

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 **THIRD REPORT OF THE RECEIVER,  
HARDIE & KELLY INC.  
OCTOBER 17, 2016**

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**THIRD REPORT OF THE RECEIVER  
HARDIE & KELLY INC.  
OCTOBER 17, 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. On June 30, 2016, the Receiver filed its initial report (the “First Report”) in advance of an application seeking the Court’s approval of the sale of certain of the Company’s assets (the “Initial Asset Sale”).
4. On July 11, 2016, the Court granted an Approval and Vesting Order approving the Initial Asset Sale and authorizing a distribution of the sales proceeds there from to Century.
5. On July 13, 2016, the Receiver filed a further report (the “Second Report”) to advise the Court of the Receiver’s investigation into the purported transfer of assets from R3 Canada to a related company R3 Energy Services, LLC (“R3 USA”) in advance of the Receiver’s application seeking the Court’s approval of the agreement entered into wherein R3 USA and Mr. Dean Rutledge confirmed and agreed that R3 Canada is the sole and legal beneficial owner of certain assets that were initially in the name of R3 Canada (the “Ownership Confirmation Agreement”).
6. On July 22, 2016, the Court granted an Order ratifying and approving the Ownership Confirmation Agreement.

7. The purpose of this report (the “Third Report”) is to advise the Court of:
- a. The details of and the results of the tender process implemented and administered by the Receiver in respect of the Company’s remaining assets (the “Residual Assets”) and the Receiver’s recommendation in respect thereof;
  - b. The Receiver’s recommendation with respect to the disposition of a potential cause of action;
  - c. The Receiver’s recommendation with respect to the disposition of the Company’s pre-receivership books and records that came into the Receiver’s possession (the “Corporate Records”);
  - d. Details of the Receiver’s accounts and those of the Receiver’s legal counsel in contemplation of the passing of the respective accounts and the Receiver’s Discharge;
  - e. The receipts and disbursements of the Receiver; and
  - f. The Receiver’s recommendation as to the distribution of and residual funds.

#### **TERMS OF REFERENCE**

8. In preparing this Third Report, the Receiver has relied upon unaudited financial information and records of the Company. The Receiver has not performed an audit, review or other verification of such information.

#### **SALES PROCESS**

9. On August 19, 2016, the Receiver launched a public tender process for the sale of the Residual Assets which includes items such as mud motors, stators, rotors, bearing sections and a variety of related spare parts. The Residual Assets are all located in the Odessa/Midland area in Texas.

10. The Receiver arranged for the publication of print advertisements and or online advertising of the asset tender process in various publications and websites in Canada and the United States including the Calgary Herald, Edmonton Journal, Globe & Mail, Daily Oil Bulletin, Midland Reporter-Telegram, Odessa American, Drilling Contractor, National Driller, Oilpro, Oiltizer, Oil & Gas Journal and Exploration & Production Magazine.
11. The Receiver also posted notice of the opportunity on the Receiver's website.
12. In response to the Receiver's efforts, several parties expressed an initial interest in the Residual Assets and requested additional information from the Receiver; however, only seven parties attended in Odessa/Midland to view the Residual Assets.
13. The deadline for offers established by the Receiver (the "Bid Deadline") was September 23, 2016. Only three interested parties submitted offers to the Receiver by the Bid Deadline. The details of the offers received are contained in the Receiver's Confidential Supplemental Report (the "Confidential Report").
14. The Receiver reviewed the offers received with Century, in its capacity as the principal secured creditor. Century advised the Receiver that it viewed the offers received as unacceptable in comparison to the remaining indebtedness owed by R3 Canada to Century. Even after applying the distribution of the proceeds from the Initial Asset Sale, R3 Canada remains indebted to Century for approximately CAN \$3 Million.
15. In light of the offers received, Century determined that its best opportunity to potentially improve its recoveries would be to obtain direct control of the Residual Assets by submitting a credit bid to the Receiver for the Residual Assets. This will have the effect of eliminating the ongoing administration costs associated with the receivership and allow Century to utilize its inherent expertise to attempt to improve realizations over time as the oil and gas industry eventually recovers from its current general depressed state.

16. An Asset Purchase Agreement (the “APA”) was negotiated and entered into with Century. The APA is included as part of the Confidential Report.
17. The Receiver believes that the public disclosure of the details of the APA and the offers received may unduly prejudice Century’s ability to remarket the Residual Assets. Consequently, the Receiver will be seeking the Court’s approval to have the Confidential Report sealed for a period of one year from the date of the Receiver’s discharge assuming the contemplated sale to Century is approved by the Court and closes.

