

COURT FILE NUMBER 2001-04485
COURT COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE CALGARY
APPLICANT SANDTON CREDIT SOLUTIONS MASTER
FUND IV, LP
RESPONDENTS ACCEDE ENERGY SERVICES LTD., ACCEDE
FIRE & SAFETY LTD., 1537723 ALBERTA INC.,
AND ACCESS VALVE LTD.
DOCUMENT **SECOND REPORT OF FTI CONSULTING
CANADA INC., IN ITS CAPACITY AS
COURT APPOINTED RECEIVER AND
MANAGER OF ACCEDE ENERGY
SERVICES LTD., ACCEDE FIRE & SAFETY
LTD., 1537723 ALBERTA INC., AND ACCESS
VALVE LTD.**

JUNE 30, 2020

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
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INTRODUCTION

1. On March 23, 2020 (the “**Date of Appointment**”), FTI Consulting Canada Inc. was appointed as receiver and manager (the “**Receiver**”) of all the assets, undertakings and properties (the “**Property**” or “**Business**”) of Accede Energy Services Ltd. (“**Accede Energy**”), Accede Fire & Safety Ltd. (“**AFS**”), 1537723 Alberta Inc. (“**153 AB**”), and Access Valve Ltd. (“**Access Valve**”), collectively referred to as the “**Debtors**” or the “**Company**”, pursuant to an Order of the Honourable Justice K.M. Horner (the “**Receivership Order**”).
2. The Receivership Order authorized the Receiver, among other things, to manage, operate and carry on the Business of the Company, 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. On June 25, 2020, the Receiver sought and was granted four (4) sale approval and vesting orders (“**Approval and Vesting Orders**”). The Approval and Vesting Orders provided the Receiver with the Court’s approval to close three (3) separate purchase and sales agreements (“**PSAs**”) and one (1) auction services agreement (“**ASA**”) which contemplated, in aggregate, the sale of all the assets of the Company.
4. 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/accedeenergy> (the “**Receiver’s Website**”).
5. The purpose of this report (“**Second Report**” or this “**Report**”) is to provide this Honourable Court with:
 - (a) an update of the activities of the Receiver since the Receiver’s First Report;

- (b) a summary of receipts and disbursements from the Date of Appointment to June 30, 2020;
 - (c) an update on the Receiver's efforts to close the PSAs and ASA since Receiver's First Report;
 - (d) the Receiver's proposed interim distribution to the Debtors' senior secured lender Sandton Credit Solutions Master Fund IV, LP ("**Sandton**") and the required holdback of certain funds; and
 - (e) the Receiver's anticipated next steps.
6. The Receiver is requesting the following relief from this Honourable Court:
- (a) approval of the activities of the Receiver since the Receiver's First Report reported herein, including the approval of its receipts and disbursements; and
 - (b) approval of the proposed interim distribution to Sandton and required holdback.

TERMS OF REFERENCE

7. In preparing this Second 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**").
8. Except as described in this Second 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 Second Report in a manner that would comply with the procedures described in the Canadian Institute of Chartered Accountants Handbook.
- 9. Future oriented financial information reported or relied on in preparing this Second Report is based on assumptions regarding future events. Actual results may vary from forecasts and such variations may be material.
- 10. The Receiver has prepared this Second Report in connection with the Receiver's Application that is to be heard on July 6, 2020. This Second Report should not be relied on for other purposes.
- 11. Information and advice described in this Second Report that has been provided to the Receiver by its legal counsel, MLT Aikins 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.
- 12. All capitalized terms not defined herein are as defined in the Receiver's First Report.
- 13. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

