



COURT FILE NUMBER 1501-11517
COURT COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE CALGARY
PLAINTIFF HSBC BANK CANADA
DEFENDANT GROUNDFORCE GEODRILLING SOLUTIONS INC.

DOCUMENT

**THIRD REPORT OF THE COURT APPOINTED RECEIVER
AND MANAGER OF GROUNDFORCE GEODRILLING
SOLUTIONS INC.**

DATED MAY 24, 2017

PREPARED BY DELOITTE RESTRUCTURING INC.

| | |
|--|--|
| ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT | Counsel McCarthy Tétrault LLP Suite 4000 421 7th Avenue SW Calgary AB T2P 4K9 Attention: Sean Collins Telephone/ Facsimile: (403) 260-3531 / (403) 260-3501 Email: sccollins@mccarthy.ca |
|--|--|

Receiver and Manager

**Deloitte Restructuring Inc.
700 Bankers Court, 850 – 2nd Street SW
Calgary, AB T2P 0R8**

Attention: Jeff Keeble
Telephone/Facsimile: 403-503-1458 / 403-718-3681
Email: jkeeble@deloitte.ca

Table of contents

| | |
|--|-----------|
| Table of contents | i |
| Introduction and Background | 1 |
| Introduction | 1 |
| Notice to Reader | 1 |
| Background..... | 1 |
| Update on the Receiver's Activities | 3 |
| Asset Realizations | 4 |
| Remaining Statutory Claims and Duties..... | 6 |
| Secured Creditor Claim | 7 |
| Fees and Disbursements of the Receiver and its Legal Counsel..... | 8 |
| Final Statement of Receipts and Disbursements | 9 |
| Approvals Sought..... | 10 |

APPENDICES

| | |
|------------|---|
| Appendix A | Summary of Professional Fees and Disbursements |
| Appendix B | Receiver's Final Statement of Receipts and Disbursements for Groundforce Geodrilling Solutions Inc. for the period from October 2, 2015 to May 18, 2017 |

Introduction and Background

Introduction

1. Pursuant to an Order (the “**Receivership Order**”) granted by the Court of Queen’s Bench of Alberta (the “**Court**”) on October 2, 2015 (the “**Date of Receivership**”), Deloitte Restructuring Inc. (“**Deloitte**”) was appointed as receiver and manager (the “**Receiver**”) of Groundforce Geodrilling Solutions Inc. (“**Groundforce**” or the “**Company**”). A copy of the Receivership Order and other information regarding the receivership proceedings can be accessed on Deloitte’s website (the “**Receiver’s Website**”) at <http://www.insolvencies.deloitte.ca/en-ca/Pages/Groundforce-Geodrilling-Solutions-Inc.aspx>.
2. The Receivership Order was granted as a result of an application by HSBC Bank Canada (“**HSBC**”), who holds registered security over all of the Company’s present and after-acquired real and personal property (the “**HSBC Security**”).
3. HSBC also petitioned the Company into bankruptcy and on November 17, 2015 a bankruptcy order was made against the Company under the *Bankruptcy and Insolvency Act* and Deloitte was appointed as trustee (the “**Trustee**”) of the bankrupt estate.
4. The Receiver’s independent legal counsel, McCarthy Tetrault LLP (“**McCarthy**”), has conducted an independent review of the validity and enforceability of the HSBC Security and has advised that, subject to the customary qualifications, the HSBC Security is valid and enforceable and ranks in priority to the unsecured creditors of Groundforce and to the Trustee (the “**Security Opinion**”).

Notice to Reader

5. In preparing this report, the Receiver has relied on unaudited financial information, the Company’s books and records, discussions with former management (“**Management**”), and the Company’s stakeholders. The Receiver has not performed an independent review or audit of the information provided, and accordingly, the Receiver does not express an opinion nor does it provide any other form of assurance on the financial or other information presented herein.
6. All amounts in this report are expressed in Canadian dollars unless otherwise indicated.

