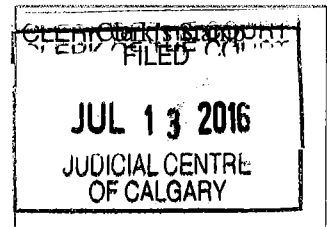


COURT FILE NUMBER **1601-06667**
COURT **COURT OF QUEEN'S BENCH OF ALBERTA**
JUDICIAL CENTRE **Calgary**
PLAINTIFF **CENTURY SERVICES CORP.**
DEFENDANTS **R3 ENERGY SERVICES INC., DEAN
RUTLEDGE, 1189269 ALBERTA LTD., R3
ENERGY SERVICES LLC, and TEXAS PRO
DYNO LLC**



DOCUMENT **APPLICATION BY THE
RECEIVER:

Approval Confirmation Ownership
Agreement**

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT **Terry L. Czechowskyj
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NOTICE TO RESPONDENTS

This application is made against you. You are a respondent.

You have the right to state your side of this matter before the master/judge.

To do so, you must be in Court when the application is heard as shown below:

Date **July 22, 2016**
Time **9:00 A.M.**
Where **Calgary Courts Centre, 601-5 Street SW, Calgary AB, T2P 5P7**
Before Whom **The Honourable Mr. Justice G.C. Hawco, Commercial List**

Go to the end of this document to see what else you can do and when you must do it.

Remedy claimed or sought:

1. Hardie & Kelly Inc., in its capacity as the court-appointed receiver and manager (the “Receiver”) of R3 Energy Services Inc. (the “Debtor”), seeks an Order for the following relief:
 - (a) Abridging the time for service of notice of this Application (if necessary) and deeming service of this Application, together with all supporting materials, to be good and sufficient;
 - (b) Approving the Confirmation of Ownership Agreement between the Debtor, executed by the Receiver, and the Defendants R3 Energy Services LLC and Dean Rutledge, dated June 20, 2016;
 - (c) Declaring that any purported transfer of assets as between the Debtor and R3 U.S. or Rutledge were void *ab initio* by virtue of the *Fraudulent Preferences Act* (Alberta), and such similar legislation; and
 - (d) Such further and other relief as this Honourable Court may deem just and appropriate in the circumstances.

Grounds for making this application:

2. The Receiver was appointed as receiver and manager over all of the Debtor’s property, assets and undertakings pursuant to an Order of this Court dated May 25, 2016 (the “Receivership Order”).
3. The principal secured lender of the Debtor, Century Services Corp. (“Century”), filed a Statement of Claim on May 19th, 2016. Among the allegations made by Century were claims that the Debtor had improperly transferred certain of its assets to a related company, R3 Energy Services LLC (“R3 U.S.”), and that any such transfers were void *ab initio* being contrary to the provisions of the *Bankruptcy and Insolvency Act* (Canada) and the provincial *Fraudulent Preferences Act* (Alberta).
4. Subsequent to its appointment, the Receiver reviewed certain of the Debtor’s financial records. Based upon such review, the Receiver ascertained that the majority of the Debtor’s assets had purportedly been transferred to an affiliated company, R3 U.S.
5. This is reflected on the financial records as a sale of assets from the Debtor to R3 U.S.; however, it was apparent that no payment from R3 U.S. had been received by the Debtor, with a corresponding debt owing from R3 U.S. to the Debtor. Based upon the Receiver’s review of the Debtor’s financial records, the purported sale of the Debtor’s assets to R3 U.S. occurred at a time that the Debtor was insolvent on a balance sheet basis.

6. In June 2015, the Receiver travelled to Odessa, Texas where it attended at locations where R3 U.S. and related companies were conducting operations. The site visits conducted by the Receiver confirmed that the Debtor's assets were at these locations and were in fact being used by R3 U.S..
7. Through negotiations with R3 U.S. and its principal, the Defendant Dean Rutledge ("Rutledge"), who is also the principal of the Debtor, the Receiver and R3 U.S. and Rutledge, entered into a Confirmation of Ownership Agreement dated June 20, 2016 (the "Confirmation Agreement"), whereby R3 U.S. expressly acknowledges that the Debtor was, and is, the sole legal and beneficial owner of the Debtor's assets purportedly transferred to it.
8. Further, the Confirmation Agreement provided that in the event any transfer of the Debtor's assets may have occurred, such transfer would be void *ab initio* by virtue of it being a transfer to a related party within one year of insolvency proceedings.
9. The conditions of the Confirmation Agreement have been satisfied and an Order approving the sale of the Debtor's "Dyno" equipment between the Receiver and Texas Pro Dyno LLC was granted by Hawco J. on July 11, 2016.
10. The Receiver believes that approval of the Confirmation Agreement is in the best interests of the Debtor's creditors, as:
 - (a) it recovers and clarifies ownership of the Debtor's property, which can then be marketed and sold for the benefit of the Debtor's creditors; and
 - (b) it does so without incurring the necessary expense and delay associated with formal litigation proceedings to recover the Debtor's assets purportedly transferred to R3 U.S., on the basis of fraudulent preference, or some other reviewable transaction.
11. Such other grounds as counsel may advise and this Honourable Court permit.

Material or evidence to be relied on:

12. The Second Report of the Receiver, dated July 13, 2016.
13. The pleadings and Receiver's Reports previously filed in these proceedings.

Applicable rules:

14. Alberta *Rules of Court*, AR 124/2010, and in particular Rules 1.3, 6.3, 6.4, 11.27, 11.29 and 13.5.

15. *Bankruptcy and Insolvency General Rules*, and in particular Rules 3, 6 and 11.

Applicable Acts and regulations:

16. *Bankruptcy and Insolvency Act*, RSC 1985, c B-3, as amended, and in particular Part XI thereof.
17. *Fraudulent Preferences Act*, RSA 2000, c F-24

Any irregularity complained of or objection relied on:

18. None.

How the application is proposed to be heard or considered:

19. In person, before the Honourable Justice G.C. Hawco, with some or all of the parties present.

WARNING

If you do not come to Court either in person or by your lawyer, the Court may give the applicant(s) what they want in your absence. You will be bound by any order that the Court makes. If you want to take part in this application, you or your lawyer must attend in Court on the date and at the time shown at the beginning of the form. If you intend to give evidence in response to the application, you must reply by filing an affidavit or other evidence with the Court and serving a copy of that affidavit or other evidence on the applicant(s) a reasonable time before the application is to be heard or considered.