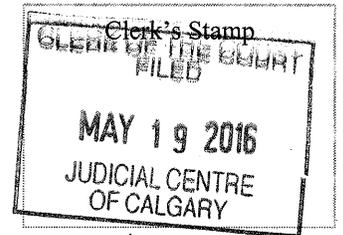


COURT FILE 1601-06667
COURT COURT OF QUEEN'S BENCH OF ALBERTA
IN BANKRUPTCY AND INSOLVENCY
JUDICIAL CENTRE Calgary
PLAINTIFF CENTURY SERVICES CORP.
DEFENDANTS R3 ENERGY SERVICES INC., DEAN
RUTLEDGE, 1189269 ALBERTA LTD., R3
ENERGY SERVICES LLC, and TEXAS PRO
DYNO, LLC
DOCUMENT AFFIDAVIT
ADDRESS FOR SERVICE AND John L. Ircandia, Q.C.; Patrick McCarthy, Q.C.
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DOCUMENT File No. 418656/000210



FIAT - Let the within Affidavit be filed pursuant to Rule 13.16 notwithstanding that it is not an original.

"Mason"
M.C.C.O.B.A.
May 19, 2016

AFFIDAVIT OF BRUCE MACLENNAN

Sworn on May 18, 2016

I, **BRUCE MACLENNAN** of Calgary, Alberta, MAKE OATH AND SWEAR AS FOLLOWS:

1. I am President and Chief Executive Officer of Century Services Corp. ("Century"), and am authorized by Century to swear this affidavit in support of the within Application for a Receivership Order.
2. I have had direct involvement in Century's dealings with R3 Energy Services Inc. ("R3") and its President and Chief Executive Officer, Dean Rutledge ("Rutledge"), and based on that

involvement as well as my review of books and records kept by Century in the ordinary course of business, I have personal knowledge of the matters and facts herein deposed to, except where indicated to be based on information and belief, in which case I verily believe those facts to be true.

Background

3. R3 contacted Century and sought financial support and accommodations as a result of which a related entity, Century Services LP (“**Century LP**”) ultimately entered into a Loan Agreement with R3 dated July 31, 2014 (the “**Loan Agreement**”). All of the interest of Century LP in the Loan Agreement and the security granted by R3 in support thereof as described in further detail below, was subsequently duly assigned to Century.
4. Pursuant to the Loan Agreement, Century provided the following credit facilities to R3:
 - a) A demand, revolving, accounts receivable facility in the maximum principal amount of CDN \$2,000,000.00; and
 - b) A demand, non-revolving, term loan in the maximum principal amount of CDN\$3,100,000.00.
5. R3 is a private corporation duly registered in the province of Alberta with offices located in the city of Calgary and operating out of an industrial compound located in or near the town of Nisku, Alberta. R3’s business was primarily in the rental of heavy construction equipment and in providing various services and equipment rentals to the directional drilling sector of the oil and gas industry.
6. The President and Chief Executive Officer of R3, and the officer of R3 with whom Century primarily dealt in connection with the Loan Agreement and all related matters, was Rutledge. To my knowledge, Rutledge has a residence in the city of Calgary but also maintains an apartment in or near the city of Odessa, Texas. I am also aware that Rutledge is the sole director and principal, if not sole, shareholder of R3 Energy Services LLC (“**R3 Texas**”), which conducts a business similar to that of R3 in or around Odessa, Texas.
7. Rutledge is also the sole director and majority shareholder of 1189269 Alberta Ltd. (the “**Numbered Company**”), a company who has dealings with each of R3 and R3 Texas. His wife is the only other shareholder.

