

COURT FILE NUMBER BK NO: 25-2681862

COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

IN THE MATTER OF THE *BANKRUPTCY AND
INSOLVENCY ACT*

AND IN THE MATTER OF THE PROPOSAL OF
NEWSCO INTERNATIONAL ENERGY
SERVICES INC.

DOCUMENT **FIFTH REPORT OF THE PROPOSAL
TRUSTEE, BDO CANADA LIMITED
MARCH 2, 2021**

ADDRESS FOR SERVICE
AND
CONTACT INFORMATION
OF
PARTY FILING THIS
DOCUMENT

Osler, Hoskin & Harcourt LLP
Suite 2500, TransCanada Tower
450 - 1st Street S.W.
Calgary, Alberta, Canada T2P 5H1
Phone: 403-260-7060
Fax: 403-260-7024
email: rvandemosselaer@osler.com

Attention: Randal Van de Mosselaer

**FIFTH REPORT OF THE PROPOSAL TRUSTEE
BDO CANADA LIMITED
MARCH 2, 2021**

I N D E X

INTRODUCTION	1
TERMS OF REFERENCE.....	3
TRANSACTION	4
OPERATIONAL UPDATE	4
RESTRUCTURING ACTIVITIES	4
FINANCIAL PERFORMANCE	5
UPDATED CASH FLOW FORECAST.....	7
RECOMMENDATION	9

INTRODUCTION

1. On October 20, 2020, Newsco International Energy Services Inc. (“**Newsco**” or the “**Company**”) filed a Notice of Intention to Make a Proposal (the “**NOI**”) pursuant to the *Bankruptcy & Insolvency Act* (the “**BIA**”). BDO Canada Limited consented to act as trustee (the “**Proposal Trustee**”).
2. On November 10, 2020, the Proposal Trustee filed a report with the Court (the “**First Report**”) in advance of the Company’s November 19, 2020 application (the “**November Application**”) to the Court seeking:
 - a. an extension of the time in which the Company must file a proposal to its creditors (“**Proposal**”) and a corresponding extension of the stay of proceedings through to December 23, 2020;
 - b. to have suppliers to its Indian division (the “**Indian Operations**”) declared as critical suppliers (the “**Critical Suppliers**”) and have all payments that may be made to the Critical Suppliers subsequent to the date of the NOI ratified and approved;
 - c. authority to pay all outstanding and future wages, salaries, benefits, vacation pay and expenses in accordance with existing compensation policies (the “**Employee Obligations**”); and
 - d. the establishment of a first-ranking charge against all of Newsco’s present and after-acquired assets, property and undertakings in favour of the Proposal Trustee, the Proposal Trustee’s legal counsel and the Company’s legal counsel to secure the fees of the restructuring professionals (the “**Administration Charge**”).
3. At the November Application, the Court granted an Order (the “**November 19th Order**”) providing for the following relief:
 - a. extending the time in which the Company must file a Proposal through to December 23, 2020;

- b. authorizing payments of the Employee Obligations and to the Critical Suppliers; and
 - c. the establishment of the Administration Charge to a maximum of \$150,000.
4. On December 8, 2020, the Proposal Trustee prepared a report (the “**Second Report**”) in advance of the Company’s December 18, 2020 application (the “**December Application**”) seeking a further extension of the time in which the Company must file a Proposal and a corresponding extension of the stay of proceedings through to February 1, 2021.
5. At the December Application, the Court granted an Order extending the time in which the Company must file a Proposal through to February 1, 2021.
6. On January 12, 2021, the Proposal Trustee prepared a report (the “**Third Report**”) in advance of the Company’s January 22, 2021 application (the “**January Application**”) seeking a further extension of the time in which Newsco must file a Proposal and a corresponding extension of the stay of proceedings through to March 8, 2021.
7. At the January Application, the Court granted an Order further extending the time in which the Company must file a Proposal through to March 8, 2021.
8. On February 2, 2021, the Proposal Trustee prepared a report (the “**Fourth Report**”) in advance of Newsco’s application to the Court to seek approval of a sale transaction of substantially all of its assets utilized in North America to Sawafi Newsco USA, LLC (the “**Transaction**”) pursuant to an *Asset Purchase Agreement* dated February 1, 2021 (the “**Purchase Agreement**”).
9. On February 4, 2021, the Proposal Trustee prepared a Confidential Supplement to the Fourth Report (the “**Confidential Supplement**”) containing the Purchase Agreement and a third party independent appraisal commissioned from GB Appraisal Canada, ULC that was utilized by the Proposal Trustee to facilitate its analysis of the Transaction.

