

COURT FILE NUMBER 1601-06667
COURT COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE CALGARY

APPLICANT CENTURY SERVICES CORP.

DEFENDANTS R3 ENERGY SERVICES INC., DEAN RUTLEDGE,
1189269 ALBERTA LTD., R3 ENERGY SERVICES, LLC
and TEXAS PRO DYNO, LLC

IN THE MATTER OF THE RECEIVERSHIP OF
R3 ENERGY SERVICES INC.

DOCUMENT **FIRST REPORT OF THE RECEIVER,
HARDIE & KELLY INC.
JUNE 30, 2016**

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT
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**FIRST REPORT OF THE RECEIVER
HARDIE & KELLY INC.
JUNE 30, 2016**

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INTRODUCTION

1. On May 25, 2016, Century Services Corp. (“Century”) made an application to the Court of Queen’s Bench of Alberta (the “Court”) for the appointment of a receiver (the “Receiver”) of the current and future assets, undertakings and property of R3 Energy Services Inc. (“R3 Canada” or the “Company”).
2. The Court granted a Consent Receivership Order (the “Receivership Order”) on May 25, 2016 (the “Receivership Date”) appointing Hardie & Kelly Inc. as the Receiver. R3 Canada through its legal counsel consented to the Receivership Order.
3. The purpose of this report (the “First Report”) is to advise the Court of:
 - a. The activities of the Receiver since the Receivership Date;
 - b. The extent of the known claims of creditors against R3 Canada; and
 - c. The Receiver’s recommendation in respect to the sale of certain of the Company’s assets.

TERMS OF REFERENCE

4. In preparing this First Report, the Receiver has relied upon unaudited financial information, records of the Company and discussions with the Company’s former principal. The Receiver has not performed an audit, review or other verification of such information.

BUSINESS OPERATION

5. R3 Canada is a private company that was incorporated in Alberta in November 2006. A recent search of the Alberta Corporate Registration System indicates that Mr. Dean Rutledge is the 100% shareholder and sole director of R3 Canada.
6. The Company provided performance drilling motors and downhole tool rentals, including its own designed performance motors, to the directional drilling sector of the oil and gas industry.

7. R3 Canada previously maintained a head office in Calgary, Alberta and an operating shop in Nisku, Alberta. As a result of the depressed state of the oil and gas industry in Alberta, the Company's business opportunities had all but ceased by the fall of 2015. Consequently, the Canadian operations were closed in early 2016 and R3 Canada's assets (the "Canadian Assets") were relocated to the Odessa/Midland area in Texas where Mr. Rutledge had established a related company, R3 Energy Services, LLC ("R3 USA"), in 2013. We understand that Mr. Rutledge is the President and sole director of R3 USA.
8. We understand that in late 2015, Mr. Rutledge caused another American company, Texas Pro Dyno, LLC ("Texas Pro Dyno"), to be established and that Mr. Rutledge is also the mind and management of Texas Pro Dyno. Texas Pro Dyno has a shop located in the Odessa/Midland area and certain of the Canadian Assets were being utilized by Texas Pro Dyno to generate income pursuant to a rental agreement dated April 1, 2016 (the "Rental Agreement") between Texas Pro Dyno and R3 USA, on behalf of R3 Canada.

INITIAL ACTIVITIES OF THE RECEIVER

9. Shortly after the appointment of the Receiver, Mr. Rutledge travelled to Calgary and met with the Receiver at which time Mr. Rutledge provided some of the records of R3 Canada to the Receiver and the Receiver explained its mandate to Mr. Rutledge. At that time, the Receiver agreed that Texas Pro Dyno could continue to utilize certain of the Canadian Assets on an interim basis provided Texas Pro Dyno paid rent to the Receiver at the same rate provided for in the Rental Agreement until such time as the Receiver was in a position to formulate an action plan with respect to the Canadian Assets.
10. The Receiver then travelled to Midland/Odessa to view and gain an understanding of the Canadian Assets and the use of certain of these assets in Texas Pro Dyno's operations.

11. The Receiver was advised by Mr. Rutledge that certain of the Canadian Assets were being held by Dyna-Drill Technologies and/or Schlumberger (collectively referred to as “Dyna-Drill”) in both Canada and the United States. The Receiver contacted a representative of Dyna-Drill to advise of its appointment and followed up with written correspondence seeking the release of such assets; however, Dyna-Drill has yet to respond to the Receiver.
12. The Receiver contacted the Company’s external accountants who provided certain additional Company records to the Receiver.

