

District of Alberta  
 Division 01 - Edmonton  
 Court No. 24-2606759  
 Estate No. 24-2606759



**TRUSTEE'S PRELIMINARY REPORT**

IN THE MATTER OF THE BANKRUPTCY OF  
**COMMAND ENERGY SERVICES LTD.**

Formerly carrying on business in the Hamlet of Nisku, in the Province of Alberta

**Background**

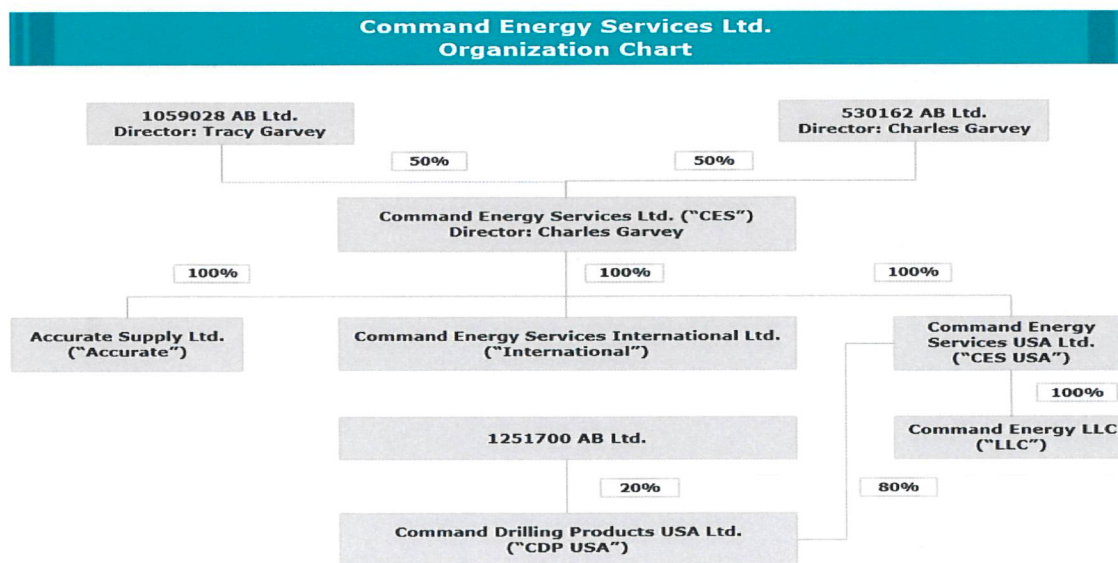
On January 20, 2020, Command Energy Services Ltd. (the "**Company**") filed an assignment in bankruptcy and Deloitte Restructuring Inc. (the "**Trustee**") was appointed Licensed Insolvency Trustee, subject to affirmation at the first meeting of creditors.

The Company is incorporated under the laws of Alberta. The Company's sole director is Mr. Charles Garvey ("**Mr. Garvey**"). 50% of the Company's shares are owned by 1059028 Alberta Ltd. and the other 50% is owned by 530162 Alberta Ltd.

The Company formerly operated as a supplier of drill pipe and drill stem accessories. The Company was based at a leased facility and yard located at 406 22 Avenue, Nisku, Alberta (the "**Nisku Location**").

Organizational chart

The Company's ownership structure and subsidiaries are set out in the below organizational chart.



On January 17, 2020, LLC, International, and CDP each filed bankruptcies under Chapter 7 of the *United States Bankruptcy Code*.

*Cause of insolvency*

Management advises that the Company has had little in the way of operations for the past two years as the Alberta economy had a negative impact on the Company operations. The Company has been in the process of liquidating inventory since 2015, and paying down its creditors, including its former operating lender. The inventory that now remains in the Company, however, is obsolete, and is of scrap value that is insufficient to address the Company's liabilities.

*Notice to reader*

In developing this report, the Trustee has relied upon unaudited financial information prepared by the Company's management ("**Management**"), the Company's books and records, and discussions with Management. The Trustee has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountants of Canada Handbook. The Trustee expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon by the Trustee in preparing this report.

