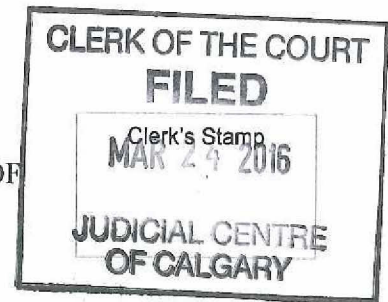


COURT FILE NUMBER	1601-03126
COURT	COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE	CALGARY
PLAINTIFF(S)	CALLIDUS CAPITAL CORPORATION
DEFENDANT(S)	ALKEN BASIN DRILLING LTD.
DOCUMENT	PRE-FILING REPORT
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	MNP LTD. Suite 1300 10235 - 101 Street NW Edmonton, AB T5J 3G1 Attention: Eric Sirrs Telephone: (780) 969.1491 Fax: (780) 409.5415



## INTRODUCTION

1. Callidus Capital Corporation (“Callidus”) intends to make an application to the Court of Queen’s Bench of Alberta (the “Court”) for an order (“Receivership Order”) pursuant to section 243(1) of the *Bankruptcy and Insolvency Act* R.S.C. 1985, c. B-3 (the “BIA”) and section 13(2) of the *Judicature Act*, R.S.A. 2000, C. J-2 appointing MNP Ltd. (“MNP”) a receiver and manager, without security, of all of the assets, undertakings and properties (the “Property”) owned by Alken Basin Drilling Ltd. (“Alken” or the “Debtor”).
2. MNP is a licensed trustee under the BIA and has consented to act as Receiver. A copy of MNP’s consent is attached as Appendix “A”.
3. MNP understands that the primary purpose of the receivership proceedings is to allow the Property of the Debtor to be realized in an orderly manner and in a stabilized environment and to provide a mechanism for distributing the proceeds of realization. Because of the urgency of

carrying out a sales process, with the consent of Callidus, Alken appointed MNP as financial advisor (in such capacity, the “**Financial Advisor**”, and in its capacity as proposed receiver of the assets, undertakings and properties of Alken, the “**Proposed Receiver**”) to create and administer a process to sell the property and assets of Alken (the “**Sale Process**”). Upon the appointment of the Receiver, the Sale Process will be administered, and any sales will be completed by, the Receiver.

#### **PURPOSE OF THE REPORT**

4. The purpose of this report (the “**Pre-Filing Report**”) is to provide the Court with information in respect of:
  - a. the background of the Debtor, its financial difficulties, including information relating to Alken’s indebtedness to its secured creditors;
  - b. the Sales Process (as defined herein) that the Proposed Receiver proposes to undertake in order to market and sell the Property, if appointed; and
  - c. an Order sealing Confidential Appendix “A”, “B” and “C”.

#### **DISCLAIMER**

5. In preparing the Pre-filing Report and making the comments herein, the Proposed Receiver has been provided with, and has relied upon, certain unaudited, draft and/or internal financial information, the Debtor’s books and records, discussions with employees and management of the Debtor and information from other third-party sources, including the information contained in the affidavit of Craig Boyer, dated March 21, 2016 (the “**Boyer Affidavit**”), filed in support of the application of the appointment of the Proposed Receiver (collectively, the “**Information**”). Except as described in the Pre-filing Report, the Proposed Receiver has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards of the Chartered Professional Accountants of Canada.

