacted] lower than this figure but given (i) past overruns and (ii) timescales involved, we understand that the loan documentation made reference to a facility of up to £26.20 million

[2] We have not seen the necessary paperwork confirming this but assume that it has been properly executed: SG should seek confirmation from its legal advisors

[3] Email from [redacted] "Re: BiFab funding"

- Assuming no imminent receipt of funds from BOWL, drawdown of the sum of £7.60 million is required to enable payment of suppliers (and bring, with the exceptions noted below, on-going suppliers back within usual payment terms as at the end of April 2018)
- However, in line with the Company's own STCF this provides no room for contingency apart from a sum of [redacted] included for possible ransom creditor payments. Whilst mindful of SG's need to ensure only necessary funds are advanced (so that SG's exposure to the Company is not increased unnecessarily), some element of contingency to ensure no interruption to trade is considered reasonable
  - DFB's acquisition of the Company has generated positive press and sentiment about the Company: a lack of sufficient cash to meet payments to suppliers due to be paid at the end of April 2018 could jeopardise this
  - SG should revert to Management asking them to reconsider the quantum of the drawdown of top-up debt: £8.40 million would seem more appropriate
- However, we note that this is based on our review of the STCF together with actual receipts in the week ended 6 April 2018 only: should receipts from SHL in the week ended 13 April 2018 have been in line with the STCF (or higher) the cash need may not be as great as £8.40 million. **We await confirmation from the Company as to the actual receipts and payments in the week ended 13 April 2018**
- In order to complete the SHL Contract the Company will require additional funding support, ie future drawdown requested for the top-up debt are anticipated. A drawdown in excess of [redacted] will be required in May 2018 to ensure the month end supplier run can be met (this does not include any potential fluctuations between now and then, nor does it include any funding required to cover June costs)
- OTM2 loadout has been further delayed: Management's view is that the BOWL receipt of [redacted] in the STCF can no longer be relied upon as an accurate assumption on timing, and now expects this to be received in May 2018
- SHL receipts continue to be ingathered on a weekly basis although it is noted that the weekly certified amounts are not meeting the Company's expectation of [redacted]
- No MI Pack for March 2018 has been prepared, with Management citing time having to be diverted to the DFB diligence pre-acquisition. This should be rectified as soon as possible
- The Company remains balance sheet insolvent

Limitations

The limitations in respect of preparation of this report are primarily:

- Availability of information: we have not been provided with (i) a MI Pack for the month of March 2018 (eg P&L, balance sheet, management commentary). The most recent balance sheet position we can report on is therefore as at 28 February 2018
- The forecast balance sheets provided to us were prepared by DFB (prior to the acquisition): no forecast balance sheet as at 30 June 2018 (or later) has been provided to us by the Company since the forecast balance sheet provided on 13 February 2018
- Discrepancies between the MTCF provided on 4 April 2018 and the STCF provided on 6 April 2018 (the latter having been provided in support of the anticipated drawdown request). We are therefore unable to assess the impact of the numbers contained within the STCF (which differ to the MTCF) on a longer-term basis
- Our last notable update from PwC in terms of progress on the Contracts was on 12 April 2018. We have sought a further update (18 April 2018) so as to be able to reflect an up-to-date position in our report. However, information is still awaited

- We have therefore been unable to fully assess the current financial position of the Company

Additionally, due to the timing of the DFB acquisition and subsequent submission of a drawdown request, we have been unable to discuss with the new management of the Company the points raised in this report in their capacity as directors of the Company (albeit we note that in pre-acquisition discussions with them some of the points were briefly discussed).

We will make specific reference to any implications of the lack of current and/or additional information at any relevant points in this report.

Report content

This report shall set out an update to SG under the following headings:

- Update on the Siemens Contract
- Update on the SHL Contract
- Pipeline update
- Creditor position
- Company's position as at 13 April 2018
- Availability of management information
- Forecast balance sheets for 30 June 2018
- STCF and MTCF
- Compliance with covenants in the April Agreement
- Conclusion

We have based the content of our report on (i) information provided by Management (ii) information provided by DFB (pre-acquisition) and (iii) discussions with PwC (on behalf of Management), Management, DFB and SG.

Update on the Siemens Contract

Overview

Sailaway of OTM2 remains the outstanding matter: this is required to be resolved prior to receipt of final funds from BOWL (and Siemens, subject to the comments below).