Background

7. Groundforce is a private company that was incorporated in Alberta in June 2010. The Company provided drilling and associated oilfield services to the energy sector in Western Canada with its fleet of twelve (12) drilling rigs of various sizes and configurations. The Company also provided project

management services for drilling programs, drilling for geothermal wells, and pilings for construction and maintenance projects.

8. The Receiver has issued two (2) reports and confidential supplements to both reports, as outlined below:
 - a. The First Report of the Receiver dated November 13, 2015 (the “**First Report**”) wherein the Receiver provided an update on possession and control of the Company, provided details of the assets held by the Company, and sought Court approval for a sale process to auction the equipment and vehicles owned by the Company. The confidential supplement to the First Report provided details of the auction proposals received for the sale of the equipment and vehicles of the Company; and
 - b. The Second Report of the Receiver dated December 9, 2015 (the “**Second Report**”) wherein the Receiver sought approval of the sale of the Company’s assets to Predator Drilling Inc. (“**Predator**”) and Wexford Capital LP (“**Wexford**”), with details of the corresponding sale agreements contained in the confidential supplement to the Second Report.
9. This report constitutes the third and final report of the Receiver (the “**Third Report**”). The Third Report is being filed in support of the Receiver’s application to this Honorable Court on June 2, 2017 (the “**Discharge Application**”) seeking an Order to approve, amongst other things, the reported actions of the Receiver in these proceedings, the accounts of the Receiver and McCarthy, the disbursement of funds made by the Receiver, the assignment of the Judgement (as defined later in this Third Report) to HSBC, and the discharge of the Receiver.

Update on the Receiver's Activities

10. The Receiver has undertaken the following activities since the date of the Second Report:

- a. Closed the sale of the Company's assets to Predator and Wexford pursuant to the Approval and Vesting Order of the Court dated December 16, 2015 (the "**Vesting Order**");
- b. Turned over the Company's premises to the landlord;
- c. Pursued and reached a settlement in relation to the security deposit held by the landlord of the Company's former premises, as further detailed in this Third Report;
- d. Pursued and reached a settlement in relation to approximately \$134,000 of the remaining accounts receivable balance owing to the Company from Transaction Oil & Gas Ventures Inc. ("**Transaction**"), as further detailed in this Third Report;
- e. Dealt with employee matters and related Wage Earner Protection Program ("**WEPP**") claims;
- f. Responded to queries from creditors and other interested parties; and
- g. Dealt with GST matters and the pursuit of a post-receivership GST refund.

Asset Realizations

11. Following a review of the lease of the Company's former premises, the Receiver's counsel identified a potential recovery against the landlord for the repayment of the security deposit held by the landlord. The Company had previously entered into a sale-and-leaseback agreement with the landlord where \$1.0 million of the original sale proceeds (the "**Landlord Funds**") were held by the landlord as a security deposit, in part to cover the first three years of rent due to the landlord, and as security for damage to the premises. The amount of the Landlord Funds were reduced to approximately \$714,000 as at the Date of Receivership as a result of normal rent reductions and three (3) months of accelerated rent set-offs as per the agreement. A further complicating factor was that the Landlord Funds were held as security by the landlord's bank. The Receiver's counsel had several discussions and exchanged various correspondences with the landlord's counsel and, following several offers and counter-offers and various legal arguments raised by both parties, the Receiver settled with the landlord for \$175,000. The Receiver believes that this settlement was a reasonable compromise to settle the dispute based on the circumstances, the risk of litigation, and the potential significant legal costs to pursue the claim. The settlement amount was agreed to by HSBC.
12. The Receiver also pursued recovery of an outstanding accounts receivable owed to the Company from Transaction for approximately \$134,000 (the "**Transaction Debt**"). The Transaction Debt relates to drilling work performed by the Company on behalf of Transaction in Arborfield, Saskatchewan. The drilling work was completed in February 2013 and the Company invoiced Transaction for approximately \$237,000. While Transaction had made several partial payments towards the debt in 2013 and 2014, approximately \$134,000 remained outstanding as at the Date of Receivership. The Receiver's counsel filed a statement of claim for this debt, after which Transaction filed a statement of defence claiming an offset for damage to the work-site and a claim for defective work. The president of Transaction and the former CFO of Groundforce were also questioned by Transaction's counsel and the Receiver's counsel.
13. Following negotiations, the Receiver entered into a settlement agreement with Transaction whereby Transaction would provide the Receiver with a consent judgement (the "**Judgement**") for \$100,000 and the Receiver agreed not to file or enforce the Judgement before January 31, 2017 to allow Transaction to complete the sale of certain assets in order to pay the Judgement.
14. As Transaction failed to pay the Judgement by January 31, 2017 the Receiver proceeded with enforcement of the debt by entering the Judgment and registering it over the primary and only known realizable asset of Transaction, which was a working interest in certain leasehold interests in