10. On February 10, 2021, the Court granted two Orders as follows:
 - a. a Sale Approval and Vesting Order approving the Purchase Agreement and the Transaction; and
 - b. a Sealing Order directing that the Confidential Supplement remain sealed until three months subsequent to the closing of the Transaction.
11. The purpose of this report (the “**Fifth Report**”) is to provide an update to the Court with respect to the following:
 - a. the status of the Transaction;
 - b. an operational update;
 - c. the Company’s restructuring activities;
 - d. the Company’s financial performance since the date of the Fourth Report;
 - e. the Company’s updated cash flow forecast; and
 - f. the Company’s request for a further extension of the time in which the Company must file a proposal through to April 19, 2021 and the Proposal Trustee’s recommendation thereon.

TERMS OF REFERENCE

12. In preparing this Fifth Report, the Proposal Trustee has relied upon unaudited financial information, records of the Company and discussions with the Company’s management (“**Management**”) and the Company’s legal counsel. The Proposal Trustee has not performed an audit, review or other verification of such information. An examination of the cash flow information as outlined in the Canadian Institute of Chartered Accountants Handbook has not been performed.
13. Future-oriented financial information relied upon in this report is based on Management’s assumptions regarding future events and actual results achieved may vary from this information and such variations may be significant. Accordingly, the Proposal Trustee expresses no opinion or other form of assurance in respect of such information.

TRANSACTION

14. The Transaction closed on February 22, 2021 at which time the Proposal Trustee issued the Proposal Trustee's Certificate confirming same.
15. At this time, the sales proceeds from the Transaction remain in trust with the Company's legal counsel. It is anticipated that the sales proceeds will be utilized to:
 - a. pay professional fees that are secured by the Administration Charge;
 - b. pay certain amounts owed to employees as authorized by the November 19th Order; and
 - c. form the basis of the Company's Proposal to its creditors.

OPERATIONAL UPDATE

16. Although Newsco has sold substantially all of its operational assets located in North America pursuant to the Transaction, the Company continues to maintain a skeleton administrative staff in Canada while continuing to generate revenue from ongoing projects from its divisional operations in India (the "**Indian Operations**").

RESTRUCTURING ACTIVITIES

17. The Proposal Trustee is satisfied that Management continues to act with due diligence and in good faith and has been working towards ultimately presenting a viable Proposal to its creditors. Since the date of the Fourth Report, Management has:
 - a. closed the Transaction;
 - b. continued to respond to inquiries from various creditors and customers regarding the status of the restructuring proceedings;
 - c. continued to communicate with its suppliers to ensure the uninterrupted provision by them of goods and services for the Indian Operations;

- d. held discussions with legal counsel and the Proposal Trustee with regard to the basis of and structure of a Proposal;
 - e. assisted the Proposal Trustee with coordinating the engagement of another independent third-party appraisal of Newsco's remaining assets (principally those being utilized by the Indian Operations) (the “**Second Appraisal**”) that is expected to assist the Proposal Trustee with its evaluation of the Proposal to be formulated by Management;
 - f. cooperated with its legal counsel and the Proposal Trustee as necessary in contemplation of the Company’s upcoming Court application; and
 - g. provided its cooperation to the Proposal Trustee as required.
18. In light of the above, as well as the Company’s most recent updated cash flow forecast (discussed below), the Proposal Trustee is supportive of the Company’s application for an extension of the time in which the Company must file a Proposal to its creditors to April 19, 2021.

FINANCIAL PERFORMANCE

19. In contemplation of the January Application, Management, with the assistance of the Proposal Trustee, prepared an updated cash flow forecast for the period January 4 – April 4, 2021 (the “**January Forecast**”), a copy of which was attached as Exhibit “1” to the Affidavit of William Melville, sworn on January 11, 2021 and filed in these proceedings.
20. A variance analysis of the Company’s actual receipts and disbursements over the period January 4, 2021 to February 21, 2021 (the “**Analysis Period**”) versus the corresponding period in the January Forecast is set out in the following table:

January 4 - February 21, 2021				
	Actual	Forecast	Variance	Notes
Receipts				
Accounts receivable	111,680	265,000	(153,320)	a)
Intercompany payment	63,098	-	63,098	b)
India payment to Newsco	-	3,500	(3,500)	
Miscellaneous/Wage & rent subsidy	15,031	12,600	2,431	
	<u>189,809</u>	<u>281,100</u>	<u>(91,291)</u>	
Disbursements				
Wages	(75,943)	(201,000)	125,057	c)
Benefits RWAM	(2,734)	(12,400)	9,666	
Rent	(14,515)	(31,200)	16,685	
Operating & Admin.	(77,322)	(116,500)	39,178	c)
Repayment of intercompany advance	(5,215)	(8,100)	2,885	
Restructuring fees/Valuation Fees	-	(5,000)	5,000	
	<u>(175,729)</u>	<u>(374,200)</u>	<u>198,471</u>	
Net cash flow	14,080	(93,100)	107,180	
Cash - beginning	102,200	102,200	-	
Cash - closing	<u>116,280</u>	<u>9,100</u>	<u>107,180</u>	

21. The Company experienced positive cash flow of approximately \$14,000 over the Analysis Period resulting in a positive overall variance of approximately \$107,000 in comparison to the January Forecast. The Proposal Trustee offers the following comment in respect of the above noted significant individual line item variances:
- a. a negative variance of approximately \$153,000 in respect of the collection of accounts receivable was experienced as a result of collections from the Indian Operations being less than anticipated. The Proposal Trustee has previously reported that Management advises that collections from the Indian Operations can be quite sporadic;
 - b. the Company received an unanticipated amount of approximately \$63,000 from its US subsidiary whose Chapter 11 Plan was confirmed by the US Bankruptcy Court on January 26, 2021;

- c. as a result of the lower than anticipated collection of accounts receivable, the Company was unable to make forecasted payments to catch up arrears to employees of and suppliers to its Indian Operations as authorized by the November 19th Order resulting in a combined positive variance of approximately \$164,000; and
 - d. the sales proceeds from the Transaction being held in trust by the Company's legal counsel are not reflected as a receipt in light of the terms of the Transaction being subject to the Sealing Order.
22. The Proposal Trustee wishes to highlight that the sales proceeds from the Transaction currently being held in trust by the Company's legal counsel are not reflected in the schedule above as a cash receipt in light of the terms of the Transaction being subject to the Sealing Order.

UPDATED CASH FLOW FORECAST

23. Management, with the assistance of the Proposal Trustee, has prepared an updated cash flow forecast for the period February 22 – May 23, 2021 (the “**February Forecast**”) a copy of which is attached as Exhibit “1” to the Affidavit of William Melville, sworn on March 1, 2021 and filed in these proceedings.
24. The February Forecast is summarized in the table below:

Receipts	
Accounts receivable	\$519,300
Miscellaneous/Wage Subsidy	52,000
	<u>571,300</u>
Disbursements	
Wages (gross)	(257,700)
Benefits	(26,800)
Rent	(43,700)
Operating and Admin.	(325,700)
Intercompany advance - repayment	(23,600)
Appraisal fees	(7,000)
	<u>(684,500)</u>
Net cash flow	(113,200)
Cash - beginning	116,300
Cash - ending	<u><u>\$3,100</u></u>

25. The Proposal Trustee wishes to highlight the following:
- a. the sales proceeds realized from the Transaction are excluded from the beginning cash position in light of the details of the Transaction being subject to the Sealing Order;
 - b. the February Forecast estimates negative cash flow of approximately \$113,000 over the forecast period, leaving an anticipated ending cash balance of approximately \$3,000 as at May 23, 2021;
 - c. cash receipts and disbursements are forecasted to relate primarily to the Indian Operations; and
 - d. the February Forecast contemplates the Company having sufficient funds available to operate through to the requested extension date of April 19, 2021.

RECOMMENDATION

26. In light of the Transaction having now closed and Management anticipating the sales proceeds therefrom will form the basis of the Proposal, the Proposal Trustee recommends the granting of a further extension of the time in which Newsco must file a Proposal to April 19, 2021 in order to allow time for the formulation and filing of the Proposal and the completion of the Second Appraisal.

All of which is respectfully submitted this 2nd day of March 2021.

BDO Canada Limited, in its capacity as
Trustee of the Proposal of Newsco International Energy Services Inc.
and not in its personal capacity



Per: _____

Marc Kelly
Senior Vice President