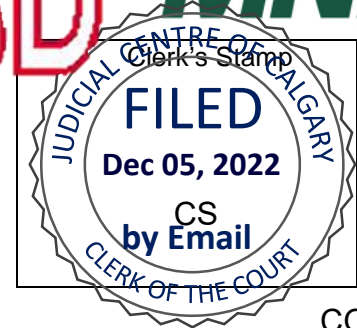


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Dec 13 2022IN THE MATTER OF THE BANKRUPTCY AND INSOLVENCY ACT,  
RSC 1985, C B-3, AS AMENDEDAND IN THE MATTER OF THE RECEIVERSHIP OF VERTEX  
DOWNHOLE LTD.

DOCUMENT

**SECOND REPORT OF MNP LTD. AS RECEIVER OF VERTEX  
DOWNHOLE LTD.**

DATED

December 1, 2022

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SERVICE AND  
CONTACT  
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**APPENDICES**

Appendix A                      Receiver's Statement of Receipts and Disbursements for the period from  
July 13, 2022 to November 30, 2022

**SCHEDULES**

Schedule 1                      Professional Fee Summary

## INTRODUCTION AND BACKGROUND

1. On February 4, 2022, Vertex Downhole Ltd. (“**Vertex**” or the “**Company**”) filed a Notice of Intention to Make a Proposal (the “**NOI Proceedings**”) pursuant to section 50.4(1) of the *Bankruptcy and Insolvency Act* (“**BIA**”).
2. On July 13, 2022, MNP Ltd. was appointed by the Court of Queen’s Bench of Alberta (now the Court of King’s Bench of Alberta) (the “**Court**”) as receiver of Vertex (the “**Receiver**”) over all of the current and future assets, undertakings and property (the “**Property**”) upon an application by HSBC Bank Canada (“**HSBC**”) who holds a general security agreement against the Property (the “**HSBC Security**”).
3. MNP Ltd. was previously the proposal trustee until the stay of proceedings lapsed on July 14, 2022. As a result, MNP Ltd. is also the Trustee of the bankrupt estate.
4. On July 13, 2022, the Court granted a sale approval and vesting order (“**SAVO**”) approving an Asset Sale Agreement (“**Sale Agreement**”) between the Receiver and 2435819 Alberta Ltd. (the “**Purchaser**”) for certain assets of Vertex. The Sale Agreement was executed by the Receiver and the Purchaser on July 13, 2022. The transaction contemplated in the Sale Agreement closed on July 25, 2022.
5. This is the Receiver’s second report to the Court (the “**Second Report**”).
6. Copies of the relevant documents relating to these proceedings are available on the Receiver’s website at <https://mnpdebt.ca/en/corporate/corporate-engagements/vertex-downhole>

## RESTRICTIONS AND LIMITATIONS

7. In preparing the Second Report and making comments herein, the Receiver has relied upon certain unaudited, draft or internal financial information, including Vertex’s books and records, and information from other third-party sources (collectively, the “**Information**”). The 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 or other standards established by the Chartered Professional Accountants of Canada (the “**Standards**”). Additionally, none of the Receiver’s procedures were intended to disclose defalcations or other irregularities. If the Receiver were to perform additional procedures or to undertake an audit examination of the Information in accordance with the Standards, additional matters may come to the Receiver’s attention. Accordingly, the Receiver does not express an opinion, nor does it provide any other form of assurance on the financial or other information presented herein. The Receiver may

refine or alter its observations as further information is obtained or brought to its attention after the date of the Second Report.

8. The Receiver assumes no responsibility or liability for any loss or damage occasioned by any party as a result of the use of the Second Report. Any use which any party makes of the Second Report of the Receiver or any reliance or decision to be made based on the Second Report is the sole responsibility of such party.
9. All amounts included herein are in Canadian dollars unless otherwise stated.