Recurring weather issues have hampered the loadout of OTM2. However, as at the date of issuing of our first Phase Five report (22 March 2018) the prospects of imminent loadout (and subsequent receipts) seemed likely: the barge was on-site and loadout was expected to be on/around 26 March 2018. Unfortunately loadout did not go to plan and on 12 April 2018 PwC advised:

- All components of OTM2 produced by the Company were loaded on to the barge, but loadout of the associated parts bought in from third parties (to be provided to the customer as part of the loadout process) did not occur. Due to concerns about changing weather the tugboat captain decided the barge had to leave without loadout having completed
- Until all constituent parts are loaded on to the barge, loadout will not be considered to have taken place
- The barge is currently in Leith, waiting to return for the remaining components
- The tugboat captain stated that they need a six day window of appropriate weather to complete loadout. The Company can only obtain five day weather forecasts, adding to the uncertainty around final loadout date

- It is expected that the next available date for loadout to recommence will be 21 April 2018: this is subject to on-going monitoring of weather conditions

The liability for the additional barge costs anticipated as a result of this prolonged loadout period: PwC advised that the Company's obligations end at the quayside and therefore it is not required to meet the additional cost (to be borne directly by the client).

We note that Management previously advised that OTM2 being on site at Methil had hampered the Company's ability to make progress on the SHL Contract (due to a lack of quayside availability). Due to loadout of the Company-produced jacket on to the barge having now occurred, PwC confirmed that this is no longer considered an issue ie the impact of the delayed completion of loadout on the Company is now specific to its cash receipt planning.

The STCF provided by PwC (on behalf of Management) on 6 April 2018 indicated a funding need to the end of May 2018 based on the assumption that a [redacted] receipt from BOWL would be received in the week ending 27 April 2018. PwC advise this is now considered highly unlikely and, consequently, the Company's request for a drawdown of top-up debt is [redacted] higher than the required cash per the STCF. This is further discussed in the STCF section of this report below.

Expected future receipts
The sum of [redacted] plus VAT is expected from BOWL post loadout of OTM2. Due to the delayed loadout of OTM2 this is now not expected until May 2018.

We are not aware of a change in the position regarding variations and therefore report the position as stated previously:

- [redacted]
- [redacted]
- [redacted]
- [redacted]
- [redacted]
    - [redacted]
    - [redacted]

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4 Being the anticipated future receipts on the Siemens Contract of [redacted] (inclusive of VAT) from Siemens (being for the contract value and agreed variations), and subsequently updated us when out on site at Methil on 27 February 2018 that additional variations of [redacted] (inclusive of VAT) has been agreed over email between Siemens and the Company

- [redacted]
- When discussed with PwC on 12 April 2018 we were advised that no further correspondence had been received on this matter. Management's planned approach was not to re-engage with Siemens on this point but instead wait to see if Siemens is willing to pay post loadout of OTM2
- In any event, this is an area that new management must discuss with Siemens as a matter of urgency, as part of any cost mitigation exercise

Expected total contract costs

No further cost reports have been prepared by Management for the Siemens Contract since the date of our last report, ie the most recent sets out the position as at 28 February 2018, which shows total estimated costs of [redacted] (being an increase of [redacted] on the position reported in the January Cost Report). As at 22 March 2018 Management conceded that this would be exceeded.

No costs in respect of obtaining a warranty bond are included in this estimate.

By way of update post-February Cost report (as outlined in our Phase Four report dated 16 April 2018):

- The Company subsequently revised its estimate of total costs to [redacted]
- DFB (at 5 April 2018) are of the view that the total costs will be [redacted]
- The April Agreement was signed on the assumption of total costs being [redacted] higher than the positon reflected in the February Cost Report

Update on the SHL Contract

Overview

On 13 April 2018 PwC provided an updated milestone summary outline – this is contained within Appendix 3. Against the milestone summary previously reported on to SG[5] this shows a final expected completion date of 19 July 2018 (compared to a previously reported date of 25 June 2018).

On 12 April 2018 PwC advised:

- Jacket 8 is still not signed off. This was due to take place on/before 16 April 2018 with loadout expected for 19 April 2018 (weather dependent), a delay on the estimated timescales (of a site visit on 27 March 2018 with sign off expected imminently thereafter) to the prior update provided to us. However, based on our discussion with PwC we understand the associated milestone payment has already been received. We are awaiting an update from the Company as to whether or not loadout occurred today as planned
- The Company considers that production of the SHL upper jackets is going well
- [redacted]

As at the date of our last report it was noted that four of the upper jackets are ready for sailaway (three at Methil and one at Burntisland): of these, PwC advise that the one at Burntisland has been loaded out and that the barge was due to arrive at Methil on 17 April 2018 for loadout of the three at Methil (and

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[5] Received from PwC on 26 February 2018

thereafter the four will sail to Smulders on 18 April 2018). We have not yet received confirmation from the Company that sailaway occurred on 18 April 2018.

