

District of Alberta
Division No. 02 - Calgary
Court/ Estate No. 25-2802560

**IN THE MATTER OF THE BANKRUPTCY OF
VERTEX DOWNHOLE LTD.
TRUSTEE'S PRELIMINARY REPORT**

BACKGROUND

1. Vertex Downhole Ltd. (“VDL” or the “**Bankrupt**”) operated as a privately held oil and gas service company, that was in the business of developing drilling and other downhole tools used in oil and gas exploration and were either sold or rented to end users. VDL’s head office and base of operations was located at 10911 – 50 Street S.E., Calgary, Alberta.
2. The Company has provided the following organizational structure:



3. VDL also had operations in the Middle East through a Non-Exclusive Sales Representation Agreement with Vertex Downhole LLC, formerly HPC ME Equipment Trading LLC, a United Arab Emirates company (“**LLC**”). VDL advises that all activities with LLC have been treated by VDL as related party operations, although VDL had no direct or indirect ownership interest in LLC.
4. On January 26, 2022, HSBC issued a demand letter to VDL with an accompanying Notice of Intention to Enforce Security (“**10 Day Notice**”) pursuant to section 244 of the *Bankruptcy and Insolvency Act* (“**BIA**”). As a result, VDL filed a notice of intention to make a proposal (the “**NOI**”) on February 4, 2022 and Grant Thornton Limited (“**GTL**”) consented to act as the proposal trustee.
5. On March 4, 2022, and upon application of VDL the Court of Queen’s Bench of Alberta (the “**Court**”) made the following Order:
 - a. Substituting MNP Ltd (the “**Proposal Trustee**” or “**MNP**”) for GTL as the proposal trustee;
 - b. Extending the time to file a proposal to April 18, 2022; and
 - c. Approving an administration charge of \$200,000.

(the “**First Extension Order**”).

6. On March 4, 2022 the Court granted a concurrent Order (the “**SISP Order**”) approving a sale and investment solicitation process (the “**SISP**”) so that VDL could evaluate its ability to make a viable Proposal to its creditors.
7. Two additional extension applications were granted on April 14, 2022 and May 27, 2022 (the “**Second Extension**” and “**Third Extension**” respectively), to allow the Company time to complete the SISP and attempt to make a Proposal to its creditors. The Third Extension extended the stay to July 14, 2022.
8. VDL filed an application returnable July 13, 2022 to request a further stay extension (the “**July 13 Hearing**”) to August 5, 2022. (the “**Fourth Extension**”).
9. On July 4, 2022, VDL filed its cash flow statement, as required, as part of the July 13 Hearing. The cash flow reflected the need for HSBC to provide additional borrowings that HSBC was not willing to provide. As such, HSBC was unwilling to support the Fourth Extension. In addition to this, the offers received through the SISP were not sufficient to pay out HSBC.
10. As stated in the Proposal Trustee’s Fourth Report dated July 7, 2022 (the “**Fourth Report**”), the Proposal Trustee was unable to recommend to the Court that a further stay extension be granted. The Court declined to grant a further extension of the stay of proceedings that was set to expire on July 14, 2022 and VDL was deemed bankrupt on July 14, 2022 and MNP Ltd. was appointed as trustee in the bankruptcy proceedings (the “**Trustee**”) subject to confirmation by the creditors at this first meeting of creditors.
11. In the Fourth Report, the Proposal Trustee recommended acceptance of an offer from 2435819 Alberta Ltd. (“**2435819**”) that was received in the SISP which, although insufficient to repay HSBC in full, was considered to be the most favourable offer received. On application of HSBC at the July 13 Application the Court ordered:
 - a. That MNP be appointed receiver and manager (the “**Receiver**”) of VDL;
 - b. That the Receiver complete the sale to 2435819 and deal with the remaining assets of VDL that did not form part of the sale to 2435819; and