## **BACKGROUND**

6. Alken was incorporated in the Province of Alberta on November 25, 1982 and specializes in the drilling of and providing products and services for water wells, source wells, disposal wells, oil and gas wells, surface casing presets, pile pre-drilling and well tests across Western Canada (the “**Business**”). Alken’s headquarters are in Red Deer, Alberta (the “**Premises**”).
7. Management of Alken has informed the Proposed Receiver that the Debtor’s financial difficulties stem from:
  - a. the lingering impact of low commodity prices and the resulting constrained drilling activities;
  - b. active rig counts for the Western Canada rig fleet is at the same levels experienced in 1983, one of the worst periods experienced by the oil and gas industry, with rig utilization rates predicted to reach historic lows in 2016<sup>1</sup>; and
  - c. loss of business arising from unfavourable competitive pricing.
8. As noted in the Boyer Affidavit, on December 1, 2014, Alken engaged Range Corporate Advisors Inc. (“**RCA**”) to assist Alken in connection with:
  - a. managing and improving Alken’s short term liquidity;
  - b. turning around its financial and operating performance; and
  - c. paying out its indebtedness to Callidus.
9. Scott Sinclair of RCA was appointed as Alken’s President following the resignation of Alken’s prior President and majority shareholder, Kevin Baumann.

## **LIABILITIES – SECURED CLAIMS**

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<sup>1</sup> [http://www.caodc.ca/sites/default/files/member-resources/caodc\\_2015\\_16\\_SOIR\\_web.pdf](http://www.caodc.ca/sites/default/files/member-resources/caodc_2015_16_SOIR_web.pdf)

10. On the basis of a search conducted under the *Personal Property Security Act*, registry, dated February 1, 2016, the following parties appear to have security interests registered against the Property:

- a. Callidus
- b. Ford Credit Canada Limited (“**Ford**”)
- c. GE Canada Equipment Financing G.P. (“**GE**”)
- d. Nancy Hoover, Hilda Bakuska and Bradley Bakuska

11. Callidus is the Debtor’s primary secured creditor. Details of the obligation to Callidus are set out in the Boyer Affidavit.

12. The indebtedness owing by Alken to Callidus at March 4, 2016 is approximately \$27,427,553 (the “**Indebtedness**”), collaterally secured by a debenture agreement dated March 31, 2014 (the “**Debenture**”) granted by Alken to Callidus. On March 18, 2015, Callidus made demand upon Alken for payment.

13. Upon appointment of the Receiver, Gowling WLG (Canada) LLP (“**Gowling WLG**”), the independent counsel to be retained by the Receiver, will review the Debenture together with the other loan and security documentation in favour of Callidus to determine its validity. A copy of that opinion will be provided to the Court as part of a subsequent report.

14. Gowling WLG will also be instructed to determine the validity and relative priority, as against other secured creditors, of other security interests granted by Alken or liens, encumbrances or other claims against the assets of Alken.

## ASSETS

15. The Debtor’s principal assets consist of accounts receivable (“**AR**”), its drilling and coring rigs, trucks, trailers and related support equipment, and goodwill (collectively, the “**Assets**”).

16. As at March 11, 2016, the aggregate amount of the AR is approximately \$142,919, which is owing from approximately 15 customers.

17. Most of Alken’s equipment is located at the Premises.

18. Callidus retained Hilco Valuation Services and GB Appraisal Canada, ULC to provide forced liquidation value appraisal reports dated December 23, 2014 (effective December 3, 2014) and August 26, 2015 (effective August 5, 2015) respectively (the “**Appraisals**”). Copies of the Appraisals are attached as Confidential Appendices “A” and “B”.
19. The Proposed Receiver is of the view that the information contained in Confidential Appendices "A" and "B" is commercially sensitive information, which the Proposed Receiver requests be subject to a temporary sealing Order from this Honourable Court until further Order of the Court.
20. Given the downturn in the drilling industry, there would be reduced levels of investment in, and demand for the type of machinery and equipment held by Alken. Conversely, the depreciation of the Canadian dollar has presented a buying opportunity for US buyers. On the basis of values set out in the Appraisals, it appears as if Callidus will suffer a significant shortfall in recovering its loans advances.