### **OUTSTANDING MATTERS**

18. In the First Report and the Second Report, the Receiver advised the Court that it understood that Dyna-Drill Technologies and/or Schlumberger (collectively referred to as “Schlumberger”) were holding certain assets of the Company in Canada and the United States. Schlumberger continues to be unresponsive to the requests made by the Receiver and its legal counsel seeking information as to the extent of the assets, if any, being held and the legal justification upon which they may be holding them. The Receiver proposes to assign the rights to any potential cause of action that it may have against Schlumberger (the “Schlumberger Matter”) to Century to attend to as Century deems appropriate.
19. Assuming the Schlumberger Matter is disposed of as proposed by the Receiver as set out in the preceding paragraph, upon the closing of the contemplated sale to Century, the administration of the receivership proceeding will be effectively complete aside from certain administrative tasks including the remittance of State tax in respect of the Initial Asset Sale, submitting the final statutory report to the Office of the Superintendent of Bankruptcy and attending to the Corporate Records.

### **PROFESSIONAL FEES**

20. To date, the Receiver has rendered one account and its legal counsel has rendered two accounts (the “Accounts”). Copies of the Accounts will be made available to this Honourable Court upon request.

21. The Receiver's legal counsel anticipates rendering a final billing not anticipated to exceed \$6,000 in respect of unbilled work in process and estimated costs to complete the administration of the estate. The Receiver anticipates rendering a final billing not anticipated to exceed \$16,000 in respect of unbilled work in process and estimated costs to complete the administration of the estate.
22. The Receiver is of the view that the Accounts and the pending final accounts to be rendered by the Receiver and its legal counsel (the "Final Accounts") are reasonable in the circumstances particularly when taking into account the following factors:
  - a. The Company's assets having been relocated to Texas; and
  - b. The complications arising in respect of attending to the intercompany transfer of assets leading to the Ownership Confirmation Agreement.
23. The Receiver respectfully requests that this Honourable Court approve the Accounts and the Final Accounts.

#### **CORPORATE RECORDS**

24. The Receiver continues to hold and maintain certain of the Corporate Records of the Company. The Receiver is seeking the Court's authorization to destroy these Corporate Records unless they are claimed by Mr. Dean Rutledge, in his capacity as a former director of the Company, within 30 days of the Receiver being discharged.

#### **STATEMENT OF RECEIPTS AND DISBURSEMENTS**

25. Attached as Appendix "A" is a copy of the consolidated Statement of Receipts and Disbursements as of October 16, 2016 (the "R&D") indicating that the Receiver has approximately CAN \$900 and US \$52,000 available in its trust accounts after providing for the remittance of State taxes in respect of the Initial Asset Sale but before providing for payment of the Accounts and the Final Accounts.

26. In the First Report, the Receiver advised that it has received an independent legal opinion confirming the validity and enforceability of Century's security. Consequently, the Receiver recommends that any residual funds in its accounts that remain after remitting the State tax and settling the Final Accounts be distributed to Century (the "Residual Funds").

### RECOMMENDATIONS

27. The Receiver respectfully recommends that this Honourable Court:
- a. Approve the APA and the contemplated sale to Century for the reasons set out in the Confidential Report;
  - b. Authorize the assignment of any potential cause of action that the Receiver may have against Schlumberger to Century;
  - c. Approve the R&D;
  - d. Approve the Accounts and the Final Accounts;
  - e. Authorize the distribution of the Residual Funds to Century;
  - f. Authorize the Receiver to destroy the Corporate Records being held by the Receiver unless Mr. Rutledge takes possession of same within 30 days of the date of the Order discharging the Receiver;
  - g. Direct that the Confidential Report be ordered sealed for a period of one year from the date of the Receiver's discharge; and
  - h. Grant the discharge of the Receiver.

All of which is respectfully submitted this 17<sup>th</sup> day of October 2016.

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

Per:

  
\_\_\_\_\_  
Marc Kelly, CA, CIRP  
Senior Vice President



# APPENDIX “A”

**R3 Energy Services Inc., in receivership**  
**Statement of Receipts and Disbursements**  
as at October 13, 2016  
**\$CDN Account**

**Receipts**

Sale of assets	\$ 700,000.00
Tax on sale	57,750.00
Transfer from \$US account	67,935.40
Interest	18.48

825,703.88

**Disbursements**

Distribution to secured creditor	700,000.00
Legal fees and expenses	25,877.99
Receiver's fees and expenses	36,834.45
GST paid	3,147.61
Advertising	1,167.00
Filing fees	70.00

767,097.05

58,606.83

Less: Accrual for tax remittance

57,750.00

Balance

\$ 856.83

**R3 Energy Services Inc., in receivership**  
**Statement of Receipts and Disbursements**  
as at October 13, 2016  
**\$US Account**

**Receipts**

Rental income	\$ 104,774.19
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104,774.19

**Disbursements**

Transfer to \$CDN account	53,000.00
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53,000.00

Balance

\$ 51,774.19