## **PURPOSE OF THE REPORT**

10. The purpose of the Second Report is to provide this Honourable Court with the Receiver's comments and information in respect of the activities of the Receiver since the First Report and to provide information in respect of an application by the Receiver for an Order seeking the following relief:
  - a) Approval of the reported actions of the Receiver to date in administering the receivership;
  - b) Approval of the Receiver's Statement of Receipts and Disbursements for the period July 13, 2022 to November 30, 2022 (the "**Receiver's Interim SRD**"), which is attached hereto as Appendix "**A**";
  - c) Approval of the Receiver's fees and disbursements for the period July 13, 2022 to November 30, 2022, in the amount provided in the R&D Statement;
  - d) Approval of the Receiver's legal counsel, Dentons Canada LLP ("**Dentons**") fees and disbursements for the period July 13, 2022 to November 30, 2022 in the amount provided in the R&D Statement; and
  - e) Approval of the interim distribution to HSBC on account of the HSBC Security.

## **RECEIVER'S ACTIVITIES**

11. The activities of the Receiver as set out in the First Report, were approved by this Honourable Court on July 21, 2022.
12. Since the date of the First Report, the Receiver has undertaken a number of activities including, but not limited to:

- a) Closed the asset sale approved by this Honourable Court in the SAVO granted on July 13, 2022;
- b) Engaged Vertex's former chief financial officer, Craig Flint ("**Flint**") as an independent contractor to assist in the collection of accounts receivables, assist in the collection of a Scientific Research and Economic Development ("**SRED**") credit from the CRA for the 2020 tax year, that is estimated to be approximately \$93,000; and assessing the cost benefit of claiming a SRED credit for the 2021 tax year, as well as assisting with the sale of the shares of Vertex's non operating holding companies, that ultimately owned Vertex Downhole Inc. its United States entity;
- c) Communicated with stakeholders and creditors;
- d) Secured all operating accounts and opened trust accounts;
- e) Communicated with Dentons;
- f) Prepared and issued the prescribed statutory Notice and Statement of Receiver as required under Sections 245 (1) and (2) and 246 (1) of the Bankruptcy and Insolvency Act;
- g) Facilitated a Workers Compensation Board audit;
- h) Assisted with the sale of the subsidiary shares of the Company;
- i) Continued to collect outstanding accounts receivable;
- j) Requested Canada Revenue Agency ("**CRA**") audits for the Company's GST and payroll accounts as well as establishing Receivers accounts for GST filing purposes; and
- k) Performed any other aspects related to the receivership.

13. As detailed in the First Report, the Trustee in the Notice of Intention to Make a Proposal proceedings, now the Receiver, conducted a sales process of the Property that was approved by this Honourable Court by way of the SAVO granted July 13, 2022.

14. The transaction successfully closed and the Receiver filed its Receiver's Certificate evidencing the closing on July 25, 2022.

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

15. The Receiver has prepared its Receiver's Interim SRD outlining the total receipts and disbursements to date.

16. Receipts include proceeds from the sale of assets include the property that was subject to the SAVO as well as shares in Vertex's subsidiary companies. These proceeds equal \$4,000,000 and \$229,830 respectively before a sale adjustment of \$98,753.

17. The Receiver has collected \$1,702,131 for accounts receivable due as of the date of the Receivership Order. The Receiver's collection efforts are ongoing.

#### PRIORITY CREDITOR CLAIMS

18. On March 4, 2022, the Court granted an Order in the NOI Proceedings for an Administration Charge that shall not exceed \$200,000. The Receiver will be making the following payments pursuant to the Administration Charge:

<b>MNP Ltd.</b>		
Invoice Number	Date	Invoice total
10650697	July 14, 2022	\$ 18,070.50
		<u>\$ 18,070.50</u>
<b>Dentons LLP</b>		
<i>Legal counsel for the Trustee</i>		
Invoice Number	Date	Invoice total
3688922	July 31, 2022	\$ 33,764.37
		<u>\$ 33,764.37</u>
<b>Burnet, Duckworth &amp; Palmer LLP</b>		
<i>Legal counsel for Vertex Downhole Ltd.</i>		
Invoice Number	Date	Invoice total
203469813	June.8, 2022	\$ 18,099.29
203470352	July 7, 2022	13,362.04
203470588	July 15, 2022	25,943.53
		<u>\$ 57,404.86</u>
<b>Total</b>		<b>\$ 109,239.73</b>

