



COURT FILE NUMBER 1501-11517

COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

PLAINTIFF HSBC BANK CANADA

DEFENDANTS GROUNDFORCE GEODRILLING SOLUTIONS INC.

DOCUMENT SECOND REPORT OF THE COURT APPOINTED RECEIVER
AND MANAGER OF GROUNDFORCE GEODRILLING
SOLUTIONS INC.

DATED DECEMBER 9, 2015

PREPARED BY DELOITTE RESTRUCTURING INC.

**ADDRESS FOR SERVICE AND
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PARTY FILING THIS DOCUMENT**

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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 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. Deloitte was also appointed as the trustee in bankruptcy of Groundforce (the “**Trustee**”) on November 17, 2015 as a result of a bankruptcy petition filed by HSBC.
4. The Receiver’s independent legal counsel, McCarthy Tetrault LLP, has conducted an independent review of the validity and enforceability of the HSBC Security and has advised that 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, Deloitte has relied on unaudited financial information, the books and records of the Company and discussions with former management of the Company, interested parties and the stakeholders of the Company. The Receiver has not performed an independent review or audit of the information obtained.
6. This report should be read in conjunction with the first report of the Receiver dated November 9, 2015 (the “**First Report**”) and capitalized terms used in this report but not defined herein are as defined in the First Report.
7. All amounts in this report are in Canadian dollars unless otherwise indicated.

Background

8. 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 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.

9. HSBC is the principal lender to the Company and holds various first ranking security positions as against the Company and its assets. HSBC was owed approximately \$17.0 million (the “**HSBC Indebtedness**”) from the Company at the Date of Receivership. Wexford Capital is the majority shareholder of Groundforce and also had the majority of unsecured promissory notes issued by the Company and was owed approximately \$4.7 million at the Date of Receivership.
10. The First Report, along with the confidential supplement to the First Report dated November 13, 2015 (the “**Confidential Report**”), was filed in support of the Receiver’s application to this Honourable Court on November 19, 2015 (the “November 19 Application”) seeking the following:
 - a) Approval of the reported actions of the Receiver to date in respect of administering the receivership proceedings;
 - b) Approval of the auction proposal from Maynards Industries Ltd. (“**Maynards**”, the “**Maynards Auction Proposal**”) for the sale of the Company’s assets;
 - c) Approval of the future distribution of funds to HSBC as they relate to the HSBC Security and as they become available up to the amount of the HSBC Indebtedness; and
 - d) An Order sealing the Confidential Report in the Court file.
11. Just prior to the November 19 Application, the Receiver was contacted by two parties (the “**Parties**”) who had previously submitted separate en-bloc offers through the sales process described in the First Report. The Parties expressed an interest in combining their offers for all of the assets and they increased the overall purchase price for the assets significantly (the “**Revised Offers**”). As a result of the analysis completed by the Receiver and as described in more detail later in this report, the November 19 Application was adjourned so the Receiver could further explore the Revised Offers.
12. This report constitutes the second report of the Receiver (the “**Second Report**”). The Second Report, along with the confidential supplement to the Second Report dated December 10, 2015 (the “**Second Confidential Report**”) are being filed in support of the Receiver’s application to this Honourable Court on December 16, 2015 seeking the following:
 - a) Approval of the reported actions of the Receiver to date in respect of administering these receivership proceedings;
 - b) Approving the sale and transfer of property (the “**Property**”) described in, and to be sold and transferred under, the purchase and sale agreements (the “**PSA’s**”) with the Parties and vesting title in the Property in the Parties, free and clear of all security interests (whether contractual, statutory, or otherwise), hypothecs, caveats, mortgages, trusts or deemed trusts (whether contractual, statutory, or otherwise), liens, executions, levies, charges, or other financial or monetary claims, whether or not they have attached or been perfected, registered or filed and

whether secured, unsecured or otherwise, upon the delivery of a certificate by the Receiver certifying that the transaction contemplated by the PSA's have concluded;

- c) Declaring that the security granted by the Company in favour of HSBC is valid and enforceable against the assets, properties, and undertakings of the Company;
- d) Approving, authorizing, and empowering the Receiver to make distributions to HSBC from the proceeds realized from the disposition of assets covered by the HSBC Security up to the amount of the HSBC Indebtedness; and
- e) An Order sealing the Second Confidential Report in the Court file.

Powers of the Receiver

- 13. The Receiver's powers are detailed in Paragraph 3 of the Receivership Order and include the power to take and maintain possession and control of the assets of the Company; the power to manage, operate and carry on the business of the Company; and the power to market and sell the assets of the Company (subject to Court approval if one sale exceeds \$250,000 or if in the aggregate the sales exceed \$1,000,000), among others.
- 14. The Receivership Order also empowers the Receiver to borrow by way of a revolving credit or otherwise, such monies from time to time as it may consider necessary or desirable, provided that the outstanding principal amount does not exceed \$1,000,000 (or such greater amount as the Court may by further Order authorize) (the "**Borrowing Facility**").