Given that six uppers sailed in December 2017/January 2018 this therefore leaves eight uppers to be sent to Smulders. Management are working to the assumption that these will be sent as two shipments of four to Smulders, with all of the uppers planned to have left the Company's sites by mid-May 2018[6].

Payments from SHL and expected future receipts

SHL recommenced payments to the Company in the week ending 9 March 2018 (the payment prior to that having been received mid-January). There has been no interruption in weekly payments since this date.

In the week ending 30 March 2018 the Company received a payment from SHL of [redacted] higher than the recurring weekly expectation of receipts of [redacted] PwC advise this receipt was made up of:

- The milestone payment in respect of jackets 7 and 8
- A catch up payment on a disputed sum
- The usually weekly payment for certified works

It remains the case that receipts ingathered from SHL are net of any sums certified as done by Smulders (which SHL is paying direct to Smulders and is expected to do so until the end of the SHL Contract).

In April 2018 and May 2018 the STCF estimates future weekly receipts of [redacted] from SHL (with the exception of the week ending 1 June 2018, which forecasts a receipt of [redacted]

There is no further update in respect of variations: SHL is not currently willing to approve any variations submitted.

Expected total contract costs

As with the Siemens Contract, the most recent cost report we have been provided with was prepared to a cut-off date of 28 February 2018. This showed estimated costs to complete of [redacted]

By way of update post-February Cost report (as outlined in our Phase Four report dated 16 April 2018):

- DFB (at 13 April 2018[7]) are of the view that the total costs will be [redacted]
- This is [redacted] lower than the figure presented by DFB on 5 April 2018 (and on which the April Agreement terms were set) due to a previous double counting of additional costs
- At [redacted] total expected costs are [redacted] higher than the position reflected in the February Cost Report
- Commentary on the DFB cost estimate is provided in Section Three of our Phase Four report (dated 16 April 2018)

In order to complete the SHL Contract, the Company will require further financial support from SG in addition to the requested £7.60 million drawdown of top-up debt.

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[6] Five are at Methil and three at Burntisland

[7] On 5 April 2018, DFB provided us with a schedule outlining its amended view of the quantum of the top-up debt required. The April Agreement was written on this basis. On 13 April 2018 DFB acknowledged an arithmetic error identified from our work, and provided a revised schedule outlining expected total costs of [redacted] It is on this figure that the above commentary is based

Pipeline update

Overview

As you are aware, the Company has no committed contracts with customers other than the Siemens Contract and SHL Contract which are nearing completion.

We have no further update to report on the Company's pipeline of future work to the position set out in our Phase Four report dated 16 April 2018.

Creditor position

Ageing profile

We have been provided with the aged creditor position as at 31 March 2018, summarised below:

Total	0-30 days	31-60 days	>60 days	Unallocated payments
[redacted]	[redacted]	[redacted]	[redacted]	[redacted]

This shows an overall reduction from the trade creditor position reported at 28 February 2018 of [redacted]

Please note that of the [redacted] million of unallocated payments (ie funds paid by the Company but not allocated on its system against supplier invoices), £1.70 million relates to funds paid to EEW.

Noting that the Company's credit terms are usually 60 days, we have reviewed the balance outstanding for over 60 days of [redacted]

We consider that the balance recorded as outstanding for over 60 days may be overstated, noting:

- This includes sums that the Company disputes as being due, eg:
  - [redacted] due to HCS for the period from June 2017 to October 2017, which is disputed
  - [redacted] due to Fife Heat Treatment (now being pursued by Kevin Boyle, discussed below)
  - £0.18 million due to Briggs in respect of an 'alleged demobilisation of a crane' in October 2015 but which still remains on site in Methil. The Company advises that Briggs no longer include this on the monthly statements they issue
- The aged creditor listing reflects the settlement payments made to EEW [redacted] but does not include a write-off of the remaining balance [redacted] that, in line with the settlement, should no longer be considered as a liability to EEW

However, we also note that within this balance of sums due for over 60 days there is evidence of the stretching of creditor terms, eg:

- [redacted] due to Sarens from January 2018 (of a total sum due to Sarens per the aged creditor listing of £6.30 million): whilst due to be paid at the end of March 2018, as at 12 April 2018 this remained unpaid. We provide further commentary on the Sarens position below
- [redacted] due to NRL (of a total sum due to NRL per the aged creditor listing of [redacted] the current position with NRL is further discussed below

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[redacted]

[redacted]

The DFB acquisition of the Company on 17 April 2018 was widely reported in the press and should provide some comfort to creditors (who as at the date of our last report were noted as being increasingly nervous about provision of credit to the Company). However, there is a risk of opportunistic behaviour from some historic creditors from this (who may demand payment of arrears now that they view the Company's position to be more favourable, ie more likely to have funds to pay).