CREDITORS

13. As of the Receivership Date, the Company had known obligations totaling approximately \$6.4 Million. The Receiver has not and does not propose to initiate a formal claims process.
14. The creditors included in the above figure which have registered a secured interest against the Company as evidenced by a search of the Alberta Personal Property Registry (the “PPR”) and the approximate amounts believed to be owed to these creditors are as follows:
 - a. Century - \$3,200,000;
 - b. 1189269 Alberta Ltd. (“1189269”) - \$640,000;
 - c. Mr. Michael Keohane - \$522,000.
15. In respect of the above, we can advise as follows:
 - a. The Receiver has obtained an independent security opinion from its legal counsel confirming the validity and enforceability of Century’s security interest;
 - b. The Receiver understands that 1189269 is a related company owned by Mr. Rutledge and his wife. 1189269’s security was registered at the PPR subsequent to the date of Century’s registration at the PPR. Mr. Rutledge has acknowledged that 1189269 ranks subordinate to Century; and

- c. Mr. Keohane has confirmed directly with the Receiver that he does not actually hold a valid security instrument.
16. Mr. Rutledge has advised the Receiver that the Canadian Assets have not been pledged as security since they were relocated to the United States.
17. The Receiver is not aware of any claims from former employees of R3 Canada or from Canada Revenue Agency.

INITIAL SALES OF ASSETS

18. Prior to the appointment of the Receiver, following various defaults by R3 Canada, Century in its capacity as the principal secured creditor of R3 Canada had been negotiating the potential sale of certain of the Canadian Assets to Texas Pro Dyno with Mr. Rutledge for several months; however, a final agreement had not been reached prior to the Receivership Date.
19. During his initial meeting with the Receiver, Mr. Rutledge had indicated his desire for Texas Pro Dyno to acquire these specific Canadian Assets; however, the Receiver advised that at that time it was not in a position to consider an offer in advance of gaining an understanding of the assets and potential alternatives that may be available to the Receiver.
20. The Receiver and Texas Pro Dyno subsequently negotiated a formal interim rental agreement and an offer to purchase certain of the Canadian Assets (the "Offer to Purchase") a copy of which is attached as Appendix "A" to this First Report.
21. The terms of the Offer to Purchase *inter alia* are as follows:
 - a. Purchase price of CDN \$700,000 (the "Purchase Price"), plus all applicable taxes;
 - b. The sale is subject to Court approval;
 - c. Payment of the Purchase Price to be made within 2 days of Court approval;

- d. The obligation for Texas Pro Dyno to pay any applicable Canadian or United States taxes in respect of the sale survives indefinitely; and
 - e. The sale is on “as is, where is” basis with no representations or warranties.
22. The Receiver is satisfied that the Purchase Price is reasonable in the circumstances and that the assets that are subject to the Offer to Purchase need not otherwise be marketed for the following reasons:
- a. In June 2015, in conjunction with its lending arrangements with R3 Canada, Century had caused Century Services Inc. to prepare a forced sale liquidation value appraisal of R3 Canada’s assets (the “Appraisal”). An excerpt from the Appraisal that values the Canadian Assets that are the subject of the Offer to Purchase at CDN \$1.2 Million is attached as Appendix “B”. Based on the Receiver’s experience, the Appraisal is certain to overstate the current liquidation value of the assets subject to the Offer to Purchase given what has transpired in the oil and gas industry over the past 12 months since the date of the Appraisal;
 - b. In the event the assets subject to the Offer to Purchase were otherwise to be sold to a third party by way of a marketing process initiated by the Receiver, Texas Pro Dyno would certainly either charge the Receiver a form of rental/storage charge and/or require the respective assets to be moved from its premises in Odessa/Midland. The Receiver has obtained a preliminary quote in excess of US \$50,000 to disassemble and remove the assets from the premises;
 - c. In the event the assets were otherwise to be liquidated by way of public auction, expenses would again have to be incurred to remove the assets from the Texas Pro Dyno location and auction commissions and expenses would further deteriorate the available net proceeds; and

- d. Century, who as the principal secured creditor is likely to experience an overall shortfall from realizations at the conclusion of the receivership proceedings, is supportive of the Offer to Purchase and the Purchase Price.
23. The Receiver will be serving 1189269, Mr. Keohane and the other significant known unsecured creditors with notice of its upcoming application seeking the Court's approval of the Offer to Purchase.
 24. The Receiver has received an independent legal opinion confirming the validity and enforceability of Century's security such that the Receiver will also be seeking the Court's authorization to make an interim distribution to Century in the amount of CDN \$700,000 subsequent to the closing of the contemplated sale to Texas Pro Dyno.