Saskatchewan. The Receiver has been advised that Transaction has been attempting to sell its interest in these leasehold interests for some time now, and should Transaction enter into an agreement to sell these interests, the Judgement will be paid out prior to the transfer of these interests. The Receiver is proposing to assign the Judgement, subject to the approval of the Court, to HSBC and HSBC is in agreement with the assignment.

15. The Receiver is not aware of any other remaining assets of the Company.

Remaining Statutory Claims and Duties

16. All known outstanding statutory claims of the Company relating to the Canada Revenue Agency (“**CRA**”) for goods and services tax (“**GST**”) and payroll source deductions have been addressed and paid for by the Receiver. The only other known statutory claim relates to WEPP where twenty-three (23) former employees were eligible to file claims for unpaid wages, vacation pay, and severance pay. WEPP has paid these employees a total of approximately \$78,000, and WEPP has a super priority claim against the estate for \$44,000. This WEPP priority claim has been paid by the Receiver and the Receiver and Trustee are not aware of any further statutory or priority claims against the Company.
17. The Receiver has filed all of the required post-receivership returns to March 2017 and has paid all of the related amounts, but CRA has issued a notice of assessment indicating that a balance of approximately \$11,000 is owing for post-receivership GST. The Receiver understands that this amount was in part due to a failure to file penalty and related interest charges being levied by CRA who incorrectly applied post-receivership GST payments made by the Receiver against the Company’s pre-receivership GST account. The Receiver also believes that CRA has posted post-receivership GST refunds owing to the Receiver against the pre-receivership GST account. The Receiver is currently working with CRA to reconcile and resolve this issue and has recently made a payment of approximately \$6,000 to clear up the outstanding post-receivership GST balance, including the disputed charges. The Receiver expects to receive a future GST refund after all remaining returns are filed and the issue is resolved with CRA, but is holding back \$5,000 in funds to account for any potential future GST liability (the “**GST Holdback**”).
18. The Receiver has retained sixty-eight (68) boxes of books and records of the Company (the “**Company Records**”) to assist with the conduct of the Receivership and is seeking the Court’s approval for the destruction of these records following the Receiver’s discharge. The former principals of the Company have indicated that they do not want the Company Records.
19. Aside from the post-receivership GST issue still being addressed by the Receiver, the Receiver has completed all aspects concerning the administration of this receivership and is not aware of any other statutory obligations it is required to fulfill. In the circumstances, the Receiver is of the view that it is appropriate to be discharged.

Secured Creditor Claim

20. As noted in the First Report, HSBC is the principal lender to the Company and holds first ranking security positions as against the Company and its assets. HSBC was owed approximately \$17.0 million (the “**HSBC Debt**”) from the Company at the Date of Receivership. The Vesting Order authorized and empowered the Receiver to distribute any or all funds held by the Receiver to HSBC to satisfy the HSBC Debt.
21. During the course of the Receivership the Receiver made the following three (3) interim distributions to HSBC:
 - a. A first distribution of \$8,500,000 made on December 18, 2015;
 - b. A second distribution of \$500,000 made on April 28, 2016; and
 - c. A third distribution of \$300,000 made on June 1, 2016.
22. The Receiver is currently holding approximately \$52,000 of funds in trust and proposes to pay any remaining funds, after the payment of the final disbursements and any recovery from the Transaction Debt, to HSBC (the “**HSBC Distribution**”). The HSBC Distribution will not be sufficient to pay out the HSBC Debt in full and there will be no funds available to pay any of the unsecured creditor claims of the Company.

