

FORM 87

NOTICE AND STATEMENT OF RECEIVER

Subsection 245(1) and 246(1) of the *Bankruptcy and Insolvency Act*

**IN THE MATTER OF THE RECEIVERSHIP OF
VERTEX DOWNHOLE LTD.**

of the city of Calgary, in the Province of Alberta

THE RECEIVER GIVES NOTICE AND DECLARES THAT:

On July 13, 2022, (the “**July 13 Application**”) the Court of Queen’s Bench of Alberta (the “**Court**”) granted an Order (the “**Receivership Order**”) appointing MNP Ltd. as receiver and manager (the “**Receiver**”) over all of the assets, undertakings and property (the “**Property**”) of Vertex Downhole Ltd. (“**VDL**” or the “**Company**”). The Receivership Order was granted following an application by HSBC Bank Canada (“**HSBC**”), who holds a first registered security interest pursuant to a general security agreement (the “**GSA**”) against the Property.

A copy of the Receivership Order and other information regarding these proceedings can be found on the Receiver’s website at:

<https://mnpdebt.ca/en/corporate/corporate-engagements/vertex-downhole>

BACKGROUND

VDL operated as a privately held oil and gas service company, who was primarily in the business of developing drilling and other downhole tools for use in oil and gas exploration. The Company’s head office and base of operations were located at 10911 – 50 Street S.E., Calgary, Alberta.

VDL is the sole shareholder of Vertex Downhole Inc. (“**VDI**”) through two intermediary companies, HPC Energy Services Holdings (USA) Inc and HPC Energy Services Subsidiary (USA) Inc VDL also has 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 (“**UAE**”) company. The Company advised the Receiver that all activities in the UAE have been treated by the Company as related party operations.

On January 26, 2022, HSBC issued to VDL a demand letter with an accompanying Notice of Intention to Enforce Security (“**10 Day Notice**”) pursuant to section 244 of the *Bankruptcy and Insolvency Act* (“**BIA**”). Thereafter, 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.

On March 4, 2022, the Company made an application to the Court for an extension of time to file a proposal, approval of an administration charge, and the substitution of the proposal trustee from GTL to MNP Ltd. (the “**First Extension Order**”). The Court granted a concurrent Order (the “**SISP Order**”) approving a sale and investment solicitation process (the “**SISP**”) so that the Company could evaluate its ability to make a viable Proposal to its creditors.

Two additional extension applications were granted on April 14, 2022 and May 27, 2022 (the “**Third Extension**”), 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. The Company then filed an application returnable July 13, 2022 to request a final stay extension (the “**July 13 Court Application**”).

On July 4, 2022, VDL filed its cash flow statement as required as part of the July 13 Court Application for a further extension under the NOI (the “**Fourth Extension**”). The cash flow reflected the need for HSBC to provide borrowings that they were not willing to provide. In addition, HSBC did not support the Fourth Extension. As such, 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, which expired on July 14, 2022 at which time VDL was deemed bankrupt.

Also at the July 13 Court Application, the proposal trustee recommended acceptance of an offer from 2435819 Alberta Ltd. (“2435819”) received in the SISP which, although insufficient to repay HSBC in full, was considered to be the most favourable offer received.

At the July 13 Court Application MNP was appointed Receiver of VDL on application of HSBC. The Court also granted a Sale Approval and Vesting Order (the “**SAVO**”) regarding an asset sale agreement with 2435819 (the “**ASA**”) whereby the Receiver was directed to close the transaction

contemplated under the ASA. After the July 13 Court Application, the Receiver executed the ASA, that is expected to close on July 25, 2022.

Prior to consenting to act as Receiver, MNP's legal counsel, Dentons LLP ("**Dentons**"), provided a legal opinion that HSBC's security was valid and enforceable against the assets of VDL.

ASSETS

Following the Receivership Order, the Receiver took possession and control of the Property. The Receiver notes the following with respect to the Property:

1. All of the Property is subject to a registered security interest in favour of HSBC;
2. 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 purchase price of the ASA Assets is subject to a Sealing Order by the Court and therefore can not be disclosed at this time;
3. Assets that are not included in the ASA include accounts receivable and cash in bank. The Company has provided the following estimated realizable value ("**Estimated Realizable Value**") of these excluded assets (the "Excluded Assets"):

a. Accounts Receivable	\$2,041,081
b. Cash in bank	\$215,156
4. The proceeds from the ASA and Estimated Realizable Value of the excluded assets will not be sufficient to fully repay HSBC, therefore there will not be a distribution to unsecured creditors.

CREDITORS

HSBC is owed approximately \$9,043,637 pursuant to the GSA. In addition to HSBC, the books and records of the Company indicates unsecured creditors of approximately \$1,690,000. A listing of known creditors is attached as Exhibit "A".

In addition, the Company has advised there is approximately \$24,663 in outstanding wages and vacation for employees.

The Receiver is not aware of any amount owing to Canada Revenue Agency for employee source deductions or GST.

PLAN OF ACTION

Pursuant to the SAVO granted at the July 13 Court Application, the Receiver will continue to move towards closing the transaction contemplated under the ASA and as directed by the Court under the SAVO. The Receiver will also realize on the assets of VDL not included in the ASA, namely VDL's accounts receivable, prepaid amounts, subsidiary company values and a federal tax refund from a 2020 SRED claim.

The contact person for the Receiver is as follows:

MNP Ltd. re Vertex Downhole Ltd.
1500, 640 – 5th Avenue SW
Calgary, AB T2P 3G4
Attention: Jacqueline Shellon
Jacqueline.shellon@mnp.ca

This Notice is provided for information purposes only. Creditors' claims will be addressed through the concurrent bankruptcy and, as such, creditors should also refer to the Receiver's website at: <https://mnpdebt.ca/en/corporate/corporate-engagements/vertex-downhole>

Further information with respect to the receivership proceedings will be posted as it becomes available to the Receiver's website.

Dated at Calgary, Alberta this 22nd day of July 2022.

MNP Ltd., in its capacity as the Receiver and Manager for Vertex Downhole Ltd. and not in its personal or corporate capacity



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