Actions of the Receiver

15. The Receiver has undertaken the following actions since the date of the First Report:

- a) Corresponded with various creditors and other interested parties in regards to the receivership proceedings;
- b) Corresponded with the parties expressing interest in the assets through the sale process and arranging for the return of any related deposits;
- c) Corresponded with leasing companies and other parties with rental assets with the Company;
- d) Reviewed the Revised Offers and prepared an analysis and comparison to the Maynards Auction Proposal;
- e) Corresponded with the Parties in regards to the Revised Offers and related terms and conditions of sale and coordinated revisions to the PSA's;
- f) Corresponded with HSBC and counsel in regards to the receivership and the Revised Offers;
- g) Corresponded with counsel in regards to the PSA's and related terms and conditions;
- h) Attended at the Crossfield Location to view the assets with the Parties and update the asset listings included in the PSA's; and
- i) Corresponded with former employees in regards to their Wage Earner Protection Program ("WEPP") claims and T4's and continued to administer the WEPP.

Sales Process and Revised Offers

16. As outlined in the First Report, the Receiver ran a sales process which resulted in several offers and auction proposals on the assets and, after an analysis of the offers and proposals that had been received at that time and after discussions with HSBC, the Receiver decided to accept the Maynards auction proposal and was proceeding with the November 19 Application.
17. Subsequent to the filing of the First Report on November 16, 2015 and prior to the November 19 Application, the Receiver contacted all Interested Parties and Auctioneers who submitted offers and proposals to notify them that their offers or proposals were not being accepted and also advised that the Receiver was proceeding to seek Court approval of the Maynards Auction Proposal at the November 19 Application.
18. On November 17, 2015, the Receiver was contacted by one of the Parties indicating that they were seeking to submit a revised offer in conjunction with another party for all of the assets for a significantly higher amount than that previously offered.
19. On November 18, 2015, the Receiver received the Revised Offers from the Parties which covered all of the assets of the Company.
20. The Receiver completed an analysis of the Revised Offers compared to the Maynards Auction Proposal and the Appraisal and discussed the Revised Offers with HSBC. As a result of the analysis and discussions, the Receiver decided to proceed with the Revised Offers and successfully negotiated PSA's with the Parties.
21. The Receiver is recommending the acceptance of the PSA's for reasons outlined in the Second Confidential Report. Both PSA's are more fully described in and attached to the Second Confidential Report.
22. The Receiver has discussed and shared the PSA's with HSBC and HSBC is in agreement with accepting the PSA's, subject to the approval of this Honourable Court.

Statement of Receipts and Disbursements

31. The Receiver has prepared a Statement of Receipts and Disbursements for the period of November 13, 2015 to December 7, 2015 for Groundforce, a copy of which is attached to this Report as **Appendix A**.
32. As at the date of this report, the Receiver has realized sufficient funds from the collection of property sale proceeds to not require the Court authorized Borrowing Facility to fund the receivership proceedings.

Approvals sought

33. As a result of the foregoing, the Receiver respectfully requests the following from this Honourable Court:
- a) Approval of the reported actions of the Receiver to date in respect of administering these receivership proceedings;
 - b) Approving the sale and transfer of the Property described in, and to be sold and transferred under, the PSA's with the Parties and vesting title in the Property in the Parties, free and clear of all security interests (whether contractual, statutory, or otherwise), hypothecs, caveats, mortgages, trusts or deemed trusts (whether contractual, statutory, or otherwise), liens, executions, levies, charges, or other financial or monetary claims, whether or not they have attached or been perfected, registered or filed and whether secured, unsecured or otherwise, upon the delivery of a certificate by the Receiver certifying that the transaction contemplated by the PSA's have concluded;
 - c) Declaring that the security granted by the Company in favour of HSBC is valid and enforceable against the assets, properties, and undertakings of the Company;
 - d) Approving, authorizing, and empowering the Receiver to make distributions to HSBC from the proceeds realized from the disposition of assets covered by the HSBC Security up to the amount of the HSBC Indebtedness; and
 - e) An Order sealing the Second Confidential Report in the Court file.

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



Jeff Keeble, CA • CIRP, CBV
Senior Vice President

Appendix A –
Statement of Receipts and
Disbursements for the Period
October 2, 2015 to December 7, 2015

Appendix A

Groundforce Geodrilling Solutions Inc.
Statement of Receipts and Disbursements
For the Period October 2, 2015 to December 7, 2015

Description	Amount
Actual receipts	
Accounts receivable	\$ 51,949
Deposits on pending sale of assets	2,450,000
Net proceeds from sale of property	955,320
Security deposit refund	16,826
Total actual receipts	<u>3,474,094</u>
Actual disbursements	
Contract staff - Office	72,922
Contract staff - Rig	28,205
Filing fees	70
Insurance	23,596
Legal fees	14,167
Rent	8,212
Security services	27,073
Transport costs	49,659
Utilities	2,559
GST paid	12,739
Total actual disbursements	<u>239,202</u>
Excess of actual receipts over disbursements	<u><u>\$ 3,234,893</u></u>