Fees and Disbursements of the Receiver and its Legal Counsel

23. The Receiver's fees and disbursements in relation to the administration of the Receivership are expected to total approximately \$273,500 (excluding taxes). This total includes an unpaid invoice for fees up to April 28, 2017 in the amount of \$11,074, as well as the estimated \$5,000 of fees to complete the administration. The Receiver notes that its professional fees and disbursements were paid directly to the Receiver by HSBC rather than being paid out of the Receiver's trust account.
24. McCarthy's fees and disbursements in relation to the administration of the Receivership total approximately \$85,000 (excluding taxes), including the estimated fees of \$8,000 to complete the administration.
25. The professional fees and disbursements of the Receiver and its counsel are summarized in the Summary of Professional Fees and Disbursements, which is attached to this Third Report as "**Appendix A**".
26. In the Receiver's opinion, the services rendered in respect of these fees and disbursements have been duly rendered in response to the required and necessary duties of the Receiver hereunder, and are reasonable in the circumstances. Detailed time records supporting the invoices are available in the offices of the Receiver and McCarthy.

Final Statement of Receipts and Disbursements

27. The Receiver's final statement of receipts and disbursements for Groundforce for the period from October 2, 2015 to May 18, 2017 (the "**Final SRD**") is attached to this Third Report as "**Appendix B**".
28. As outlined in the Final SRD, the Receiver is currently holding approximately \$52,000 of funds in trust.
29. HSBC funded the bankruptcy of the Company and paid \$15,000 to the trustee to cover its fees and costs.
30. The estimated remaining unpaid disbursements included in the Final SRD (the "**Remaining Unpaid Disbursements**"), are as follows:
 - a. \$16,075 (excluding GST) for Receiver's fees, comprising \$11,075 for Receiver's fees invoiced and unpaid up to April 28, 2017 and \$5,000 for the estimated remaining Receiver's fees to obtain its discharge;
 - b. \$8,000 (excluding GST) for the estimated remaining legal fees for McCarthy, comprising \$3,000 in unpaid fees and \$5,000 to complete the administration; and
 - c. \$5,000 for the GST Holdback.
31. The estimated remaining receipts include the post-receivership GST refund of approximately \$1,000 that is expected to be collected from paying the Remaining Unpaid Disbursements.
32. Following collection of the remaining receipts and payment of the Remaining Unpaid Disbursements, and before any recovery on the Transaction Debt, it is anticipated that approximately \$40,000 of funds will remain in the Receiver's account for the HSBC Distribution. These funds will be paid to HSBC by the Receiver, along with any other GST recovery or refund, up to the HSBC Debt.

Approvals Sought

33. As a result of the foregoing, the Receiver respectfully requests the following from the Court:

- a. Assignment of the Company's claims as against Transaction, including the Judgment, to HSBC;
- b. Approval of the reported actions and conduct of the Receiver in respect of administering these receivership proceedings;
- c. Approval of the Final SRD;
- d. Approval of the Remaining Unpaid Disbursements;
- e. Approval of the HSBC Distribution;
- f. Approval of the destruction of the Company Records presently held by the Receiver;
- g. Declaration that the Receiver has duly and properly discharged its duties, responsibilities, and obligations;
- h. Discharge and release of the Receiver from any and all further obligations as Receiver and any and all liability in respect of any act done by the Receiver in these receivership proceedings and its conduct as Receiver pursuant to its appointment in accordance with the Receivership Order, or otherwise; and
- i. Such further and other relief and directions as counsel may request and this Court may deem appropriate.

DELOITTE RESTRUCTURING INC.,
In its capacity as Court appointed Receiver and
Manager of Groundforce Geodrilling Solutions
Inc. and not in its personal capacity.