19. The Receiver has requested that CRA complete a payroll trust audit, however as of the date of filing this report, CRA has not initiated its audit. The Receiver notes at the date of filing this report, the balances reported on the CRA website show a total liability of \$8,125.41 in the Company's source deduction account from the 2021 tax year. Should these amounts represent a valid deemed trust claim for the employees' portion of source deductions, this would rank in priority to HSBC and would be paid from funds being retained by the Receiver.

20. The GST account shows a pre-receivership credit balance of \$24,385.31 as of the date of the filing of this report. The Receiver continues to attempt to recover this refund.

21. In addition, Service Canada may have a claim that ranks in priority to HSBC's security, pursuant to Section 81.4(1) of the BIA for a portion of outstanding vacation pay of the employees, as of the date of the Receivership Order. The Receiver anticipates this priority claim to be approximately \$20,000. As of the date of this Second Receiver's Report, Service Canada has not submitted a summary of payouts or filed any claim.

## **SECURED CREDITOR**

22. As outlined in the First Report, Dentons has reviewed the HSBC Security and rendered a security opinion that, subject to customary assumptions and qualifications, the HSBC Security constitutes a valid and enforceable first charge in respect of the Property, subject to any priority/deemed trust claims.
23. As of December 1, 2022, the Company is currently indebted to HSBC in the amount of \$9,289,275 with interest continuing to accrue.
24. As shown on the Receiver's Interim SRD, as of the date of this report, there remains approximately \$5,660,000 held in the receivership trust account.
25. Upon approval of this Honourable Court, the Receiver proposes an interim distribution to HSBC in the amount of \$5,250,000 from the funds being held in the receivership trust account.
26. The Receiver, upon approval of this Honourable Court and upon completion of the Remaining Activities (herein after described), will remit all remaining funds in the receivership to HSBC after the payment of any claims that rank in priority to HSBC and payment of any additional professional fees without returning to Court for additional approval.

## **PROFESSIONAL FEES**

27. A summary of professional fees paid by the Receiver is attached as Schedule 1 to the Receiver's Interim SRD.
28. For the period of July 13, 2022 to October 31, 2022, the Receiver has incurred professional fees and disbursements of \$91,945, excluding GST.
29. For the period of July 13, 2022 to September 30, 2022 Dentons has incurred professional fees and disbursements of \$43,032.51, excluding GST. The Receiver has reviewed Dentons fees and disbursements and is of the view that the fees are reasonable and appropriate in the circumstances.
30. The Receiver will make copies of its accounts and the accounts of Dentons (subject to redaction for privilege) available to the Court or any interested person upon request.
31. In accordance with paragraph 18 of the Receivership Order, the professional fees of the Receiver and its legal counsel are incurred at their standard hourly rates of the professionals working on the receivership. The hourly rates of these professionals are reasonable based on the experience of the individuals involved and are competitive with other professional service firms in the marketplace.

32. The Receiver is seeking approval of the Receiver's Interim SRD for the period of July 13, 2022 to November 30, 2022 and the professional fees and disbursements of the Receiver and the Receiver's legal counsel in the amounts set forth above.

### **REMAINING MATTERS**

33. There are certain matters in these receivership proceedings that remain outstanding, summarized as follows:

- a) Collect the remaining accounts receivable;
- b) Preparing the final GST returns and close the Receiver's GST account;
- c) Prepare and issue the Receiver's final report pursuant to subsection 246(3) of the BIA;
- d) Collect the SRED credit from the CRA for the 2020 tax year;
- e) Complete the assessment of the cost benefit of claiming a SRED credit for the 2021 tax year, with the assistance of Flint;
- f) Facilitate any audits initiated by CRA for source deductions and GST;
- g) Pay the approved professional fees;
- h) Pay any priority/deemed trust claims that are filed by Service Canada or CRA;
- i) Obtain the Receiver's discharge;
- j) Upon final Court approval distribute any remaining receivership funds, up to the amount of its claim, to HSBC; and
- k) Any other matters incidental to the wind up of the administration of the receivership.