- c. That the Sale Approval and Vesting Order regarding the asset sale agreement with 2435819 (the “**ASA**”) was approved;
12. Prior to consenting to act as Receiver, the Proposal Trustee’s legal counsel, Dentons LLP (“**Dentons**”), provided a legal opinion that, subject to the normal qualifications and restrictions, HSBC’s security was valid and enforceable against the assets of VDL.
13. The Trustee received the sworn Statement of Affairs of the Bankrupt on July 20, 2022.
14. Publicly available documents related to the bankruptcy are available on the Trustee’s website at: <https://mnpdebt.ca/en/corporate/corporate-engagements/vertex-downhole-bkcy>

BOOKS AND RECORDS

15. The Trustee has taken possession of the books of records of the Company and is in the process of verifying access to the electronic backups received.

CONSERVATORY AND PROTECTIVE MEASURES

16. All the Bankrupt’s assets are subject to the Receivership Order, and the ongoing receivership proceedings; therefore, no additional conservatory measures are necessary by the Trustee.

ASSET REALIZATION AND PROJECTED DISTRIBUTION

17. The assets listed on the Bankrupt’s Statement of Affairs are as follows:

Description	Amount
Rental Assets	\$ 2,333,972
Accounts Receivable	2,041,081
Inventory	1,601,207
Cash	215,156
Prepaid Expenses	135,185
Federal Refunds - FY 2020 SRED	92,831
Fixed Assets	86,109
Intangible Assets	-
Total Assets	\$ 6,505,540

18. All of the assets listed above are subject to a registered security interest in favour of HSBC.
19. As discussed above, the Receiver has an approved sale of the majority of the assets of the Company through the ASA (the “**ASA Assets**”). The realizable value of the ASA Assets is subject to a confidentiality agreement and therefore can not be disclosed at this time.
20. Assets that are not included in the ASA include accounts receivable and cash in bank (the “**Non-ASA Assets**”).

21. The proceeds from the ASA Assets and Non-ASA Assets will not be sufficient to fully repay HSBC, therefore it is not anticipated there will be a distribution to unsecured creditors.

SUMMARY OF CLAIMS

22. The Bankrupt's statement of affairs listed the following creditor claims:

<u>Description</u>		<u>Amount</u>
Secured	\$	8,970,164
Preferred		24,663
Unsecured		1,328,498
	\$	<u>10,323,324</u>

23. As at 9:00 AM, August 4, 2022, the following claims have been submitted to the Trustee:

<u>Description</u>	<u># of claims</u>	<u>Amount</u>
Secured	1	\$8,000,000
Preferred	-	-
Unsecured	16	1,213,207
	<u>17</u>	<u>\$9,213,207</u>

LEGAL

24. As reported above, the Proposal Trustee had retained the services of Dentons to complete independent security opinion regarding the validity and enforceability of the HSBC security.

25. Subject to the approval of any inspectors who may be appointed, the Trustee will be seeking to retain Dentons as it's legal counsel to the extent that any further legal assistance is required with respect to this estate.

REVIEW OF FRAUDULENT PREFERENCES AND TRANSFERS AT UNDERVALUE

26. The Trustee is required to undertake a review of any transactions that occurred prior to the date of bankruptcy that would constitute a transfer at undervalue or a fraudulent preference as defined by subsections 95 and 96 of the BIA (the "**Review**").

27. The Trustee will review transactions that may qualify as a transfer undervalue once the virtual records identified above have been accessed, and will assess what, if any, further actions are required.

OTHER

28. The Trustee's fees and that of its legal counsel, are being paid by realizations in the receivership proceedings and an indemnity provided by HSBC.

Dated at Calgary, Alberta this 4th day of August 2022.

MNP Ltd.,

In its capacity as Trustee of the Estate of
Vertex Downhole Ltd., a bankrupt and not in its personal
or corporate capacity



Rick Anderson, CPA, CMA, CIRP, LIT, CFE
Vice President