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Liz Ditchburn
Director General Economy
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1 August 2019

Dear Liz

Ferguson Marine Engineering Limited ("FMEL") and Ferguson Marine Engineering (Holdings) Limited ("FMEHL") (together the "Group")

We are extremely disappointed and increasingly concerned by the lack of answers to the questions set out in our letter of 19 July 2019, particularly given the commitment in your letter of 20 July 2019 to respond with considered comments by early last week; and the further commitment in your letter of 29 July 2019 to respond "certainly by 5pm on Wednesday 31 July 2019", both of which have not been met. These questions are not new and we have asked the Scottish Ministers to provide responses to them on numerous occasions since 5 July 2019.

As directors of FMEL, we have continued to trade on reliance upon the numerous written reassurances by the Scottish Ministers that they are working to pursue and implement a solvent solution for the Group (the "**Solvent Solution**"). We have also refrained from taking action we believe necessary to reduce FMEL's cost base, in order to avoid further delays to the 801/802 vessels, on the Scottish Ministers' request. It is therefore of extreme concern that the most recent letter issued by you does not reiterate the firm commitment of the Scottish Ministers to the Solvent Solution.

The Scottish Ministers have repeatedly advised that the due diligence exercise required to structure the Solvent Solution would be completed by the end of July 2019 and that, on completion, they would be in a position to confirm full details of how it will be funded. Once again they have failed to adhere to a deadline set by themselves and provide even the most basic details. The Scottish Ministers have had over 4 weeks to carry out the diligence required, with our full co-operation. There is no good reason why they should not now be in a position to provide full details of the proposed Solvent Solution.

Given that an enforcement notice was issued by HCC International Insurance Company PLC ("**HCCI**") on 24 July 2019 after and as a direct consequence of discussions with your advisors, we completely refute your view that the Scottish Ministers actions have not compromised our position with HCCI. In fact, the position



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has been so seriously compromised that HCCI have felt it necessary to take action which may ultimately result in the FMEL entering an insolvent process. Considering that the standstill period triggered by the issue of the Enforcement Notice expires next Tuesday, matters have now become even more critical.

Adding to our concern is the advice in your most recent letter that an agreement with HCCI is now a "key factor in any solution that allows the business to continue to trade." As directors, we have been excluded from the discussions among HCCI, Caledonian Maritime Assets Limited ("**CMAL**") and the Scottish Ministers and are therefore extremely concerned that we have no visibility on a matter which has a direct impact on FMEL. Leaving aside the appropriateness of having such dialogue without including us, this approach does not demonstrate the transparency that the Scottish Ministers had assured us would be provided.

We require, as a matter of urgency, full details of the proposal being discussed among HCCI, CMAL and the Scottish Ministers with confirmation of the impact on the business of FMEL, the cash position of FMEL and the timing of the implementation of the proposal. We also require full details of the Solvent Solution and any funding, and an unconditional commitment from the Scottish Ministers to following through with the Solvent Solution. Please also address the following:

1. how does the timing of discussions with HCCI and CMAL interrelate with the Solvent Solution and the timing of the implementation of the Solvent Solution?
2. how does the timing of discussions with CBC interrelate with the Solvent Solution and the timing of the implementation of the Solvent Solution?
3. are there any other conditions or key factors to the Solvent Solution we have not been advised of?
4. what is the target date for implementation of the Solvent Solution?

Taking into account all of the above matters and, in particular, the pending expiry of HCCI's Enforcement Notice, it is absolutely imperative that the Scottish Ministers adhere to their undertaking to respond to the directors of FMEL ("**Directors**") by 5pm on Friday 2 August 2019 (the "**Deadline**"), addressing both the above and the specific questions raised in our previous letter. This is essential, not only in terms of our management of the financial position of the FMEL business, but ultimately to consider whether it still remains in the best interests of creditors as a whole to continue to trade. This decision is becoming increasingly difficult for the Directors given the Enforcement Notice and the continuous press leaks, which are not emanating from FMEL or CBC, that are further undermining confidence in the FMEL business.

The only people currently at risk and exposed to personal liability are us as Directors. We are deeply concerned about potential wrongful trading issues in continuing to trade without any concrete details of the Solvent Solution particularly in light of the language used in your most recent letter, which in the view of the Directors, does not reiterate the firm commitment of the Scottish Ministers to the Solvent Solution that has been given to date. If the Scottish Ministers continue to fail to provide detailed responses to the questions raised, the Directors will have no option but to take any necessary action that is in the best interests of all creditors of FMEL, including looking at an immediate reduction in the workforce.

We trust that the Scottish Ministers fully appreciate the critical position of the Directors at this point in time and will provide full, complete and transparent details of all matters set out in this letter by the Deadline.

Yours faithfully



Director, Ferguson Marine Engineering Limited