ONGOING RECEIVERSHIP ADMINISTRATION

25. Notwithstanding the contemplated sale to Texas Pro Dyno, the administration of the receivership will be ongoing as the Receiver must address and resolve several issues including but not limited to:
 - a. The disposition of the remaining assets of R3 Canada not included in the Offer to Purchase;
 - b. Further investigating the background and circumstances associated with purported transactions between R3 Canada and R3 USA; and
 - c. Further investigating and resolving the assets in the possession of Dyno-Pro.

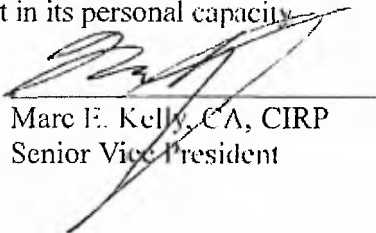
RECOMMENDATIONS

26. The Receiver is seeking and recommends to this Honourable Court the following:
 - a. Approval of the Offer to Purchase for the reasons noted in this First Report; and;
 - b. Authorization of an interim distribution of CDN \$700,000 to Century upon the closing of the sale contemplated by the Offer to Purchase.

All of which is respectfully submitted this 30th day of June 2016.

Hardie & Kelly Inc., in its capacity as
Receiver of R3 Energy Services Inc.
and not in its personal capacity

Per:



Marc E. Kelly, CA, CIRP
Senior Vice President

APPENDIX "A"

OFFER TO PURCHASE

THIS OFFER TO PURCHASE (this "Agreement") made as of the 12 day of June, 2016
between:

**HARDIE & KELLY INC., in its capacity as Receiver of the assets, properties and
undertakings of R3 Energy Services Inc., and not in its personal or corporate capacity
("Vendor")**

- and -

**TEXAS PRO DYNO, LLC
("Purchaser")**

WHEREAS Hardie & Kelly Inc., by Consent Order dated May 25, 2016 in the Court of Queen's Bench of Alberta (the "Court") was appointed as Receiver over the assets, properties and undertakings of R3 Energy Services Inc. ("**R3 Canada**");

AND WHEREAS Vendor has agreed to sell and Purchaser has agreed to purchase certain assets located in Odessa, Texas, as set out in Schedule "A" (the "**Purchased Assets**") for the agreed purchase price of CDN \$700,000, plus any applicable taxes (the "**Purchase Price**"), all subject to terms and conditions as provided herein.

NOW THEREFORE in consideration of the premises and the mutual agreements set out in this Agreement, Vendor and Purchaser agree as follows:

1. Purchase and Sale

1.1 Vendor hereby agrees to assign, transfer, convey and set over to Purchaser all right, title and interest of Vendor in and to the Purchased Assets to have and to hold the same, together with all benefit and advantage to be derived therefrom, absolutely and Purchaser agrees to purchase and accept the Purchased Assets from Vendor, pursuant to the terms and conditions as provided herein.

1.2 The obligation of the Vendor to complete the sale of the Purchased Assets contemplated by this Agreement is subject to approval of the Court, in a form satisfactory to Vendor and Purchaser, acting reasonably, on or prior to the date that is thirty (30) days after the date of this Agreement.

1.3 Within 2 business days after Court approval, Purchaser shall tender to Vendor, by wire transfer to an account specified by Vendor or by bank draft, an amount equal to the Purchase Price and upon receipt of such funds, Vendor shall

deliver a general conveyance of the Purchased Assets.

- 1.4 Any Canadian Federal, Provincial, U.S. or State taxes, fees and expenses, including property taxes, in connection with the Purchased Assets and/or registration of the sale shall be for Purchaser's account and Purchaser hereby indemnifies Vendor against all actions, proceedings, claims, demand, losses, costs, damages and expenses (including, without limitation, legal costs on a solicitor and own client basis) which may be brought against or suffered by Vendor or which Vendor may suffer, sustain, pay or incur, by reason of, arising out of or in any way attributable to the payment of or failure by Purchaser to pay such taxes, fees and expenses. This Purchaser's indemnity shall survive the closing indefinitely.