RECEIVER'S ACTIVITIES SINCE THE FIRST REPORT

14. Since the date of the Receiver's First Report, the Receiver has, among other things, completed the following:

- (a) Pursuant to the Approval and Vesting Orders granted on June 25, 2020, the Receiver:
 - i. Closed the two (2) asset purchase agreements (the "**112 AB APA**" and the "**Captive APA**");
 - ii. Closed the share purchase agreement (the "**226 AB SPA**"), collectively the three (3) PSAs;
 - iii. Completed all post-closing matters with respect to the three PSAs, including submitting the executed Receiver's Certificates with this Honourable Court for filing; and
 - iv. Collected the net purchase price of \$4,121,565¹ which was satisfied by cash proceeds of \$3,821,565 and a vendor's note of \$300,000 ("**226 AB Note**") as discussed and described later in this Report.
- (b) Pursuant to the Approval and Vesting Orders granted on June 25, 2020, the Receiver was paid twenty-five (25) percent of the net minimum guarantee ("**NMG**") as defined in the McDougall ASA. The remaining seventy-five (75) percent of the NMG is due to the Receiver two (2) business days prior to the Auction closing date or such date as mutually agreed to. Pursuant to the ASA, the Auction is to be completed within sixty (60) days from the date the Approval and Vesting Orders were granted;

¹ Comprises the net purchase price for all three of the PSAs.

- (c) The Receiver's Counsel completed a security review of the security held by Sandton in relation to the Debtors and has provided advice to the Receiver that the security held by Sandton against the Debtors is valid and enforceable;
- (d) Upon closing the 112 AB APA, the Receiver terminated the five (5) remaining employees at the Calmar Branch. Five (5) employees remain and will continue to assist the Receiver with safeguarding assets, completing ROEs and T4's for terminated employees, completing final invoicing/billings, day to day accounting and accounts receivable collections;
- (e) Based on the books and records of the Company, notices regarding the *Wage Earner Protection Program Act* ("WEPPA") were issued to all employees eligible to submit a proof of claim under the program. The Receiver has begun to submit claims to Service Canada; and
- (f) The Receiver disclaimed a lease for one (1) of the remaining leased vehicles as well as disclaimed the lease for one (1) of the premises that will no longer be occupied by the Company. One (1) vehicle lease was bought out by the Receiver and sold to 226 AB. The proceeds from the sale are below the threshold approval limit outlined in 3(l)(i) of the Receivership Order, accordingly, the Receiver completed the sale without Court approval. The Receiver is reviewing insurance policies to remove the assets sold under the three (3) PSAs and maintaining coverage for the assets included in the McDougall ASA. The Receiver has started to send out notices to terminate unnecessary services.

FINALIZED AND EXECUTED PSA'S AND ASA

15. Pursuant to the Approval and Vesting Orders granted by the Court on June 25, 2020, the Receiver executed one (1) share purchase agreement (“SPA”), and two (2) asset purchase agreements (“APA”), collectively referred to as the PSAs, as summarized in the table below:

Purchaser Name	Transaction (as defined in First report)	Purchase Price, excl GST			Final Purchase Price, excl GST
			Vendor Note	Adjustments	
1128775 Alberta Ltd.	APA - Latmann Assets	\$ 3,200,000	\$ -	\$ -	\$ 3,200,000
2268197 Alberta Ltd.	SPA - Access Valve Ltd.	400,000	300,000	21,565	721,565
Captive Rentals Ltd.	APA - Offsite Rental Assets	200,000	-	-	200,000
Total PSA		\$ 3,800,000	\$ 300,000	\$ 21,565	\$ 4,121,565
Less: Vendor Note					(300,000)
Total Cash from PSA Sales					\$ 3,821,565

16. Total consideration received by the Receiver for the three (3) executed PSA's included cash proceeds of \$3,821,565 and a \$300,000 vendor's note (the “**226 AB Note**”). Pursuant to the terms of the 226 AB SPA, the 226 AB Note, was executed by the Purchaser, and issued to the Receiver, as Vendor under the 226 AB SPA (the “**226 AB Note**”), on closing. The 226 AB Note included an assignment provision which allows the Vendor to assign the 226 AB Note without consent of the Purchaser. Contemporaneously with the closing of the 226 AB SPA, the Vendor and Sandton entered into an Assignment and Conveyance Agreement, pursuant to which the Vendor assigned the 226 AB Note in full to Sandton; and
17. Pursuant to the Approval and Vesting Orders granted by the Court on June 25, 2020, the Receiver executed one (1) auction services agreement (“ASA”) for the Remaining Equipment of the Debtors. Twenty-five (25) percent of the NMG under the ASA has been paid to the Receiver, the remaining seventy-five (75) percent is due two (2) days before close of the auction. Pursuant to the Sealing Order granted by the Court on June 25, 2020, the key commercial terms of the ASA will remain confidential as the Receiver is of the view that the disclosure of the financial terms may be detrimental to the realization process.