Jeff Keeble, CPA, CA, CIRP, LIT, CBV
Senior Vice-President

Appendix A – Summary of Professional Fees and Disbursements

Appendix "A"

**Grondforce Geodrilling Solutions Inc.
Summary of Professional Fees and Disbursements
during the Period October 2, 2015 to May 18, 2017**

| Invoice Date | Billing Period | Fees | Disbursements | Subtotal | GST / PST | Total |
|--|--|-------------------|----------------------|-------------------|------------------|-------------------|
| <u>Deloitte Restructuring Inc.</u> | | | | | | |
| 9-Nov-15 | October 2, 2015 to October 23, 2015 | \$ 102,846.30 | \$ - | \$ 102,846.30 | \$ 5,142.32 | \$ 107,988.62 |
| 12-Dec-15 | October 24, 2016 to November 27, 2016 | 80,322.43 | - | 80,322.43 | 4,016.12 | 84,338.55 |
| 5-Feb-16 | November 28, 2016 to January 31, 2016 | 43,765.20 | 2,707.63 | 46,472.83 | 2,323.64 | 48,796.47 |
| 13-Apr-16 | February 1 to March 30, 2016 | 16,948.80 | 812.40 | 17,761.20 | 888.06 | 18,649.26 |
| 4-Nov-16 | March 31, 2016 to October 11, 2016 | 10,002.60 | - | 10,002.60 | 500.13 | 10,502.73 |
| 15-May-17 | October 12, 2016 to April 28, 2017 | 11,074.80 | - | 11,074.80 | 553.74 | 11,628.54 |
| | Estimate to complete | 5,000.00 | - | 5,000.00 | 250.00 | 5,250.00 |
| Total Receiver's fees and disbursements | | 269,960.13 | 3,520.03 | 273,480.16 | 13,674.01 | 287,154.17 |
| <u>McCarthy Tétrault LLP</u> | | | | | | |
| 10-Nov-15 | October 13, 2015 to October 21, 2015 | \$ 2,207.00 | \$ 101.67 | \$ 2,308.67 | \$ 111.25 | \$ 2,419.92 |
| 4-Dec-15 | November 5, 2015 to November 30, 2015 | 11,780.00 | 78.25 | 11,858.25 | 591.36 | 12,449.61 |
| 31-Dec-15 | December 1, 2015 to December 23, 2015 | 15,183.00 | 238.50 | 15,421.50 | 765.23 | 16,186.73 |
| 12-Feb-16 | January 7, 2016 to January 21, 2016 | 926.00 | 136.45 | 1,062.45 | 50.72 | 1,113.17 |
| 9-Mar-16 | February 3, 2016 to March 1, 2016 | 4,936.00 | 16.75 | 4,952.75 | 246.84 | 5,199.59 |
| 12-Apr-16 | March 16, 2016 to March 31, 2016 | 2,316.00 | - | 2,316.00 | 115.80 | 2,431.80 |
| 16-May-16 | April 1, 2016 to April 27, 2016 | 3,535.50 | 12.75 | 3,548.25 | 177.42 | 3,725.67 |
| 10-Aug-16 | July 14, 2016 to July 25, 2016 | 2,350.00 | 34.41 | 2,384.41 | 119.22 | 2,503.63 |
| 7-Oct-16 | September 2, 2016 to September 30, 2016 | 5,081.50 | 194.00 | 5,275.50 | 259.68 | 5,535.18 |
| 15-Nov-16 | October 2, 2016 to October 31, 2016 | 12,906.00 | 470.35 | 13,376.35 | 668.82 | 14,045.17 |
| 5-Dec-16 | October 18, 2016 to November 25, 2016 | 6,779.50 | 844.00 | 7,623.50 | 367.28 | 7,990.78 |
| 9-Feb-17 | January 16, 2017 to January 31, 2017 | 2,044.00 | - | 2,044.00 | 102.20 | 2,146.20 |
| 10-Mar-17 | February 1, 2017 to February 28, 2017 | 2,842.00 | 70.75 | 2,912.75 | 143.94 | 3,056.69 |
| 7-Apr-17 | March 6, 2017 to March 10, 2017 | 332.50 | 12.00 | 344.50 | 17.23 | 361.73 |
| | Estimate to complete | 8,000.00 | - | 8,000.00 | 400.00 | 8,400.00 |
| | | 81,219.00 | 2,209.88 | 83,428.88 | 4,136.99 | 87,565.87 |
| <u>Kanuka Thuringer LLP</u> | | | | | | |
| 6-Oct-15 | Not applicable (Attorney of service fee) | 175.00 | - | 175.00 | 8.75 | 183.75 |
| | | 175.00 | - | 175.00 | 8.75 | 183.75 |
| <u>Stevenson Hood Thornton Beaubier LLP</u> | | | | | | |
| 10-Apr-17 | February 2, 2017 to March 10, 2017 | 1,350.00 | 62.00 | 1,412.00 | 137.60 | 1,549.60 |
| | | 1,350.00 | 62.00 | 1,412.00 | 137.60 | 1,549.60 |
| Total Receiver's legal fees and disbursements | | 82,744.00 | 2,271.88 | 85,015.88 | 4,283.34 | 89,299.22 |

