



COURT FILE NUMBER 1801-06866  
COURT COURT OF QUEEN'S BENCH OF ALBERTA  
JUDICIAL CENTRE CALGARY  
APPLICANT ATB FINANCIAL  
RESPONDENTS MUSTANG WELL SERVICES LTD., KKS  
R ENTERPRISES LTD., COMPLETE OILFIELD  
MANUFACTURING INC., REACTION OILFIELD  
SUPPLY (2012) LTD., AND MRBD LTD.  
DOCUMENT **THIRD REPORT OF FTI CONSULTING  
CANADA INC., IN ITS CAPACITY AS  
COURT APPOINTED RECEIVER AND  
MANAGER OF MUSTANG WELL SERVICES  
LTD., KKS R ENTERPRISES LTD.,  
COMPLETE OILFIELD MANUFACTURING  
INC., REACTION OILFIELD SUPPLY (2012)  
LTD., AND MRBD LTD.**

April 23, 2019

ADDRESS FOR SERVICE AND  
CONTACT INFORMATION OF  
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## INTRODUCTION

1. On May 17, 2018 (the “**Date of Appointment**”), FTI Consulting Canada Inc. was appointed as receiver and manager (the “**Receiver**”) of all of the current and future assets, undertakings and properties (the “**Property**”) of Mustang Well Services Ltd. (“**Mustang**”), KKS SR Enterprises Ltd. (“**KKS SR**”), Complete Oilfield Manufacturing Ltd. (“**Complete**”), Reaction Oilfield Supply (2012) Ltd. (“**Reaction**”) and MRBD Ltd. (“**MRDB**”) by order of the Honourable Justice Jones (the “**Receivership Order**”) pronounced in the Court of Queen’s Bench of Alberta Court File Number 1801-06866 (the “**Receivership Proceedings**”) pursuant to an application by ATB Financial (“**ATB**” or the “**Secured Creditor**”). Mustang, KKS SR, Complete, Reaction and MRDB are collectively referred to as the “**Debtors**” or the “**Company**”.
2. The Receivership Order authorized the Receiver, among other things, to manage, operate and carry on the business of the Debtors, to market any or all of the Property including advertising and soliciting offers to purchase the Property, and to make such arrangements or agreements as deemed necessary by the Receiver.
3. The Receiver’s reports and other publicly available information in respect of these proceedings (the “**Receivership Proceedings**”) are posted on the Receiver’s website at <http://cfcanada.fticonsulting.com/Mustang>.
4. On May 17, 2018, an Order was granted approving the sale of a building legally described as Plan 1323928 Block 1 Lot 9, having a civic address of 135 46272 Highway 56, Rural Camrose County, Alberta which was owned by KKS SR (“**KKS SR Building #1**”).
5. On May 31, 2018, the Receiver closed the sale of KKS SR Building #1 and on June 4, 2018, the Receiver filed a Receiver’s Certificate certifying that the transaction had been completed.

6. On September 5, 2018 two Orders were granted:
  - (a) an Order approving the sale of a building located near Camrose, Alberta at Plan 9922651 Lot 3 (“**KKSR Building #2**”) and various equipment and inventory; and
  - (b) an order (the “**Auction Order**”) approving an auction services agreement (the “**Auction Agreement**”) between the Receiver and Tiger Capital Group, LLC to sell the remaining equipment and inventory (“**Remaining Equipment**”). The Auction Order also authorized the Receiver to make an interim distribution of the net proceeds from the sale of KKSR Building #1 and KKSR Building #2 (the “**Interim Distribution**”) to ATB.
7. On November 1, 2018, this Honourable Court granted an Order which, among other things, entitled Haymax Energy Inc. and McPhedran Consulting Ltd. (collectively, the “**Haymax Entities**”) to submit a bid to purchase Rig 8 (the “**Credit Bid**”) and authorized and directed the Receiver to take such steps necessary to complete the Credit Bid.
8. The purpose of this report (“**Third Report**”) is to provide this Honourable Court with:
  - (a) a summary of the activities of the Receiver since its second report dated October 9, 2018 (the “**Second Report**”), including its statement of receipts and disbursements from the Date of Appointment to April 19, 2019;
  - (b) details of the secured and any potential priority claims in the Receivership Proceedings and recommended distribution to such creditors;
  - (c) background with respect to the Receiver’s intention to assign Mustang into bankruptcy pursuant to paragraph 3(r) of the Receivership Order at the request of the Secured Creditor;