For creditors whose balances remain outstanding beyond agreed payment terms there remains a risk of such creditors seeking to petition to wind up the Company. For this reason, and to ensure supplier confidence in the Company is restored, the Company should work to be back within supplier payment terms as soon as possible. Based on our discussions with PwC (most recently the morning of 12 April 2018) we set out below updates in respect of (i) NRL, (ii) Sarens (iii) EEW and (iv) Kevin Boyle.

NRL

[redacted]

[redacted]

[redacted]

[redacted]

[redacted]

Sarens

[redacted]

- [redacted]
- [redacted]
- [redacted]
  - [redacted]

[9] On a call with [redacted] on 12 April 2018

- [redacted]
- [redacted]

- [redacted]
- [redacted]

EEW dispute

[redacted]

Kevin Boyle

[redacted]

Ransom payments

[redacted]

- Steadfast: a specialist bolt supplier and the only source of the required product. They are refusing to trade with the Company on any credit over £0.03 million (understood to be its credit insurance limit) and the outstanding order will take them over this value. When the Company pushed back, Steadfast threatened to withdraw credit entirely and insist on pro forma plus payment of all outstanding sums
- Ace Winches: specialist engineers needed to repair Company-owned equipment. The Company wanted to use Ace Winches due to its existing knowledge of the equipment and repair issue. Ace Winches refused to come on site without being paid for a February 2018 invoice (not yet due) and be paid for this repair in advance
- Francis Brown: subcontract fabricator that has manufactured fenders (part of the boat landing part of the jackets). These are supplied as components to the Company by Francis Brown who refused to release unless it was paid up front
- Wilton Engineering: same as for Francis Brown, except they make the main part of the boat landings. No payment made yet because the barge the items are on has not been able to leave Wilton Engineering due to weather

PwC also advised that some creditors have been demanding payment of retention sums not yet contractually due. The Company, via its lawyers, have been issuing letters stating that they consider this to be breach of contract.

The STCF provide on 6 April 2018 shows a future provision for ransom creditor payments of £0.70

million. [redacted]

Threat of legal/enforcement action

[redacted]

Company position as at 13 April 2018

On 18 April 2018 we requested details of the Company's actual receipts and payments for the week ended 13 April 2018 from PwC. This is awaited and, until such time as it is received, we cannot comment on the Company's actual position as at 13 April 2018 against the STCF.

Availability of management information

We requested the MI pack (or, in its absence, a P&L and balance sheet) for March 2018 for the purpose of providing an update.

PwC advise that this has not been prepared (due to Management time being taken up with matters relating to the DFB acquisition).

We are therefore unable to provide a further update on the comments provided in respect of the balance sheet at 28 February 2018 other than to note that in March 2018 the Company received a further £4.00 million from SG and therefore should be recorded as a liability on the Company's balance sheet as at 31 March 2018 (once prepared).

Forecast balance sheet for 30 June 2018

We have not been provided with a model by the Company that shows forecast balance sheets.

Consequently, the most recent forecast balance sheet produced by the Company (i) was as at 30 June 2018 and (ii) provided to us on 13 February 2018.

DFB produced a LTCF (for the five years ended 31 December 2022) for the Company as part of its pre-acquisition planning. The most recent version of this was provided to us on 13 April 2018.

Therefore, whilst noting that the DFB forecast was produced prior to its acquisition of the Company and therefore cannot be considered a Company document, for your information we record at **Appendix 4** a comparison of the forecast balance sheet at 30 June 2018:

- As reported in the Deloitte report
- As provided on 13 February 2018 by the Company
- As provided on 13 April 2018 by DFB

STCF

Overview

In advance of an anticipated drawdown request of £7.60 million to be submitted to SG by the Company post-acquisition by DFB, we received a revised STCF from PwC (on behalf of Management) on 6 April 2018. Commentary on this is summarised below.

The STCF (as summarised in **Appendix 5**) has been relied upon for the commentary set out below.

Please note that for information we append at **Appendix 6** a summary of the MTCF provided to us on 4 April 2018. However, as noted this was prepared on different (superseded) assumptions regarding the profiling of future receipts and payments. This, together with the additional sums considered due by DBF not included in the MTCF (noted within the contract update sections above). Therefore no detailed commentary is provided on the MTCF.