The Trustee may refine or alter its observations as further information is obtained or brought to its attention after the date of this report. The Trustee assumes no responsibility or liability for any loss or damage occasioned by any party as a result of the circulation, publication, reproduction, or use of this report. Any use which any party makes of this report, or any reliance or decision to be made based on this report, is the sole responsibility of such party.

All amounts included herein are in Canadian dollars unless otherwise stated.

**Section A – Assets**

**Class I – Inventory**

The Company estimated on its Statement of Affairs, total inventory and rental inventory with a fair market value of \$360,579 and book value of \$3,605,786. The Company's fair market value estimate is based on scrap value. The Company has advised the Trustee that the inventory is largely obsolete. The Company's inventory is located over several locations as set out below.

Location / Party in possession	Inventory Value
Nisku Location	\$167,084
18911 West Industrial Parkway, New Caney, Texas ("New Caney Location")	\$182,756
Premium Tubular Inspection Services 1705 - 5 Street Nisku, AB ("Premium Location")	\$4,880
TNT Rentals Ltd. #875, 441-5 <sup>th</sup> Avenue SW Calgary, AB ("TNT")	\$2,881

The Trustee has attended both the Nisku Location and Premium Location to view and photograph the inventory. Mr. Garvey has direct or indirect control over the Nisku Location, and Premium Location, and has advised the Trustee that he is agreeable to the Trustee storing the inventory in the interim.

The Trustee has not attended at the New Caney Location, but is advised by Mr. Garvey that the inventory is segregated from a related company, Met Set Consulting USA Ltd., and that the inventory is secure at the present location.

The Trustee has not removed the inventory as there would be a high cost to move and store the inventory relative to its value. The Trustee has verified that the inventory is segregated at the Nisku Location and the Premium Location.

At the date of bankruptcy, 27 of the Company's drill pipe were in possession of TNT under a verbal rental agreement of \$10 per piece per day used. Since the inventory is earning revenue under this agreement, the Trustee has not terminated the agreement nor taken possession of the goods, as it would require transport and storage considerations. The 27 pieces are part of a group of another 33 drill pipes being rented to TNT by Command Tubular Products Ltd. The Trustee has requested that the usage reports be provided to the Trustee as they are received by Command Tubular Products Ltd. to determine the rental revenue accruing to the Company.

**Class II - Cash on Hand**

The Company listed Cash on Hand in the amount of \$1,000.00 on its Statement of Affairs. The Trustee notified the Company's bank, Canadian Western Bank ("CWB"), of the bankruptcy and has received the amount of \$526.77 remaining in the Company bank account.

**Class III – Plant, Machinery and Equipment and Office Equipment**

None.

**Class IV – Building and Real Estate**

None.

**Class V – Books and Records**

The Trustee obtained accounting reports, bank reconciliations with bank statements, income tax and GST filings and assessments for the 2018, 2019 and 2020 fiscal years, as well as payroll documentation for the 2018 and 2019 calendar years. The Trustee also received supporting documentation for inventories and accounts receivable existing at the date of bankruptcy. The remaining records are currently stored at the Company's office, and will be requested to the extent necessary.

**Class VI – Other Assets**

**Accounts Receivable**

On the Statement of Affairs, the Company disclosed accounts receivable totalling \$629,207, and an expected realizable amount of \$110,313. The Trustee has signified the accounts receivable. To date, the Trustee has not received any funds relating to accounts receivables.

**Promissory Note due from CDP**

The Company has a promissory note in the amount of \$13,257,649 USD due from CDP that is secured by way of a security agreement over certain collateral as defined within the security agreement between the Company and CDP.

From a review of CDP's Chapter 7 bankruptcy petition documents, the only assets of value in the CDP estate are a 2018 Ram Truck valued at \$26,075 and inventory with scrap value of \$465,000. The Chapter 7 trustee acting in respect of CDP's estate has asked the Trustee to consent to a sale and marketing process to liquidate the assets of CDP. The Trustee has advised that it would be unable to consent to such a process until after the first meeting of creditors is held for the Company's bankruptcy in Canada.

The Trustee has filed a proof of claim in the United States Chapter 7 bankruptcy proceedings.

**Shares in Subsidiaries**

The Company's equity interests in International and LLC are anticipated to be of no value, as they are subject to Chapter 7 bankruptcy proceedings in the United States.