- (d) a summary of the estimated net proceeds available for distribution (the “**Second Interim Distribution**”) to ATB; and
  - (e) a summary of remaining tasks to complete the administration of the Receivership Proceedings.
9. The Receiver is requesting the following relief from this Honourable Court at its application returnable on May 3, 2019 (the “**Application**”):
- (a) approval of the activities of the Receiver from the date of the Second Report, including its receipts and disbursements;
  - (b) authorization to make a further distribution and distribute any residual funds from these Receivership Proceedings to ATB;
  - (c) approval of the Receiver’s Fees and the Receiver’s Counsel’s Fees;
  - (d) authorization for the Receiver to destroy the Company’s corporate books and records if unclaimed by any of the current or former directors of the Company within thirty (30) days of the Receiver providing such notice; and
  - (e) discharging the Receiver and terminating these Receivership Proceedings upon the filing of an affidavit (the “**Receiver’s Affidavit**”) with this Honourable Court certifying that all remaining administrative matters have been concluded.

#### **TERMS OF REFERENCE**

10. In preparing this Third Report, the Receiver has relied upon audited and unaudited financial information, other information available to the Receiver and, where appropriate, the Company’s books and records and discussions with various parties (collectively, the “**Information**”).

11. Except as described in this Third Report:
  - (a) The Receiver has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Generally Accepted Assurance Standards pursuant to the Canadian Institute of Chartered Accountants Handbook; and
  - (b) The Receiver has not examined or reviewed financial forecasts and projections referred to in this Third Report in a manner that would comply with the procedures described in the Canadian Institute of Chartered Accountants Handbook.
12. Future oriented financial information reported or relied on in preparing this Third Report is based on assumptions regarding future events. Actual results may vary from forecasts and such variations may be material.
13. The Receiver has prepared this Third Report in connection with the Application returnable on May 3, 2019. This Third Report should not be relied on for other purposes.
14. Information and advice described in this Third Report that has been provided to the Receiver by its legal counsel, Cassels Brock & Blackwell LLP (the “**Receiver’s Counsel**”), was provided to assist the Receiver in considering its course of action, is not intended as legal or other advice to, and may not be relied upon by, any other person.
15. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

## ACTIVITIES OF THE RECEIVER

16. Since the date of the Second Report the Receiver, among other things:
- (a) made the Interim Distribution to ATB in the amount of \$2.16 million;
  - (b) paid the amount of the unpaid property tax arrears owing on KKSR Building #2 to Camrose County;
  - (c) worked with the Haymax Entities to complete the Credit Bid;
  - (d) with the assistance of former employees, completed final customer billings for projects completed during the Receivership Proceedings and continued to work to recover accounts receivable owed to the Company prior to the Date of Appointment;
  - (e) responded to requests for information from creditors, employees and other stakeholders; and
  - (f) corresponded with and reviewed various claims from creditors asserting secured and priority claims including the Canada Revenue Agency (“CRA”) the Workers Compensation Board (“WCB”)

## STATEMENT OF RECEIPTS AND DISBURSEMENTS

17. The Receiver's statement of receipts and disbursements from the Date of Appointment to April 19, 2019 is summarized below.