8. Rutledge is also the sole director and principal, if not sole, shareholder of Texas Pro Dyno LLC (“**Dyno**”), a company who has dealings with each of R3 and R3 Texas.
9. Attached together as **Exhibit 1** to this Affidavit are copies of corporate searches respecting R3, R3 Texas, the Numbered Company and Dyno.
10. R3 provided security in favour of Century in support of the monies advanced pursuant to the Loan Agreement. Such security included the following:
 - a) a promissory note from R3 to Century in the amount of \$5,100,000 CDN;
 - b) a general security agreement granted by R3 to Century creating a first charge over all present and after-acquired property, assets and undertaking of R3 (the “**R3 GSA**”);
 - c) a guarantee and postponement of claim limited to a maximum principal amount of \$750,000 was granted by Rutledge in respect of the obligations owed by R3 to Century (the “**Rutledge Guarantee**”);
 - d) a general security agreement was granted by Rutledge in favour of Century creating a first charge over all present and after-acquired property, assets and undertaking of Rutledge (the “**Rutledge GSA**”); and
 - e) an assignment of the rights, benefits and interest of R3 in certain insurance policies and all proceeds resulting therefrom.

(Such security is collectively referred to in this Affidavit as the “**Century Security**”).
11. Attached as **Exhibits 2, 3 and 4** respectively to this Affidavit are copies of the R3 GSA, the Rutledge Guarantee and the Rutledge GSA.
12. Pursuant to the terms of the R3 GSA and the Rutledge GSA, respectively, R3 and Rutledge each agreed that Century would be entitled to seek the appointment of a receiver and receiver manager of R3 and Rutledge in the event of default.
13. The R3 GSA includes as Schedule A, a detailed list of the R3 assets which will assist a Receiver, if appointed, in tracing and identifying the assets of R3 subject to the Century Security.

14. All Century Security which required registration, including the general security agreements were duly registered pursuant to the laws of the province of Alberta as well as pursuant to the Uniform Commercial Code of the State of Texas.

Default and Demand

15. Commencing in early 2016, R3 defaulted under the terms of the Loan Agreement. In particular, R3 has:
- (a) failed to make payments when properly due and owing (in fact no payment has been received from R3 since February 22, 2016);
 - (b) failed to provide required financial reporting since January, 2016;
 - (c) has closed its offices in Calgary and its industrial yard in Nisku and effectively ceased to carry on business in the province of Alberta; and
 - (d) has, without the approval of Century, transferred all of its assets and property to a company owned and operated by Rutledge, R3 Texas, in or around the city of Odessa in the state of Texas,

all of which actions constitute “**Events of Default**” as defined by the Loan Agreement and the Century Security.

16. As a result of these Events of Default, by letter to R3 dated April 26, 2016, Century formally demanded repayment by R3 of all amounts outstanding (the “**R3 Demand**”). In particular, as of April 25, 2016 the sums of \$2,622,647.81 (Canadian Funds) and \$335,982.40 (U.S. Funds), plus interest accrued and accruing thereon and all costs, fees, commissions and expenses incurred by Century, were properly due and owing by R3. Attached as **Exhibit 5** to this Affidavit is a copy of the R3 Demand.
17. Also by letter dated April 26, 2016, Century issued formal demand upon Rutledge for repayment of all sums properly due and owing under the Rutledge Guarantee (the “**Rutledge Demand**”). Attached as **Exhibit 6** to this Affidavit is a copy of the Rutledge Demand.
18. In addition, Century issued and served upon both R3 and Rutledge Notices of Intention to Enforce Security dated April 26, 2016 pursuant to Section 244 of the *Bankruptcy and Insolvency Act* (“**BIA**”). Attached collectively as **Exhibit 7** to this Affidavit are copies of the Notices of Intention.

19. Despite the R3 Demand and the Rutledge Demand, no payments whatsoever have been received by Century from either R3 or Rutledge. In fact, Century has not received a payment from R3 since February 22, 2016. Century has never received a payment from Rutledge. Further, Rutledge has acknowledged to me that R3 is incapable of making payment to Century to repay the Debt. As a result, Century is entitled to proceed with a receivership application respecting each of R3 and Rutledge under the terms of the Century Security.
20. As of May 17, 2016 the amounts due and owing by R3 to Century were \$2,658,825.00 (Canadian Funds) and \$367,559 (U.S. Funds), together with accrued and accruing commissions, costs, fees and expenses incurred or to be incurred by Century (together the “**Indebtedness**”).