The Trustee is in receipt of financial statements for Accurate, and will review same to determine any realizable value in the shares.

**Section B – Conservatory and Protective Measures**

The Trustee has blanket insurance coverage for 30 days from the date of bankruptcy. The Trustee will review insurance coverage to determine the requirement for further coverage.

**Section C – Legal Proceedings**

None.

**Section D – Provable Claims**

The Company's records estimate unsecured claims to be approximately \$8,717,248. Claims filed to date appear to correspond to the Statement of Liabilities.

**Section E – Secured Creditors**

The Company's records estimate secured claims to be approximately \$43,794,505. The estimated value of the security is \$471,894 leaving an unsecured balance of \$43,322,610.

Canadian Secured Creditors

The Company's records estimate Canadian secured claims to be approximately \$10,087,420. The following creditors (the "**Canadian Secured Creditors**"), who are related to the Company, have each filed secured claims with the Trustee:

Mr. Garvey	\$7,891,807
Ms. Tracey Garvey	\$364,820
530162 Alberta Ltd.	\$65,239
892850 Alberta Ltd.	\$1,765,554

Claims filed by the Canadian Secured Creditors approximately correspond to the amounts disclosed by the Company on its Statement of Affairs.

USA Secured Creditors

On January 31, 2020, the Trustee sent notice requiring filing of proof of security pursuant to s. 128(1) of the *Bankruptcy and Insolvency Act* to the following creditors (the "**USA Secured Creditors**"):

- LLC by way of its Chapter 7 trustee
- International by way of its Chapter 7 trustee
- USA

As of the date of this report, the Trustee has not yet received proofs of security from any of the USA Secured Creditors.

Contingent Secured Claim of Canadian Western Bank

The Company is a guarantor of debt in the amount of approximately \$1,000,000 owed by Accurate to Canadian Western Bank ("**CWB**"). The Trustee is not aware of any demand by CWB on the guarantee, and has not yet received a proof of claim from CWB.

Agency appointment

Mr. Garvey has advised the Trustee that he and/or other Canadian Secured Creditors, intend to appoint the Trustee as agent to realize on their respective security interests. The Trustee has retained independent counsel to opine on the validity, enforceability, and priority of the security interests of the Canadian Secured Creditors.

Provided that the Trustee's counsel confirms the validity and enforceability of the Canadian Secured Creditors' security interests, the Trustee is prepared to accept such an appointment with its agency remuneration to be paid by the appointing secured creditor(s).

**Section F – Realization and Projected Distribution**

Subject to a security review to determine the validity and enforceability of secured claims, there does not appear to be sufficient assets to provide a recovery to unsecured creditors.

**Section G – Reviewable Transactions and Preference Payments**

The Trustee has been advised by counsel for Jiangsu Shuguang Huayang Drilling Tool Co., Ltd. ("**JSH**"), a large unsecured creditor, that it has concerns regarding some intercompany transactions, possible preferences, and transfers at under value. The Trustee does not anticipate that there will be funds in the estate, after secured creditors' claims, to undertake a review to address these concerns, and would require same to undertake a review for such transactions.

**Section H – Other Matters**

Priority Creditors

The Trustee is unaware of any priority claims including wages or payroll source deductions, but has requested a trust exam from the Canada Revenue Agency to ascertain this.

Third Party Deposit and Guarantee

The Trustee has entered into a third party deposit agreement with Command Tubular Products Ltd. to guarantee the costs of the bankruptcy administration. The amount on deposit under the agreement is \$50,000.

The Trustee has also entered into a third party guarantee agreement with Mr. Garvey, 892850 Alberta Ltd., and 530162 Alberta Ltd. in consideration for the Trustee's acceptance to act in the Company's bankruptcy.

Dated at Edmonton, this 6<sup>th</sup> day of February, 2020.

**DELOITTE RESTRUCTURING INC.**

In its capacity as Licensed Insolvency Trustee of the Estate of  
Command Energy Services Ltd., in bankruptcy  
And not in its personal capacity



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Darren Crocker, CPA, CGA, CIRP, LIT  
Senior Vice-President