Statement of Receipts and Disbursements for the period of May 17, 2018 to April 19, 2019	
CAD \$	Cumulative
<b>Receipts</b>	
KKSR proceeds	2,450,000
Accounts receivable	1,834,306
Sales proceeds	1,791,458
Receiver's Borrowings	150,000
Other receipts	96,339
GST / PST collected	25,054
Opening balance	15,000
<b>Total - Receipts</b>	<b>6,362,156</b>
<b>Disbursements</b>	
Interim Distribution	2,161,258
Payroll and employee related obligations	389,921
Operating expenses	316,675
Receiver's Fees	189,415
Receiver's Counsel's Fees	159,051
Repayment of Receiver's Borrowings	150,000
G&A	122,986
Other professional fees	121,490
Transfer between estate accounts	75,851
GST / PST paid	30,146
<b>Total - Disbursements</b>	<b>3,716,793</b>
<b>Net Cash on Hand</b>	<b>2,645,363</b>

18. In particular:
- (a) KKSR proceeds relate to the net amount collected from the sale of KKSR Building #1 and KKSR Building #2;

- (b) Accounts receivable are amounts collected by the Receiver, with the assistance of former employees of the Company, in connection with work completed during the Receivership Proceedings and amounts owing prior to the Date of Appointment;
- (c) Sales proceeds are the net proceeds from the allocation to the Mustang, Reaction and Complete equipment and intellectual property included in the sale of KKS SR Building #2 and sale of the Remaining Equipment pursuant to the Auction Agreement;
- (d) Receiver's Borrowings are amounts borrowed in accordance with the terms of the Receivership Order;
- (e) Other receipts include the allocation of receivership expenses to the Haymax Entities, GST and insurance refunds and other miscellaneous refunds;
- (f) GST / PST collected are sales taxes collected in connection with the accounts receivable;
- (g) Payroll and employee related obligations are employee and contractor wages, payroll remittances, benefits and payroll service charges incurred by the Receiver;
- (h) Operating expenses relate to operating the Business from the Date of Appointment;
- (i) Receiver's fees and expenses and Receiver's Counsel's fees and disbursements reflect such costs for professional services rendered to March 31, 2019;



- (j) Repayment of Receiver's Borrowings relates to the repayment of such borrowings authorized in accordance with the terms of the Receivership Order;
  - (k) G&A includes general and administrative costs of the of the receivership, including among other things, costs related to insurance, utilities and interest on the Receiver's borrowings;
  - (l) Other professional fees include fees and expenses related to appraisal fees and the marketing agent prior to the Receivership proceedings and
  - (m) Transfer between estate accounts relates to the allocation of the sales proceeds to the Mustang, Reaction and Complete equipment and intellectual property included in the sale of KKSR Building #2.
19. As at April 19, 2019 the Receiver held approximately \$2.6 million in cash on hand.

#### **DETAILS OF SECURED AND POTENTIAL PRIORITY CLAIMS**

20. The Receiver is aware of the following secured claims, charges and liens that are owed by the Company, either pursuant to statute, or which have been registered against the Property.

#### **Secured Claim**

21. As described in the Affidavit of Trina Holland sworn on May 14, 2018, as of May 9, 2018, the Secured Creditor in these Receivership Proceedings was owed approximately \$17.5 million plus all accruing interest and incurred legal fees and other costs pursuant to the terms of a loan agreement dated July 26, 2017, as amended August 10, 2017, October 23, 2017, December 15, 2017 and March 9, 2017 (the "ATB Loan Agreement").

22. The ATB Loan Agreement is secured by a General Security Agreement with each of the Debtors and a land mortgage dated October 15, 2013, in the principal sum of \$2.8 million (the “**ATB Security**”). The ATB Security has been registered under the *Personal Property Security Act* of Alberta with respect to each of the Debtors and under the *Personal Property Security Act* of Saskatchewan and British Columbia with respect to some of the Debtors.
23. As of April 18, 2019, the remaining indebtedness under the ATB Loan Agreement was approximately \$16.3 million. The Receiver is recommending a Second Interim Distribution to ATB as set out below.