Forecast cash requirement (STCF)

The STCF was prepared to the week ending 1 June 2018 and shows a cash deficit for this period of [redacted]

Post-acquisition, Management has requested the sum of £7.60 million be advanced by SG on/before 20 April 2018.This was calculated with reference to:

- Forecast cash deficit per the STCF
- Assumed lack of receipt from BOWL until June 2018

Due to the fact that a STCF only has been prepared in support of this additional ask of SG, we cannot comment on Management's expectations as to the timings/quantum of future additional drawdowns expected under the April Agreement. We expect to receive information on this from Management (now with DFB directors) ahead of a further drawdown request.

The STCF sets out that cash receipts over the STCF period will be used to (to the extent funds allow) fund payment of existing creditor sums, on-going trading costs such as wages and includes a £0.70 million provision for ransom payments discussed above.

Forecast receipts in the STCF

The STCF shows receipts between 31 March 2018 to 1 June 2018 of £7.60 million, being:

- [redacted] from SHL
- [redacted] from BOWL

Receipts not in the STCF

The STCF assumes no SG receipts in order to calculate an estimate of the cash deficit position.

For the reason set out in the Siemens Contract update section above, no receipts from Siemens are forecast. In the event that Siemens concede no warranty bond is required, it may be the case that additional receipts in the sum of between [redacted] are received from Siemens post-loadout of OTM2. The Company advises that it will not know Siemens position until after the OTM2 loadout has completed.

STCF comments – other

In addition to the points noted above, from our review of the STCF we draw your attention to:

- The STCF is based on the estimates of Management pre-DFB acquisition – it is not reflective of DFB assumptions and therefore the short to medium term profiling may be amended in the coming weeks
- With the exception of an estimate of sums to NRL and Sarens (the latter being considered to be understated) there is no provision in the STCF for supplier payments that will fall due at the end of May 2018 (ie March 2018 invoices
- Estimates for redundancy costs are included as outgoings in the weeks ending 20 April 2018 and 27 April 2018
- There is no PAYE/NIC payment included for the end of May 2018: we assume this is an oversight and should be [redacted] to be adjusted to reflect lower staffing levels following redundancy

- NRL payments reduce to [redacted] in the week ending 18 May 2018 onwards. This was discussed with PwC, who confirmed Management made this assumption based on its agency staffing plan (given that significant down manning of agency staff has already occurred): agency staff are now only being used to provide skills the Company's staff do not have
- PwC noted that it was the view that [redacted] was higher than the Company would have otherwise anticipated as it reflects the fact that down manning did not occur as promptly as previously expected
- For future drawdown requests we will expect any STCFs provided to be aligned with a MTCF so that the wider context of the request can be considered

Appropriateness of level of proposed drawdown

The drawdown request for £7.60 million has been prepared by the Company based on:

- The predicted cash deficit of [redacted] in the week ending 4 May 2018 per the STCF
- An assumed deferral of the BOWL receipt of [redacted] plus VAT in to May 2018

However, we note that the drawdown request does not give the Company any contingency: if receipts/payments are as forecast (noting the BOWL exception), the STCF estimates a closing cash balance of c.£4,000. Given the uncertainty as to the sums SHL will certify weekly, this is a high risk position and deferral of the April month-end supplier run would not help the Company's reputation in the market.

Additionally, the STCF was prepared to the week ending 1 June 2018 but we note that the drawdown request does not place the Company in sufficient funds to meet its liabilities arising over this period. We have not discussed with Management what they expect to request to drawdown from SG under the April Agreement in May 2018 but note that the deficit may be in the sum of c.£1.26 million when the STCF is amended for:

- Receipt of £7.60 million from SG in the week ending 20 April 2018
- Receipt of [redacted] from BOWL deferred to the week ending 25 May 2018
- Supplier payments (March 2018 invoices) to be met at the end of May 2018 of [redacted] (per the aged creditor listing at 31 March 2018), acknowledging a provision of [redacted] is already included in the STCF in respect of NRL and Sarens
- Assumed PAYE/NIC liability of [redacted] based on past monthly costs (this may be lower depending on redundancy levels in April/May 2018)

This is subject to discussion with Management and does not include any provision or allowance for future additional ransom creditor payment demands etc (nor does it include any funding required to cover June costs)

On the flip-side a May drawdown request may be reduced if Siemens receipts are ingathered on loadout of OTM2.

We have asked PwC to discuss with Management the appropriateness of the quantum of the drawdown request.

Compliance with covenants in the April Agreement

We have not been provided with a copy of the April Agreement (or extract of the terms of the covenants agreed upon) and therefore cannot provide commentary on compliance in this report.