### **RECOMMENDATION AND CONCLUSION**

34. Based upon the foregoing the Receiver respectfully recommends that this Honorable Court grant an Order:

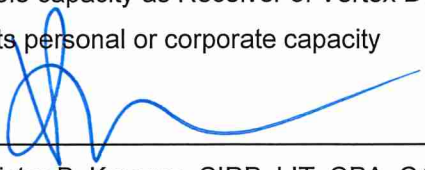
- a) Approving the reported actions of the Receiver in administering the receivership proceedings;
- b) Approving the Receiver's Interim SRD;
- c) Approving the Receiver's fees and disbursements to October 31, 2022 in the amount of \$91,945 plus GST;
- d) Approving the fees and disbursements on Dentons to September 30, 2022 in the amount of \$43,032.51 plus GST; and
- e) Approving the interim distribution of \$5,250,000 to HSBC on account of the HSBC Security.



All of which is respectfully submitted this 1<sup>st</sup> day of December, 2022

**MNP Ltd.**

In its sole capacity as Receiver of Vertex Downhole Ltd. and  
not in its personal or corporate capacity



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Per: Victor P. Kroeger, CIRP, LIT, CPA, CA, CFE  
Senior Vice President

# APPENDIX A

## APPENDIX A

**In the matter of the Receivership of  
Vertex Downhole Ltd.  
Statement of Receipts and Disbursements  
For the Period July 13, 2022 to November 30, 2022**

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**RECEIPTS**

Sale of assets	\$4,131,079.01
Accounts Receivable	1,702,130.90
GST Collected	303.43
Miscellaneous refunds	137.72

**TOTAL RECEIPTS**

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5,833,651.06

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**DISBURSEMENTS**

Receivers Fees/Disbursements	91,945.33
Legal Fees/Disbursements	43,757.55
Outside Consulting	27,925.49
GST paid	8,278.35
Utilities	1,880.52
Payroll	293.06
Filing Fees - Official Receiver	72.97
Bank Charges	2.50

**TOTAL DISBURSEMENTS**

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174,155.77

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**EXCESS OF RECEIPTS OVER DISBURSEMENTS REPRESENTED  
BY CASH IN BANK:**

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**\$5,659,495.29**

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# SCHEDULE 1

**In the matter of the Receivership of Vertex Downhole Ltd.  
Schedule of Professional Fees and Disbursements for the Period Ended November 30, 2022**

**MNP Ltd.**

Invoice Number	Description	Receiver's Fees	Disbursements	Total before GST	GST	Invoice total
10615043	Services for July 11 - August 31 2022	\$ 79,613.70	\$ 846.50	\$ 80,460.20	\$ 4,023.01	\$ 84,483.21
10651998	Services for September 1-30 2022	6,424.00	95.19	6,519.19	325.96	6,845.15
10652002	Services for October 1-31 2022	4,197.00	768.94	4,965.94	248.30	5,214.24
		<u>\$ 90,234.70</u>	<u>\$ 1,710.63</u>	<u>\$ 91,945.33</u>	<u>\$ 4,597.27</u>	<u>\$ 96,542.60</u>

**Dentons LLP***Legal counsel for the Receiver*

Invoice Number	Description	Legal Fees	Disbursements	Total before GST	GST	Invoice total
3692414	Services for July 14 - 31 2022	\$ 38,502.00	\$ 1,549.06	\$ 40,051.06	\$ 2,002.05	\$ 42,053.11
3696662	Services for August 1 -31 2022	2,815.00	166.45	2,981.45	149.07	3,130.52
3703759	Services for September 1 - 30, 2022	284.00	78.52	362.52	15.63	378.15
		<u>\$ 41,317.00</u>	<u>\$ 1,715.51</u>	<u>\$ 43,032.51</u>	<u>\$ 2,151.12</u>	<u>\$ 45,183.63</u>