#### **Deemed Trust Claim**

24. On September 4, 2018, the CRA delivered a notice asserting a trust claim under subsection 222(3) of the *Excise Tax Act* in the amount of \$108,868.01 in respect of unremitted GST/HST for pre-receivership periods (the “**Deemed Trust Claim**”)
25. On April 16, 2019, the Secured Creditor requested that the Receiver, pursuant to its authority granted under paragraph 3(r) of the Receivership Order, make an assignment for and on behalf of Mustang of its Property for the general benefit of creditors under section 49 of the BIA (the “**Bankruptcy Assignment**”). If the Bankruptcy Assignment occurs, it would render the Deemed Trust Claim unsecured. Unless this Honourable Court determines otherwise, the Receiver intends to assign the Company into bankruptcy immediately after the date of the Application.

#### **WCB Claim**

26. On September 4, 2018, the WCB asserted a claim against Mustang in the amount of \$35,748.52 (the “**WCB Claim**”) under subsection 129 of the *Workers’ Compensation Act*.

27. If the Bankruptcy Assignment occurs, the WCB Claim would be rendered an unsecured claim.

#### **BANKRUPTCY ASSIGNMENT**

28. The Receiver believes it is appropriate under the circumstances to assign Mustang into bankruptcy and that the Receiver is permitted to do so for the following reasons (among others):

- (a) Paragraph 3(r) of the Receiver Order specifically empowers and authorizes the Receiver to assign the Debtors (including Mustang) into bankruptcy;
- (b) Paragraph 27 of the Receivership Order provides that nothing in the Receivership Order shall prevent the Receiver from acting as the trustee in bankruptcy of the Debtors;
- (c) Mustang is currently in receivership and is considered an insolvent person within the meaning of the *Bankruptcy and Insolvency Act* (Canada). Mustang has failed to meet its obligations generally as they became due, in that Mustang has failed to meet its obligations to ATB and others, which obligations exceed \$1,000; and
- (d) ATB has requested and is supportive of the Receiver's intention to assign the Debtors into bankruptcy in order to convert the CRA and WCB claims into unsecured claims.

## PROPOSED SECOND INTERIM DISTRIBUTION

29. The Receiver has received an opinion from the Receiver's Counsel opining that the ATB Security is, subject to the usual assumptions, validly authorized, executed, issued and registered. Given the realization of the Property is substantially complete, the Receiver confirms that the recoveries are not sufficient to fully repay the indebtedness under the ATB Loan Agreement. Accordingly, it is the Receiver's view that ATB is the fulcrum creditor in the Receivership Proceedings.
30. The Interim Distribution Order authorized and directed the Receiver to make the Interim Distribution to ATB and as at April 18, 2019, the indebtedness under the ATB Loan Agreement was approximately \$16.3 million.
31. As detailed in the statement of receipts and disbursements, as at April 19, 2019 the Receiver held approximately \$2.6 million in cash on hand. The table below presents a summary of the Receiver's proposed uses of funds on hand including the Second Interim Distribution of up to \$2.4 million to ATB and a holdback of \$233,592 to be retained by the Receiver on account of the following:
- (a) the remaining costs to complete the administration of these Receivership proceedings (the "**Administrative Holdback**");
  - (b) professional fees for the Receiver and the Receiver's Counsel and an estimate of fees for the Trustee should the Bankruptcy Assignment occur; and
  - (c) to account for any claims which may have priority over the ATB Security in the Receivership Proceedings including the Deemed Trust Claim and WCB Claim,
- (collectively, the "**Holdback**").

Proposed Second Interim Distribution	
CAD \$	
<b>Sources</b>	
Cash on Hand	2,645,363
<b>Holdback</b>	
Deemed Trust Claim & WCB Claim	144,617
Professional Fees	50,475
Administrative Holdback	38,500
<b>Total - Holdback</b>	<b>233,592</b>
<b>Total - Proposed Second Interim Distribution</b>	<b>2,411,772</b>

32. The Receiver is seeking authorization to make the Second Interim Distribution of \$2.4 million and, after the Bankruptcy Assignment occurs, a further distribution to ATB in amount of the Deemed Trust Claim and WCB Claim, \$144,617.53, plus any residual funds that may remain from the Administrative Holdback upon the completion of the Receivership Proceedings (the “**Holdback Distribution**”). In the aggregate amount, this is below the amount of the remaining indebtedness owed to ATB.