SUMMARY OF RECEIPTS AND DISBURSEMENT

18. Receipts and Disbursements from the Date of Appointment to June 30, 2020 are summarized as follows:

Schedule of Receipts and Disbursements	
As at June 30, 2020	
\$ CAD	
Receipts	
Opening Cash	\$ 306,429
Revenue	3,648,115
PSA Receipts, excl GST	3,821,566
Miscellaneous Receipts	27,864
GST / PST Collected	217,483
Total - Receipts	8,021,457
Disbursements	
Operating Expenses	384,262
Payroll and Employee Related Obligations	1,028,803
Rent	386,575
Insurance	36,155
Property Taxes	16,605
GST / PST Paid	83,671
Bank Charges	1,018
Selling Agent & Other Professional Fees	308,461
Total - Disbursements	2,245,550
Net Cash on Hand from Operations	\$ 5,775,907

- (a) Opening Cash – cash balance in Debtors bank account at Date of Appointment that transferred to Receiver’s account;
- (b) Revenue – amounts collected from customers related to work completed and rental assets contracted out, prior to and during, the Receivership Proceedings;
- (c) PSA Receipts – relates to the cash proceeds received from the three executed PSA’s as approved by the Court since the date of the First Report;

- (d) Miscellaneous Receipts – minor refunds from deposits held;
- (e) GST / PST Collected – relates to tax credits collected on the revenue generated throughout the receivership period;
- (f) Operating expenses – relates to the payment of ongoing operating costs and costs associated with the wind down of operations for AFS and Accede branches;
- (g) Payroll and employee related obligations – costs relating to employee wages, payroll remittances, and benefits;
- (h) Rent – comprises rent paid related to all occupied, leased premises from which the Debtors are operating;
- (i) Insurance – costs incurred relating to insurance on the Remaining Equipment and operations;
- (j) GST/PST paid – relates to goods and services tax remittances;
- (k) Bank charges – relates to banking fees; and
- (l) Selling Agent & Other Professional fees – relates to fees paid for the asset appraisals and other professionals in respect of the Receivership Proceedings.

19. As at June 30, 2020 the Receiver held \$5,775,907 in cash on hand.

LIEN REVIEW

20. As at the date of this Report, the Receiver is aware of one (1) lien (“Lien”) filed against the Company. The Lien was filed by Axiom Equipment Group/Axiom Equipment Inc. (“Axiom”) for services and materials that were provided to Accede Energy and sold to Crescent Point Energy Corp. The amount claimed in respect of services or materials that were provided is \$56,625. In order to allow the unencumbered sale of the Accede Energy assets, the Receiver included provisions within the Approval and Vesting Orders whereby liens would be discharged and the proceeds from the sale would be held by the Receiver pending a full review of the validity and enforceability of the Lien.
21. The Receiver is consulting with the Receiver’s Counsel to review the validity of the Lien and any priority that the Lien may hold over the net proceeds generated from the sale of the Accede Energy assets and will report back to this Honourable Court in respect of this analysis. The Receiver is proposing to hold back the full value of the Lien pending further analysis.

WEPPA

22. The Receiver obtained a listing from the Debtors of all terminated employees within the six-month period ending on the filing date, March 23, 2020. All employees identified as eligible for a claim under WEPPA were sent a notice and estimated claim amount. Based on the notices sent to eligible employees, the summary of potential WEPPA claims are as per the table below:

Schedule of Eligible WEPPA Claims Type of Claim	Number of Claims	Estimated Claim Amount
Super-Priority Claim (unpaid wages, vacation, expenses)	50	\$ 73,923
Severance	52	293,146
Total	102	\$ 367,069

23. Under WEPPA, a super-priority charge over current assets is given in respect of claims for unpaid wages/vacation up to a maximum of \$2,000 per claim and for unpaid expense of a travelling salesperson of up to a maximum of \$1,000 per claim. Of the eligible claims for unpaid vacation and wages 15 are in excess of \$2,000. Of the eligible claims for eligible expenses one is in excess of \$1,000. The Receiver has included the entire eligible amount of \$73,923 for unpaid vacation, wages and eligible expense claims in its proposed holdback.
24. The Receiver is coordinating between former employees and Service Canada in order to administer the WEPPA claims.