### **PROPOSED SALE PROCESS**

21. The Sale Process is intended to solicit en bloc offers to purchase of the Business, including all of the Assets.
22. Under the Sale Process, the Financial Advisor would include the distribution of an Information Summary directly to parties in the water well drilling, oil and gas services industries and equipment auction/liquidation industry. The Information Summary contains details relating to the process and timelines for the Sale Process and invites prospective purchasers to contact the Financial Advisor to obtain a copy of the Information Memorandum (which is distributed upon receipt of an executed copy of a Confidentiality Agreement). A copy of the Information Summary is attached as **Appendix “B”**. A copy of the Information Memorandum is attached as **Confidential Appendix “C”**.
23. On March 21, 2016, the Information Summary was distributed to approximately 400 MNP Partners (across Canada) for distribution to existing MNP clients and contacts. In addition, the Information Summary will be distributed to:

- Equipment auction and liquidation companies (Western Canada and the US); and
- RCA's data base of approximately 2,000 parties (Canada and US) involved in the water well drilling and oil and gas industries.

24. In addition to the direct distribution of the Information Summary, the Financial Advisor will advertise the Sale Process certain publications and online resources, which may include:

- *Calgary Herald*
- *Globe and Mail*
- MNP Corporate Restructuring Website
- MNP Oilfield Services News Letter (distributed to approximately 500 contacts)
- MNP Oilfield Services LinkedIn web page
- Petroleum Services Association of Canada (PSAC)
- *Daily Oil Bulletin* (Alberta based)
- *Oilman Magazine* (online advertising based in Texas)
- *EnergyNow* web page
- *National Driller*
- *Insolvency Insider* (insolvency newsletter)

25. The Sale Process was initiated March 21, 2016 with a deadline for Offers to Purchase of April 13, 2016.

26. During the Sale Process the Financial Advisor will facilitate site tours for interested parties and maintain a data room with relevant books and records.

27. The Proposed Receiver believes the Sale Process to be a commercially reasonable process.

28. Alken's management has been soliciting interest in the sale of the assets (on an individual piece basis) on an ongoing basis and proposes to continue this liquidation during the Sale Process. RCA has compiled a listing of over 2,000 prospects within Canada and the US within the water well drilling and oil and gas services industries. A one page teaser has been issued to the contacts within the data base and RCA continues to solicit potential purchasers. Prospective

Purchasers of Alken's business and/or Assets will be made aware of any individual assets that are sold during the Sale Process.

**RECOMMENDATIONS AND CONCLUSION**

29. On the basis of the foregoing, the Proposed Receiver respectfully requests that this Court issue an Order:

- a. approving the Sale Process as described herein;
- b. sealing the confidential appendices to the Pre-Filing Report; and
- c. such further and other relief as this Court deems just.

All of which is respectfully submitted this 23<sup>rd</sup> day of March, 2016.

**MNP Ltd.**  
Proposed Receiver of Alken Basin Drilling Ltd.

Per:   
Sheldon Title  
Senior Vice President

# Appendix "A"



Clerk's stamp:

COURT FILE NUMBER:

COURT: COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE: CALGARY

IN THE MATTER OF THE BANKRUPTCY AND  
INSOLVENCY OF ALKEN BASIN DRILLING LTD.

APPLICANT: CALLIDUS CAPITAL CORPORATION

RESPONDENT: ALKEN BASIN DRILLING LTD.

DOCUMENT CONSENT TO ACT RECEIVER

ADDRESS FOR  
SERVICE AND  
CONTACT  
INFORMATION  
OF PARTY  
FILING THIS  
DOCUMENT

Gowling Lafleur Henderson LLP  
1600, 421 – 7th Avenue S.W.  
Calgary, AB T2P 4K9

Telephone (403) 298-1938  
Facsimile (403) 263-9193

File No. A152711

**Attention: Tom Cumming**

### CONSENT TO ACT AS RECEIVER

MNP Ltd. does hereby consent to act as receiver or receiver and manager of the assets, undertakings and properties of the Respondent, Alken Basin Drilling Ltd., if so ordered by this Honourable Court.

DATED this 23rd day of March, 2016.

**MNP LTD.**

Per:



Name: Sheldon Title

Title: Senior Vice-President

**ALKEN BASIN DRILLING LTD.**

**Notice of Court Ordered Sales Process**  
**For Prospective Purchasers**

## INTRODUCTION

Alken Basin Drilling Ltd. ("**Alken**"), headquartered in Red Deer, Alberta, specializes in the drilling and managing output of water wells, source wells, disposal wells, oil and gas wells, surface casing presets, pile pre-drilling and well tests across Western Canada.