Notes

1. Receiver's invoice dated May 15, 2017 currently unpaid.

**Appendix B –
Statement of Receipts and
Disbursements for the Period
October 2, 2015 to May 18, 2017**

Groundforce Geodrilling Solutions Inc.
Receivership Final Statement of Receipts and Disbursements
For the period from October 2, 2015 to May 18, 2017

| Description | As at 18-May-17 | Accruals to close | Estimated Final Amount | Note |
|---|--------------------|----------------------|---------------------------|------|
| Receipts | | | | |
| Accounts receivable | \$ 51,949 | \$ - | \$ 51,949 | |
| Insurance refund | 44,791 | - | 44,791 | |
| Refundable damage deposit received from purchaser | 50,000 | - | 50,000 | |
| Sale of rigs, equipment and other assets | 8,400,000 | - | 8,400,000 | |
| Net proceeds from sale of real property | 955,320 | - | 955,320 | |
| Settlement proceeds | 175,000 | - | 175,000 | |
| Security deposit refund | 17,460 | - | 17,460 | |
| WCB premium refund | 73,502 | - | 73,502 | |
| Advance from HSBC for Receiver's fees and disbursements | 257,405 | 16,075 | 273,480 | 1 |
| GST received | 420,043 | 1,204 | 421,247 | |
| Total receipts | <u>10,188,066</u> | <u>17,279</u> | <u>10,205,344</u> | |
| Disbursements | | | | |
| Contract staff - Office | \$ 72,922 | \$ - | \$ 72,922 | |
| Contract staff - Operations | 28,422 | - | 28,422 | |
| Filing fees | 70 | - | 70 | |
| Insurance | 23,596 | - | 23,596 | |
| Receiver's fees and disbursements | 257,405 | 16,075 | 273,480 | 1 |
| Receiver's legal fees and disbursements | 77,016 | 8,000 | 85,016 | |
| Refundable damage deposit returned to purchaser | 48,373 | - | 48,373 | |
| Rent | 8,212 | - | 8,212 | |
| Security services | 32,161 | - | 32,161 | |
| Transport costs | 49,659 | - | 49,659 | |
| Transfer to Bankruptcy Trustee account | 15,000 | - | 15,000 | |
| Utilities | 7,547 | - | 7,547 | |
| WEPPA priority claim | 44,000 | - | 44,000 | |
| GST/PST paid | 428,988 | 6,204 | 435,191 | |
| Interim distributions to HSBC | 9,300,000 | 39,101 | 9,339,101 | |
| Total disbursements | <u>10,135,965</u> | <u>69,380</u> | <u>10,205,344</u> | |
| Excess of receipts over disbursements | \$ 52,101 | \$ (52,101) | \$ - | |

Notes

1. Receiver's fees and disbursements were paid directly by HSBC.