PROPOSED HOLDBACK AND DISTRIBUTION

25. The Receiver is currently holding cash of \$5,775,907 and is seeking approval to make total interim distributions to the secured creditor in the amount of \$5,320,358 after considering monies required to be held back (as outlined above). The Receiver is also seeking authorization to distribute the full twenty-five (25) percent NMG from the McDougall ASA, which is expected to be received Thursday, July 2, 2020.
26. As outlined above, there is one unresolved lien and multiple WEPPA claims pending. The Receiver intends to holdback sufficient funds to satisfy these claims, as well as a small holdback of funds required to support the Receivership Proceedings until the remaining proceeds from the ASA are received, which at minimum, will be the remaining seventy-five (75) percent NMG.
27. The Receiver's proposed holdbacks and interim distribution are summarized in the table below:

Schedule of Holdbacks and Proposed Interim Distribution
\$ CAD

Net Cash on Hand	\$5,775,907
Required Holdbacks:	
G&A	100,000
Liens	56,625
Super-priority WEPPA Claims	73,923
Selling Agent Fees	65,000
Receiver Fees and Legal Counsel	160,000
Total Required Holdbacks	455,548
Funds Available for Distribution	5,320,358
Proposed Interim Distribution	
Beneficiary to Sandton	\$5,320,358

SECURITY REVIEW

28. The Receiver's Counsel completed a security review of the Sandton Security under the assignment and conveyance agreement dated December 23, 2016 between Alberta Treasury Branches (now ATB Financial) ("ATB") and Sandton (the "ATB Assignment and Conveyance Agreement") and an assignment and conveyance agreement dated March 22, 2017 between Canadian Western Bank ("CWB") and Sandton (the "CWB Assignment and Conveyance Agreement"). Paragraphs 15 and 16 of the Receiver's First Report provides a detailed summary of the general security and other agreements included in both the ATB Assignment and Conveyance Agreement and the CWB Assignment and Conveyance Agreement, respectively referred to as the ATB Security Documents and the CWB Security Documents. A summary of the findings are as follows:

- (a) The ATB security document constitutes a legal, valid and binding obligation of the Debtors and the Corporate Guarantors, enforceable against the Debtors and the Corporate Guarantors in accordance with the respective terms thereof;

- (b) The CWB security document constitutes a legal, valid and binding obligation of the Debtors, enforceable against the Debtors in accordance with the respective terms thereof; and
 - (c) The security interests created by the Sandton Security Documents have been duly registered at the Alberta Personal Property Registry, and all necessary actions have been taken under the PPSA (Alberta) to preserve, protect or perfect such security interests.
29. Given the above, the Receiver is proposing to make interim distributions in respect of the Sandton Senior Secured Debt. The Receiver intends to pay the proposed interim distribution to Sandton if approved by this Honourable Court. As outlined in the First Report, the Sandton Senior Secured Debt is \$28,818,845.58 with contractual interest accruing thereafter, plus all legal and other costs and expenses incurred by Sandton, pursuant to advances under the secured loan documents. The Receiver notes that the proposed interim distribution is well below the Senior Secured Debt.

NEXT STEPS

30. Should this Honourable Court approve the proposed interim distribution, the Receiver's remaining steps would include:
- (a) make the proposed interim distribution;
 - (b) review the validity of the Lien claim;
 - (c) finalize the administration of the WEPPA claims;
 - (d) support the auction process;
 - (e) complete any remaining administrative tasks; and

- (f) propose a final distribution and seek to be discharged once the auction is completed and remaining funds received.

RECEIVER'S RECOMMENDATIONS

31. The Receiver respectfully requests that this Honourable Court grant the following relief:
- (a) Approval of the Receiver's activities since the date of the First report, including its receipts and disbursements; and
 - (b) Approval of the proposed interim distribution of \$5,320,358 and twenty-five (25) percent NMG was received.

All of which is respectfully submitted this 30th day June 2020.

FTI Consulting Canada Inc.,
in its capacity as receiver and manager of
Accede Energy Services Ltd., Accede Fire &
Safety Ltd., 1537723 Alberta Inc., and Access
Valve Ltd., and not in its personal or corporate
capacity


Deryck Helkaa
Senior Managing Director


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