It is intended that commentary will be provided in future Phase Five reports.

Conclusion

Key points to note as follows:

Forecast cash position

In support of the request to draw down £7.60 million of top-up debt, the Company has provided us with a STCF to the week ending 1 June 2018. The STCF does not follow the same profiling as the most recent MTCF and therefore we are unable to provide meaningful commentary on the forecast cash position for the MTCF Period based on the STCF. However it is noted that, following drawdown of the current utilisation request, the April Agreement includes provision for up to a further [redacted] to be drawn down by the Company in respect of top-up debt in order to complete the Contracts (subject to SG approval).

To avoid future threats of petitions to wind-up and rebuild the reputation of the Company post-acquisition we would agree with the intention to bring suppliers back within payment terms.

Balance sheet strength

No balance sheet for the position as at 31 March 2018 has been provided.

However, based on the most recent current and future balance sheets provided to us, the Company is balance sheet insolvent, and will remain so until such time that the Contracts are complete and the balance sheet is deleveraged.

Creditor position

The Company has had to defer creditor payments and, from a reputational perspective, bringing creditors back in line with standard payment terms will make the point in the market that the Company is stronger under its new ownership structure. However, SG advancing the funds for this in the absence of future committed contracts for the Company will always increase SG's exposure/risk.

Appropriateness of the drawdown request

The drawdown request for £7.60 million has been prepared by the Company based on (i) the predicted cash deficit of [redacted] in the week ending 4 May 2018 per the STCF and (ii) assumed deferral of the BOWL receipt of [redacted] plus VAT in to May 2018, and is requested in order that the Company can meet its creditor obligations as at the end of April 2018.

However, we note that the drawdown request does not give the Company any contingency: if receipts/payments are as forecast (noting the BOWL exception), the STCF estimates a closing cash balance (as at 4 May 2018) of [redacted] Given the uncertainty as to the sums SHL will certify weekly, this is a high risk position and deferral of the April month-end supplier run would not help the Company's reputation in the market.

We have not yet discussed with Management what they expect to request to drawdown from SG under the April Agreement in May 2018: we would envisage doing so in the coming weeks in conjunction with the new management team.

Accountant's Certificate

The SG Loan Agreement provides that, prior to any drawdown, SM must be in receipt of an accountant's certificate (as defined in the April Agreement) confirming that (i) drawing under the facility is required as a measure of last resort and (ii) the Company has sufficient financial resource available to ensure completion of the SHL Contract and Siemens Contract. We comment on each below:

- **Drawing under the facility is required as a measure of last resource:** in the circumstances we are of the view that drawing down can be considered as a measure of last resort. The STCF provided (when read together with the subsequent Management update that receipt of BOWL funds has been delayed to May 2018) outlines that a drawdown of top-up debt in the sum of £7.60 million is necessary for the Company to meet its liabilities as set out in the STCF. All cash held by the Company is considered necessary for the completion of the SHL Contract and Siemens Contract (and therefore future income for the Company)

  - Notwithstanding the Company has been acquired by DFB, failure to obtain these funds will likely result in the insolvency of the Company and the total loss of all sums already advanced by SG (as there is a heightened risk that creditors who have already had significant deferral of sums due seek to petition to wind-up the Company)

- **The Company has sufficient financial resource available to ensure completion of the Siemens Contract and the SHL Contract:** on the basis of the STCF received on 6 April 2018, and the MTCF received on 4 April 2018, the Company does not have the financial resource to complete the SHL Contract and settle all current and future liabilities arising from completion of the relevant works. However, on the basis of DFB/Company estimates of costs to complete the Contracts, the top-up debt (if/when fully drawn) should provide sufficient funds to enable completion of the Contracts

We trust that this provides sufficient information to enable SG to make an informed decision. However, should you have any specific queries please do not hesitate to contact [redacted]

Yours faithfully

[redacted]