Range Corporate Advisors Inc. ("**Range**") is a management consultant retained by Alken. On the advice of Range, Alken retained MNP Ltd. ("**MNP**") on March 16, 2016 as financial advisor (the "**Advisor**") to assist Range in carrying out a sales and marketing process on behalf of Alken (the "**Sales Process**") in respect of the assets, undertakings and property of Alken (collectively, the "**Assets**").

Callidus Capital Corporation, the principal secured creditor of Alken, has filed an application with the Court of Queen's Bench of Alberta requesting an order appointing MNP as receiver (MNP, in such capacity, the "**Receiver**", and such Order, the "**Receivership Order**") of the assets, undertakings and property of Alken and approving the Sales Process (the "**Sales Order**"). Upon the appointment of the Receiver, the Receiver will carry out the Sales Process in place of the Advisor.

Range hereby gives notice of the pending Receivership Order and the Sales Order, and of the Sales Process which will be carried out by the Advisor and the Receiver under and in accordance with the Sales Order. Pursuant to the Sales Order, the Advisor will be soliciting offers to purchase the Assets *en bloc*, which consist primarily of various water well rigs, bed and winch trucks, vacuum equipment, steamer trucks and picker equipment. The Assets are located at its facility in Red Deer, Alberta.

## LIMITATIONS

To facilitate the Sales Process, the Advisor has prepared an Information Memorandum ("**IM**"). All information in the IM has been prepared solely for the convenience of prospective purchasers and has not been audited or otherwise verified by the Advisor. The IM is incorporated in and forms part of the Sales Order.

As specified in the IM, the Advisor does not make any representations or warranties as to the accuracy or completeness of the IM and shall have no liability for any representations (be they expressed or implied) or omissions contained herein nor in any other written or oral communications transmitted to prospective purchasers in the course of the evaluations of the assets. Furthermore, the information provided in the IM may not contain all of the information a prospective purchaser may require and therefore, prospective purchasers should conduct their own investigations, analysis and due diligence relating to Alken's assets and any of the information contained in the IM.

## THE SALES PROCESS

The following are the times within which steps must be accomplished in the Sales Process pursuant to the Orders:

Process Stage	Timing
Information Summary sent to interested parties	Commencing March 21, 2016
IM sent to interested parties who have signed a Confidentiality Agreement ("CA") with the Advisor	Commencing March 21, 2016
Tours of facility in Red Deer, by appointment only on Mondays to Fridays	March 21, 2016 to April 13, 2016
Deadline for Offers to Purchase	April 13, 2016 at 5:00 pm (MST)
Selection of successful Offer to Purchase	April 14, 2016 (EST)
Court approval of sale	April 29, 2016 (EST)
Closing	May 29, 2016 (EST)

The Advisor has formulated specific transaction procedures that are included in the Terms and Conditions of Sale included in the IM. However, the Advisor and the Receiver (upon its appointment) reserve the right to:

- Amend or terminate the sales procedures during the Sales Process
- Accept an offer to purchase that may not necessarily be the highest bid
- Negotiate with one or more prospective purchasers at any time
- Set a minimum offer price for any of the Assets
- Enter into a definitive transaction agreement without prior notice to other prospective purchasers at any time during the Sales Process
- Not accept any offers to purchase

To receive a copy of the IM, please return contact the Advisor at:

MNP Ltd. in its capacity as Financial Advisor to  
Alken Basin Drilling Ltd.  
500, 10104 103 Ave NW  
Edmonton, AB T5J 0H8

Attn: Evan MacKinnon  
Tel: 780.733.8651  
Fax: 780.409.5415  
Email: evan.mackinnon@mnp.ca

**Offers to Purchase must be sent by courier, fax or email so as to be received by the Receiver no later than 5:00pm (MDT) April 13, 2016**