2. No Representations and Warranties

- 2.1 The Purchased Assets are purchased on a strictly "as is-where is" basis and there are no collateral agreements, conditions, representations or warranties of any nature whatsoever made by Vendor, express or implied, arising at law, by statute or in equity or otherwise, with respect to the Purchased Assets. Purchaser expressly acknowledges that it has inspected, or has been given the opportunity to inspect, the Purchased Assets and is satisfied with the quality, condition, suitability, description, quantity and fitness for use of the Purchased Assets.

3. Governing Law

- 3.1 This Agreement shall, in all respects, be subject to and be construed and enforced in accordance with the laws in effect in the Province of Alberta, and the laws of Canada applicable therein. Each party accepts the non-exclusive jurisdiction of the courts of the Province of Alberta having jurisdiction in the matter.

4. Entire Agreement

- 4.1 This Agreement sets forth the entire agreement between the parties in respect of

the subject matter hereof and supersedes and takes the place of any and all oral or written arrangements, understandings or agreements between the parties with respect to the Purchased Assets.

5. Further Assurances

5.1 Each of the parties shall without additional consideration, from time to time, and at all times, do all such acts and execute and deliver all such further documents and deeds as shall be required in order to fully perform and carry out the terms and provisions of this Agreement and the undertakings contemplated hereby.

6. Enurement

6.1 This Agreement shall be binding upon and enure to the benefit of the parties hereto and their respective successors and assigns.

7. Time


7.1 Time shall be of the essence of this Agreement.

8. Counterpart Execution

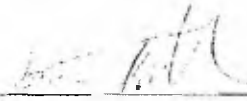
8.1 This Agreement may be executed in counterpart and by electronic means (including facsimile or portable document format), no one copy of which need be executed by both parties. A valid and binding contract shall arise if and when counterpart execution pages are executed and delivered by the parties, including those delivered electronically.

IN WITNESS WHEREOF Vendor and Purchaser have executed this Agreement as of the date and year above first written.

HARDIE & KELLY INC, in its capacity as TEXAS PRO DYNO, LLC
Receiver of the assets and undertaking of R3
Energy Services Inc. and not in its personal
or corporate capacity

Per: 

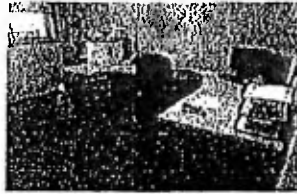
Mark Kelly
Senior Counsel

Per: 

Schedule "A"

R3 ENERGY SERVICES - ~~SECRET~~ - OWNED ASSETS - JUNE 2015

Photo Description



(9) Complete Offices Consisting of:
Office Chairs, Office Fridge, Boardroom Table / Chairs, (9)
Workstations



Subtotal - Furniture & Equipment



Shop Furniture
(11) 4 Shelf Storage Racks
Fridge/Dishwasher/TV(4)/Loveseat

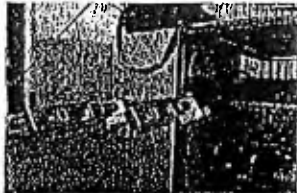


Subtotal - Shop Furniture



Shop Equipment

(2) Mitutoyo Absolute Bore Gauges
SN# R3E-BG-01
SN# R3E-BG-02



NOV Griffith Torquemaster/Torquepro
SN - 1689692
w/ Push Pull Rams, (4) Floor Jacks, 16' Bed and (3) 19' Extensions,
Splnner, Torque Lugger, Drip Pans, Operator Console



Wholer Reel Camera Inspection System, Model VIS 340



Dyna Link Crane Scale SN# R3E-59048
Large Tool Boxes x 2 SN# R3E-SK-01 / SN# R3E-SK-02



Karcher Pressure Washer
SN 15757070-161314



DV Air Compressor
SN 37915
Table with Vice and Grinder SN# R3E-WB-01
Wrench Rack on Wheels SN# R3E-651478



C-Vice SN# R3E-CV-01

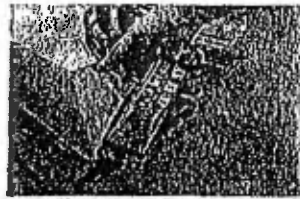


50 Ton Hydraulic Hand Press SN# R3E-SP-01

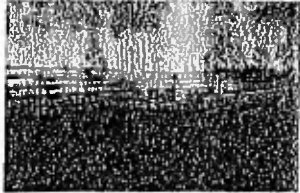


R3 ENERGY SERVICES - ~~SECRET~~ OWNED ASSETS - JUNE 2015

Photo Description



(2) Telecrane Remote Control Systems



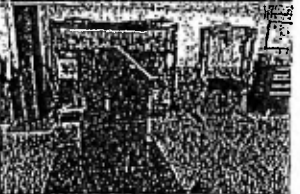
(4) 8' Collar Racks
 SN# R3E-651470
 SN# R3E-651471
 SN# R3E-651472
 SN# R3E-651473