Grant Thornton UK LLP

Appendix 1: Glossary

Term	Defined as
April Agreement	The executed agreement/loan documentation signed by DFB and SG on 17 April 2018
BOWL	Beatrice Offshore Windfarm Limited
Burntisland	Site rented by the Company in Burntisland
Company	Burntisland Fabrications Limited
Contracts	The SHL Contract and Siemens Contract
Deloitte Report	Deloitte draft report Phase 1(B) dated 29 November
DFB	DF Barnes Services Limited
EEW	Erndtebrucker Eisenwerk GmbH
February Cost Reports	Cost reports prepared by Management showing (i) costs incurred to date and (ii) expected future costs as at 28-Feb-18
Fife Heat Treatment	Fife Heat Treatment Limited – In Liquidation
HCS	HCS Control Systems Limited
Jacket 7/8	The last two full jackets to be produced by the Company on the SHL Contract
January Cost Reports	Cost reports prepared by Management showing (i) costs incurred to date and (ii) expected future costs as at 26-Jan-18
JCE	JCE Group AB
LoA	Letter of addendum
LTCF	Long term cash flow
Management	Directors of Burntisland Fabrications Limited
Methil	Site rented by the Company in Methil
MI	Management information
MI Pack	Management information pack
MTCF	Medium term cashflow
MTCF Period	The period to 30 June 2018
NIC	National insurance contributions
NRL	NRL Limited
Original SG Loan Agreement	The Agreement between Burntisland Fabrications Limited and the Scottish Ministers, dated 12 January 2018

Term	Defined as
OTM2	Offshore Transformer Platform 2
PAYE	Pay as you earn
Phase Five	Work carried out by Grant Thornton under our LoA dated 19 April 2018
Phase Four report	Grant Thornton Project Harris report, dated 16 April 2018
Phase Five report	Grant Thornton Project Harris report, dated 22 March 2018
P&L	Profit & loss account
Post-acquisition debt	£10.00 million restructuring loan facility under the terms of the April Agreement
PwC	PricewaterhouseCoopers LLP
Sarens	Sarens (UK) Limited
Second Diligence Report	Grant Thornton report dated 23 February 2018
SG	Scottish Government
SG Facility	£15.00 million facility to Burntisland Fabrications Limited subject to the loan agreement dated 12 December 2017
SG Loan	Sums advanced to the Burntisland Fabrications Limited by the Scottish Government
SHL	Seaway Heavy Lifting Holding Limited
SHL Contract	The contract for works between Seaway Heavy Lifting Holding Limited and Burntisland Fabrications Limited
Siemens	Siemens Plc
Siemens Contract	The contract for works between Siemens Plc and Burntisland Fabrications Limited
SM	Scottish Ministers
Smulders	Smulders Projects UK Limited
SSE	SSE plc
STCF	Short term cash flow forecast
Top-up debt	£26.20 million SG loan facility for the purpose of funding the completion of the Siemens Contract and the SHL Contract
Uppers	Being the upper jackets to be produced by the Company (following agreement with SHL in November 2017 that for 18 jackets the Company would produce uppers only)
VAT	Value Added Tax
We/us/our/Grant Thornton	Grant Thornton UK LLP

Appendix 2: Scope of work

The LoA for our Phase Five work provides that we will undertake the following:

1 Obtain the latest available management accounts (up to date of last month end), together with a reconciliation of current bank position, to enable assessment of the following:

- Actual and forecast cash position remains in line with the medium term cash flow forecasts to 30 June 2018, as prepared by the Company and included in the Deloitte Report dated 29 November 2017
- Compliance with any/all covenants in the SG Loan documentation (to the extent that funds already drawn-down in earlier tranches)
- Balance sheet covenant, commenting on any significant movement against the forecast balance sheet included in the MTCF

2 Obtain the current creditor listing, to enable assessment of the following:

- Ageing profile, commenting by exception on any significant movements since prior periods
- Adherence to the terms of all agreed repayment plans and payment terms, particularly in relation to all critical suppliers
- Threat of legal/enforcement action, in particular seeking confirmation that there has been no writs/winding up petitions served in respect of outstanding creditor balances

3 Understand current progress on the ongoing contracts between the Company and SHL and Siemens (as both defined in our report dated 6 December 2017) (the **"Contracts"**) to enable assessment of the following:

- Work completed to date, ensuring that it is in line with the agreed production milestones
- Monies due from SHL and Siemens in terms of completed works on the Contracts have been paid in full to the Company
- Actual costs incurred to date, ensuring that in line with the Company's forecast
- Timescale / expected costs for completion of the Contracts (to ensure that all works will be performed on time and on budget)
- Existence of, or potential for, a claim against Royal Bank of Scotland under the terms of the SHL Contract performance bond

4 Assess the Company's rolling cash flow forecasts to ensure that:

- All relevant income and expenditure (including that assessed as part of (1) to (3) above) are accurately reflected
- The overall funding requirement (pre-SG funding) does not exceed £15.0 million
- Level of proposed drawdown is appropriate in the circumstances and is required to meet (i) outstanding costs of the Contracts (in conjunction with part (1) above) plus (ii) general overheads and debt servicing costs

Appendix 3: SHL Contract - milestone dates (as provided 13 April 2018)