Additional Basis Appointment of Receiver

a) Judgment Creditors

21. In addition to the Indebtedness owed to Century, there are judgement creditors outstanding against R3. In particular, I have reviewed a search conducted by our legal counsel at the Courthouse which reveal that at least two (2) separate judgements have been registered against R3: a default judgement filed on May 10, 2016 in the sum \$61,178.05 and an order for summary judgement filed on February 18, 2016 in the sum of \$91,323.40. In addition, the Courthouse search revealed a claim filed against R3 on April 15, 2016 in the amount of \$720,951.00. I am aware and do verily believe that Century’s legal counsel has contacted these creditors and confirmed that said claims, including the two judgements, remain unsatisfied.
22. Attached collectively as **Exhibit 8** to this my Affidavit is a copy of the courthouse search along with a copy of the judgements referred to.

b) Removal of R3 Property from the jurisdiction

23. Century has become aware in the past six months that both the Calgary offices of R3 as well as the industrial compound out of which R3 operated its business in Nisku, have effectively been closed and that all material assets of R3 have now been removed to near or around the City of Odessa, Texas. I believe that this action was deliberately undertaken by Rutledge without regard to the interests of Century or other creditors of R3 in this jurisdiction and to enhance the business of R3 Texas and Dyno. Further, this action by R3 and Rutledge has effectively removed assets which are subject to the security of Century from the jurisdiction thereby making it extremely

difficult for Century to realize on its security in repayment of outstanding loans or for judgement creditors to satisfy their claims.

24. Century has further become aware that the majority of these R3 assets are under the control and possession of R3 Texas and are being actively used by R3 Texas in its own business. As a result, I am concerned that these assets which should be available to Century and potentially other creditors of R3 in this jurisdiction are instead being dissipated by R3 Texas with the result that their values will be reduced or eliminated.
25. While the value of the assets of R3 has declined significantly, I believe that the value of the assets of R3 Texas has dramatically increased. Based on my discussions with Rutledge and review of inventory lists and financial records, I attribute this increased value to:
 - a) The possession and use by R3 Texas of R3's assets;
 - b) The purchase by R3 at a time it was insolvent of assets for R3 Texas;
 - c) The failure of R3 Texas to pay rent or any compensation in connection with its use of R3's assets; and
 - d) The failure of R3 Texas to pay an outstanding payable in the approximate sum of \$2,100,000.00 owed to R3 and subject to Century's security.
26. Attached hereto as **Exhibit 9** to this my Affidavit is a copy of R3's accounts receivable aging summary dated March 18, 2016, showing the outstanding receivable from R3 Texas to R3 in the amount of \$2,143,788.72.
27. This outstanding accounts receivable is also reflected on R3 Texas' accounts payable aging summary, also dated March 18, 2016. R3 Texas' accounts payable summary also indicates that it has several other outstanding balances owing to related parties; namely R3 Texas owes:
 - (a) \$180,341.51 to the Numbered Company;
 - (b) \$129,230.64 to Rutledge himself; and
 - (c) the \$2,143,788.72 to R3 described above.

28. Attached hereto as **Exhibit 10** to this my Affidavit is a copy of R3 Texas' accounts payable aging summary dated March 18, 2016.
29. At the direction of R3, certain funds advanced by Century to R3 have been wired to R3 Texas. For example, on January 5, 2016, funds in the amount of \$115,065 were wired to R3 Texas, which included the following description "Advances from Century Services USD Funds". In fact, total net advances to R3 Texas total \$367,559 (U.S. Funds) as of May 17, 2016, which is due and owing to Century as set out above. Attached hereto as **Exhibit 11** to this my Affidavit is a copy of the wire transaction detail.