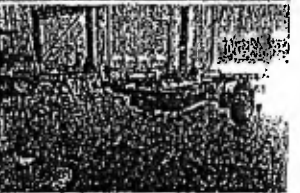
(6) 7' Rotor/Stator Racks
 SN# R3E-651461 SN# R3E-655595
 SN# R3E-651459 SN# R3E-651457
 SN# R3E-651458 SN# R3E-651460



(2) 5' Mud Motor Racks SN# R3E-661468 / SN# R3E-661469
 5' Motor Paint Rack SN# R3E-PR-01
 Motor Inspection Cart SN# R3E-SC-06
 Wrench Rack on Wheels SN# R3E-651479
 4' x 8' Flat Work Table SN# R3E-WB-02



C-Vice
 5" Push Pull Nubbin SN# R3E-PN-01
 6 3/4" Push Pull Nubbin SN# R3E-PN-02
 2' x 4' x 20' 2 Way Rack SN# R3E-SR-01
 3 Tier Heavy Dusty Staging Rack SN# R3E-661464



Tool Buggy
 SN# R3E-SC-01



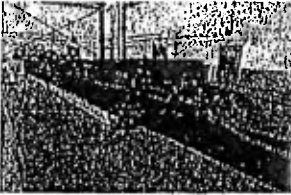

(4) 20" Stub Racks
 SN# R3E-651466
 SN# R3E-651467
 SN# R3E-651468
 SN# R3E-651469



(4) 36" Wide Reamer Racks
 SN# R3E-661456
 SN# R3E-661456
 SN# R3E-651464
 SN# R3E-661453

R3 ENERGY SERVICES - ~~VEHICLES~~ - OWNED ASSETS - JUNE 2015

Photo	Description
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	<p>8" Rotor Comparator Precision Scale SN# R3E-68883 NOV Duratester Dyno Machine SN 8139-001 w/ Siemens Touch Screen Operator Console, WPT Power Water Cooled Brake, Cat C18 Engine - SN WRH01197, 700 Hp, 743 Hours, Z Astronic 12A53040S0 Transmission, 2013 Kamat K55000 Triplex Pump - SN 163722/2, NOV Cooling Rad - SN 8139-001, Curver GHC 2.5x2800 Pump - SN 190884-1A, Teco 40 Hp Motor - SN DXP7124029137, 2013 Westeel 4530L Cap. Double Wall Fuel Tank - SN 671306192, Contained In (2) 40' Insulated Seacans</p>
	<p>Seacan w/ Cat C18, Triplex, Rad, Fuel Tank Nubbins - Dyno Assembly Dyno - Wire In Material Dyno - Assembly Dyno - Diesel Tank Generator Exhaust - Install Jack Upgrade Vector Measuring Tools SN# R3E-VT300-01 / SN# R3E-VT160-01</p>

Subtotal - Shop Equipment





Computer Hardware
 Laptop & Docking Station
 Computer Towers(3), Monitors(3)
 Mini Dock, Think Pads
 (7) Lenovo Laptops
 Surface Pro Table

Subtotal - Computer Hardware

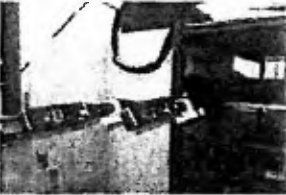






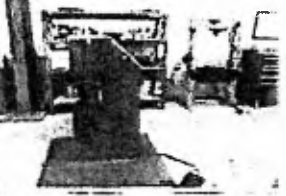
Grand Total

APPENDIX "B"








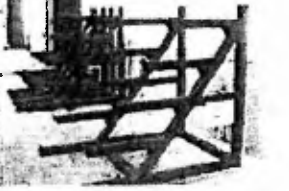
R3 ENERGY SERVICES - SCHEDULE B - OWNED ASSETS - JUNE 2015

Photo	Description	FLV 2015
	<p>(9) Complete Offices Consisting of: Office Chairs, Office Fridge, Boardroom Table / Chairs, (9) Workstations</p>	
		