Jacket no	Milestone date (amended)	Actual/expected date (per Second Diligence Report)	Actual/ expected date (as at 26-Feb-18)	Actual/ expected date (as at 13-Apr-18)
C2 J1	n/a	n/a	30-Oct-17	03-Nov-17
C2 J2	n/a	n/a	13-Oct-17	11-Feb-17
C2 J3	n/a	n/a	3-Nov-17	08-Nov-17
C2 J4	22-Nov-17	n/a	24-Nov-17	24-Nov-17
C2 J5	19-Dec-17	9-Jan-18	9-Jan-18 (*)	16-Jan-18
C2 J6	19-Dec-17	9-Jan-18	9-Jan-18 (*)	12-Jan-18
C2 J7	30-Jan-18	5-Feb-18	25-Feb-18	23-Feb-18
C2 J8	30-Jan-18	14-Feb-18	11-Mar-18	14-Apr-18
C5 J1	1-Feb-18	29-Jan-18	21-Feb-18	23-Feb-18
C5 J2	8-Feb-18	5-Feb-18	21-Feb-18	08-Mar-18
C5 J3	15-Feb-18	12-Feb-18	21-Feb-18	15-Mar-18
C5 J4	22-Feb-18	3-Mar-18	10-Mar-18	10-Apr-18
C5 J5	1-Mar-18	10-Mar-18	10-Mar-18	10-Apr-18
C5 J6	8-Mar-18	17-Mar-18	14-Mar-18	10-Apr-18
C4 J1	15-Mar-18	12-Apr-18	11-Apr-18	12-May-18
C4 J2	22-Mar-18	28-Apr-18	23-Apr-18	31-May-18
C4 J3	29-Mar-18	5-May-18	30-Apr-18	07-Jun-18
C2 J9	5-Apr-18	29-Mar-18	7-May-18	17-May-18
C2 J10	12-Apr-18	5-Apr-18	14-May-18	24-May-18
C4 J4	19-Apr-18	24-May-18	21-May-18	14-Jun-18
C4 J5	26-Apr-18	24-May-18	28-May-18	21-Jun-18
C4 J6	3-May-18	31-May-18	04-Jun-18	28-Jun-18
C4 J7	10-May-18	7-Jun-18	11-Jun-18	05-Jul-18
C4 J8	17-May-18	14-Jun-18	18-Jun-18	12-Jul-18
C4 J9	24-May-18	21-Jun-18	25-Jun-18	19-Jul-18
C4 J10	31-May-18	28-Jun-18	25-Jun-18	19-Jul-18

Note:

(*) Jackets completed and ready to sail by 9 January 2018, however per the updated schedule these are recorded as completed on 19 January 2018 and 30 January 2018

Appendix 4: forecast balance sheets

(£'m)	From the Deloitte Report	As prepared by the Company in Feb-18	As prepared by DFB in Apr-18
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Appendix 5: STCF (provided 6 April 2018)

(£m)	Act w/e 23-Feb	Act w/e 02-Mar	Act w/e 09-Mar	Act w/e 16-Mar	Act w/e 23-Mar	Act w/e 30-Mar	Forecast w/e 06-Apr	Forecast w/e 13-Apr	Forecast w/e 20-Apr	Forecast w/e 27-Apr	Forecast w/e 04-May	Forecast w/e 11-May	Forecast w/e 18-May	Forecast w/e 25-May	Forecast w/e 01-Jun
Opening cash balance c/fwd STCF	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
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Appendix 6: MTCF (provided 4 April 2018)

(£'m)	Act w/e 16-Mar	Act w/e 23-Mar	Act w/e 30-Mar	Forecast w/e 06-Apr	Forecast w/e 13-Apr	Forecast w/e 20-Apr	Forecast w/e 27-Apr	Forecast w/e 04-May	Forecast w/e 11-May	Forecast w/e 18-May	Forecast w/e 25-May	Forecast w/e 01-Jun	Forecast w/e 08-Jun	Forecast w/e 15-Jun	Forecast w/e 22-Jun	Forecast w/e 29-Jun	period 30 June+
Opening cash balance c/fwd STCF	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]	[redacted]
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Appendix 7: confidentiality

This report is confidential and has been prepared exclusively for SG. It should not be used, reproduced or circulated to any other party in whole or in part, without our prior written consent. Whilst other parties may be interested in receiving a copy of this report we stress that, to the fullest extent permitted by law, we cannot accept any responsibility whatsoever in respect of any reliance that these parties may place on our report in any decision that they may make in relation to the Company and its subsidiaries.

We do not accept any responsibility for any loss or damages arising out of the use of this report by the addressee for any purpose other than in connection with Project Harris