### PROFESSIONAL FEES

33. Paragraph 19 of the Receivership Order required the Receiver to pass its accounts and the accounts of its legal counsel from time to time. The accounts of the Receiver and the Receiver’s Counsel are calculated based on hours spent at rates established by each professional according to each professional's qualifications and experience. The Receiver has reviewed the fees, hourly rates, and hours worked of its legal counsel and is of the view that the Receiver’s Fees and the Receiver’s Counsel’s Fees are reasonable and appropriate in the circumstances given, the requirement to manage operations to complete ongoing works, billing and collection of ongoing and past projects, marketing, negotiating and completing the sale of KKS Building #1 and KKS Building #2, the Remaining Equipment, issues involving the validity and enforceability of the security of the Haymax Entities and coordinating the retrieval, storage and safe guarding the Property.

34. Invoices paid for professional services rendered and costs for the Receiver (the “**Receiver’s Fees**”) from the Date of Appointment to March 31, 2019 total \$189,414.78, exclusive of GST.
35. Invoices paid for professional services rendered and disbursements for the Receiver’s Counsel (the “**Receiver’s Counsel’s Fees**”) from the Date of Appointment to March 31, 2018 total \$159,051.38, exclusive of GST.
36. Invoices for the Receiver’s Fees and the Receiver’s Counsel’s Fees can be made available upon request of this Honourable Court.
37. The Receiver is recommending a hold back of approximately \$50,475 which includes the Receiver’s Fees and the Receiver’s Counsel’s Fees in connection with additional time attending to the final administrative matters of the Receivership Proceedings, including the costs of this application, and the Trustee fees for the Bankruptcy Assignment.

#### **CORPORATE BOOKS AND RECORDS**

38. The Company’s corporate books and records are currently located at an offsite storage facility. The Receiver is seeking the approval of this Honourable Court to destroy the remaining corporate books and records, except those required by statute, unless they are claimed by any of the current or former directors of the Company within thirty (30) days of the Receiver providing written notification of the same.

## **TERMINATION OF THE RECEIVERSHIP PROCEEDINGS**


39. As described in this Third Report, the Receivership Proceedings are substantially complete and there is no further Property remaining to be realized upon. To avoid the additional costs associated with subsequent Court appearances, the Receiver is seeking an Order terminating the Receivership Proceedings and discharging the Receiver of its duties and obligations under the Receivership Order upon filing the Receiver's Affidavit with this Honourable Court certifying that all remaining administrative matters have been concluded.

## **RECEIVER'S RECOMMENDATIONS**

40. The Receiver respectfully requests that this Honourable Court grant the following relief:
- (a) approval of the activities of the Receiver, including its statement of receipts and disbursements since the Date of Appointment;
  - (b) approval of the Receiver's Fees and the Receiver's Counsel's Fees;
  - (c) authorizing the Receiver to make the Second Interim Distribution and make the Holdback Distribution after the Bankruptcy Assignment and the completion of the remaining administrative matters;
  - (d) authorization for the Receiver to destroy the Company's corporate books and records if not claimed by any of the current or former directors of the Company within thirty (30) days of the Receiver providing written notification of the same; and
  - (e) the discharge of the Receiver and termination the Receivership Proceedings upon the completion of the Receiver's remaining administrative tasks relating to the receivership and filing of the Receiver's Affidavit.


All of which is respectfully submitted this 23rd day of April 2019.

FTI Consulting Canada Inc.,  
in its capacity as receiver Mustang Well Services  
Ltd., KKSr Enterprises Ltd., Complete Oilfield  
Manufacturing Inc., Reaction Oilfield Supply  
(2012) Ltd. and MRBD Ltd.



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Deryck Helkaa, LIT  
Senior Managing Director



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Dustin Olver, CPA, CA  
Managing Director