c) Fraudulent Preferences

30. I believe that the purchase of assets for R3 Texas by R3 and the transfer of assets from this jurisdiction by R3 to R3 Texas constitute fraudulent preferences.
31. In addition to the removal of property and assets of R3 from this jurisdiction to the detriment of Century and other creditors as referred to above, I do not believe that R3 Texas has paid rent or otherwise compensated R3 in connection with the use of these assets.
32. Based on my review of R3 and R3 Texas' financial records for the years 2015 and 2016, it is evident that while there has been a significant increase in the fixed assets in R3 Texas, there has been a corresponding decrease in R3's fixed assets. This is balanced on R3 Texas' balance sheet by showing a liability from R3 Texas to R3 in the approximate amount of \$2,100,000. As a result of the depletion of R3's fixed assets, there has also been a significant depletion in R3's accounts receivable, as these were revenue generating assets. Attached hereto as **Exhibit 12** to this my Affidavit is a copy of calculations detailing these transactions, as well as the supporting financial statements referenced to generate such calculations.
33. This transfer of assets by R3 to R3 Texas has essentially converted Century's secured loan based on R3's fixed assets and revenues earned on the operation of those assets, to an unsecured receivable owing from R3 Texas to R3, with no specified payment terms.
34. In addition to the R3 equipment that has been transferred to R3 Texas, certain of R3's "dyno" equipment, including numerous motors and potentially other equipment secured by the Century Security, is in the possession of Dyno without any rent or other form of consideration being paid from Dyno to R3.

35. I suspect Dyno is using the equipment in a similar manner as R3 Texas; namely, conducting its business utilizing R3's dyno equipment and collecting revenue from such operations thereby diverting revenue from R3 to Century's detriment.
36. R3 has also transferred certain "mud motors" and potentially other equipment secured by the Century Security, to the Numbered Company without any consideration paid from the Numbered Company to R3 for such transfer.
37. Century is of the view that these payments and transfers of assets set out above, or certain of them, were made at a time when R3 was insolvent and have in any event, preferred R3 Texas, the Numbered Company, and Dyno, as well as other creditors of R3 in this jurisdiction, and diverted available funds from R3 that could have been utilized to repay its outstanding indebtedness to Century.
38. The Numbered Company has filed a first charge, Uniform Commercial Code registration against the assets of R3 Texas in the United States. As such I am concerned that the transfer of assets from R3 to R3 Texas will fraudulently prefer not only R3 Texas but also Rutledge and the Numbered Company to the detriment of Century and other creditors of R3.
39. In view of the foregoing, I verily believe and it is the position of Century that it is not only convenient and appropriate, but necessary to appoint a receiver to protect the assets underlying the Century Security.
40. Hardie & Kelly Inc. has consented to act as receiver of R3 and Rutledge, which will be filed with this Application.

Urgency

41. There is significant urgency with respect to this application. In particular:
 - a) There are now no material assets of R3 in this jurisdiction;
 - b) R3 Texas has possession and use of the R3 assets in or around Odessa, Texas;
 - c) The co-mingled use of those assets by R3 Texas is diminishing their value and making tracing and identification of R3's assets increasingly difficult;

- d) Revenues associated with the use of R3’s assets by R3 Texas are being diverted to R3 Texas to the detriment of R3 and its creditors;
- e) R3 has effectively “closed shop” in this jurisdiction and despite express obligations to the contrary, has refused to make available its books and records, including inventory lists.
- f) Rutledge has provided inconsistent messages respecting the location of R3’s books and records, most recently alleging they are with a former R3 bookkeeper or accountant at a residential address in Calgary; and
- g) Continuing to refuse to deliver the books and records to Century.

Conclusion

42. I swear this affidavit in support of the remedies sought in the Application, in particular an order of this Honourable Court appointing Hardie & Kelly Inc. as receiver and receiver manager over R3 and Rutledge, and for no other purpose.

SWORN BEFORE ME at Odessa, Texas, this)
18th day of May, 2016.)

Debbie J. Staggs)
Notary Public in and for the State of Texas,)
United States)

Bruce MacLennan

BRUCE MACLENNAN