Subtotal - Furniture & Equipment		9,500
Shop Furniture		
	<p>(11) 4 Shelf Storage Racks Fridge/Dishwasher/TV(4)/Loveseat Blinds, Furniture R3 Logo Sign</p>	
		
Subtotal - Shop Furniture		3,000
Office Equipment - Class 8		
<p>Various Phones Pan 3 Port 94 Hr Storage & Digital Interface BB 8830 Smartphone (DDHHRM000019) Brother MFC-9840 CD 012502618744 (4) Panasonic Phones</p>		
Subtotal - Office Equipment		700
Website		
Website costs		
Subtotal - Website		0


R3 ENERGY SERVICES - SCHEDULE B - OWNED ASSETS - JUNE 2015

Photo	Description	FIV-2015
	Shop Equipment (2) Mitutoyo Absolute Bore Gauges	5,000
	NOV Griffith Torquemaster/Torquepro SN - 1689692 w/ Push Pull Rams, (4) Floor Jacks, 16' Bed and (3) 19' Extensions, Spinner, Torque Lugger, Drip Pans, Operator Console	250,000
	Wholer Reel Camera Inspection System, Model VIS 340	2,500
	Dyna Link Crane Scale Large Tool Boxes x 2	900 2,500
	Karcher Pressure Washer SN 15757070-161314	3,000
	DV Air Compressor SN 37915 Table with Vice and Grinder Wrench Rack on Wheels	4,500 700 350
	C-Vice	4,500
	50 Ton Hydraulic Hand Press	1,800

R3 ENERGY SERVICES - SCHEDULE B - OWNED ASSETS - JUNE 2015

Photo	Description	FLY 2015
	(2) Telecrane Remote Control Systems	800
	(4) 8' Collar Racks	6,000
	(6) 7' Rotor/Stator Racks	9,000
	(2) 5' Mud Motor Racks	4,000
	5' Motor Paint Rack	700
	Motor Inspection Cart	1,500
	Wrench Rack on Wheels	500
	4' x 8' Flat Work Table	900
	C-Vice	4,500
	5" Push Pull Nubbin	100
	6 3/4" Push Pull Nubbin	150
	2' x 4' x 20' 2 Way Rack	900
	3 Tier Heavy Dusty Staging Rack	1,000
	Tool Buggy	1,000
	(4) 20" Slub Racks	1,200
	(4) 36" Wide Reamer Racks	1,800

R3 ENERGY SERVICES - SCHEDULE B - OWNED ASSETS - JUNE 2015

Photo	Description	FLV	
	8" Rotor Comparator	1,500	
	Precision Scale	750	
	NOV Duratester Dyno Machine SN 8139-001	875,000	
	w/ Siemens Touch Screen Operator Console, WPT Power Water Cooled Brake, Cat C18 Engine - SN WRH01197, 700 Hp, 743 Hours, ZF Astronic 12AS3040S0 Transmission, 2013 Kamat K55000 Triplex Pump - SN 163722/2, NOV Cooling Rad - SN 8139-001, Curver GHC 2.5x2800 Pump - SN 190884-1A, Teco 40 Hp Motor - SN DXP7124029137, 2013 Westeel 4530L Cap. Double Wall Fuel Tank - SN 671306192, Contained in (2) 40' Insulated Seacans		
	Seacan w/ Cat C18, Triplex, Rad, Fuel Tank	incl	
	Nubblins - Dyno Assembly	incl	
	Dyno - Wire In Material	incl	
	Dyno - Assembly	incl	
	Dyno - Diesel Tank	incl	
	Generator Exhaust - Install	incl	
	Jack Upgrade	incl	
	Vector Measuring Tools	15,000	
	Subtotal - Shop Equipment		1,202,050
	Computer Hardware		
	Various 2007		
Various 2008			
Various 2009			
Various 2010			
Server Upgrade			
Server Upgrade			
Various 2011			
Various 2012			
Laptop & Docking Station			
Landmark Software Purchase			
Various 2013			
SynergyDesk Implementation Fee			
Computer Towers(3), Monitors(3)			
Mini Dock, Think Pads			
SynergyDesk Implementation Fee Balance			
(7) Lenovo Laptops			
Surface Pro Table			
Subtotal - Computer Hardware		5,500	
Shop Computer Hardware			
Phone System			
Subtotal - Shop Computer Hardware		700	
Grand Total		\$1,221,450	