

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 **SEOND REPORT OF THE PROPOSAL  
TRUSTEE, BDO CANADA LIMITED  
DECEMBER 8, 2020**

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](mailto:rvandemosselaer@osler.com)

Attention: Randal Van de Mosselaer

**SECOND REPORT OF THE PROPOSAL TRUSTEE  
BDO CANADA LIMITED  
DECEMBER 8, 2020**

**I N D E X**

|                                  |   |
|----------------------------------|---|
| INTRODUCTION .....               | 1 |
| TERMS OF REFERENCE .....         | 2 |
| OPERATIONAL UPDATE.....          | 3 |
| RESTRUCTURING ACTIVITIES .....   | 3 |
| FINANCIAL PERFORMANCE .....      | 4 |
| UPDATED CASH FLOW FORECAST ..... | 5 |
| RECOMMENDATION .....             | 6 |

## **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 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. The purpose of this report (the “**Second Report**”) is to provide an update to the Court with respect to the following:
- a. an operational update;
  - b. the Company’s restructuring activities;
  - c. the Company’s financial performance since the date of the First Report;
  - d. the Company’s updated cash flow forecast; and
  - e. the Company’s request for a further extension of the time in which the Company must file a proposal through to February 1, 2021 and the Proposal Trustee’s recommendation thereon.

#### **TERMS OF REFERENCE**

5. In preparing this Second 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. 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 the variations may be significant. Accordingly, the Proposal Trustee expresses no opinion or other form of assurance in respect of such information.

**OPERATIONAL UPDATE**

6. As set out in the First Report, Newsco is an international directional drilling and measurement-while-drilling service company. Newsco's customers are upstream oil and gas producers. Given the sustained long-term pressure on oil and gas commodity prices in recent years, Newsco's revenues have been affected by lower drilling activity by its customers. This challenge has been severely exacerbated by the COVID-19 pandemic. Consequently, Newsco currently has no active jobs in Canada and has reduced its local staffing levels to a skeleton administrative staff. Notwithstanding, Newsco continues to generate income from ongoing projects from the Indian Operations.
7. Management advises that the status of both operations in Canada and India remain unchanged since the date of the First Report.

**RESTRUCTURING ACTIVITIES**

8. 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 Proposal to its creditors. Since the date of the First Report, Management has:
  - a. responded to inquiries from various creditors and customers regarding the status of the Proceedings;
  - b. continued its confidential discussions and negotiations with an arm's length third party about a possible transaction which Management anticipates would form the basis of a Proposal;
  - c. held discussions with legal counsel and the Proposal Trustee with regard to the basis of and structure of a Proposal;
  - d. held discussions with the Proposal Trustee about commissioning an independent third party appraisal of Newsco's assets which would provide support for the viability of a Proposal;
  - e. cooperated with its legal counsel and the Monitor as necessary in contemplation of the Company's upcoming Court application; and

- f. provided its cooperation to the Proposal Trustee as required.
9. In light of the above, the Proposal Trustee is supportive of the Company's application for an extension of the Stay to February 1, 2021 in order to allow the Company the opportunity to continue working towards developing the framework of a viable Proposal.

### **FINANCIAL PERFORMANCE**

10. In contemplation of the November Application, Management, with the assistance of the Proposal Trustee, prepared an updated cash flow forecast for the period November 2, 2020 – January 31, 2021 (the “**Updated Forecast**”), a copy of which was attached as Exhibit “1” to the Affidavit of William Melville, sworn on November 9, 2020 and filed in these proceedings.
11. A variance analysis of the Company's actual receipts and disbursements over the period November 2 - 29, 2020, versus the corresponding period in the Updated Forecast is set out in the following table:

| <b>November 2 - 29, 2020</b>      |               |                 |                 |              |
|-----------------------------------|---------------|-----------------|-----------------|--------------|
|                                   | <b>Actual</b> | <b>Forecast</b> | <b>Variance</b> | <b>Notes</b> |
| <b>Receipts</b>                   |               |                 |                 |              |
| Intercompany shared services      | 5,990         | 1,500           | 4,490           |              |
| Accounts receivable               | 120,336       | 192,100         | (71,764)        | a)           |
| Miscellaneous/Wage Subsidy        | 13,806        | 8,700           | 5,106           |              |
|                                   | 140,132       | 202,300         | (62,169)        |              |
| <b>Disbursements</b>              |               |                 |                 |              |
| Wages                             | (41,166)      | (110,800)       | 69,634          | b)           |
| Benefits RWAM                     | (8,803)       | (7,400)         | (1,403)         |              |
| Rent                              | (14,855)      | (25,200)        | 10,345          |              |
| Operating & Admin.                | (43,846)      | (42,100)        | (1,746)         |              |
| Repayment of intercompany advance | (13,039)      | (19,700)        | 6,661           |              |
|                                   | (121,709)     | (205,200)       | 83,491          |              |
| Net cash flow                     | 18,422        | (2,900)         | 21,322          |              |
| Cash - beginning                  | 12,600        | 12,600          | -               |              |
| Cash - closing                    | 31,022        | 9,700           | 21,322          |              |

12. The Company experienced positive cash flow of approximately \$13,000 over the Forecast Period, which resulted in a positive overall variance of approximately \$21,000 in comparison to the Updated Forecast. The Proposal Trustee offers the following comments in respect of certain of the above noted significant individual line item variances:
- a. the negative variance of approximately \$72,000 in respect of accounts receivable is a result of collection from the Indian Operations being less than anticipated; and
  - b. the positive variance of approximately \$70,000 in respect of wages is related to the lower than anticipated accounts receivable collections. As a result of lower than anticipated collections, the outstanding Employee Obligations arrears forecasted to be paid to employees of the Indian Operations were not made. Current payments due to Indian employees were made.

#### **UPDATED CASH FLOW FORECAST**

13. Management, with the assistance of the Proposal Trustee, has prepared an updated cash flow forecast for the period November 30, 2020 – February 28, 2021 (the “**November Forecast**”) a copy of which is attached as Exhibit “1” to the Affidavit of William Melville, sworn on December 7, 2020 and filed in these proceedings.

14. The November Forecast is summarized in the table below:

|                               |                  |
|-------------------------------|------------------|
| <b>Receipts</b>               |                  |
| Accounts receivable           | \$596,600        |
| Miscellaneous/Wage Subsidy    | 26,100           |
|                               | <u>622,700</u>   |
| <b>Disbursements</b>          |                  |
| Wages (gross)                 | (365,600)        |
| Benefits                      | (21,100)         |
| Rent                          | (48,300)         |
| Operating and Admin.          | (191,900)        |
| Intercompany loan - repayment | (13,400)         |
| Appraisal fees                | (10,000)         |
|                               | <u>(650,300)</u> |
| Net cash flow                 | (27,600)         |
| Cash - beginning              | 30,900           |
| Cash - ending                 | <u>\$3,300</u>   |

15. The November Forecast reflects negative cash flow of approximately \$28,000 over the forecast period, leaving an anticipated ending cash balance of approximately \$3,000 as at February 28, 2021.
16. Cash receipts and disbursements are forecasted to relate primarily to the Indian Operations.

### **RECOMMENDATION**

17. For the reasons set out in this Second Report, the Proposal Trustee recommends the granting of an extension of the time in which Newsco must file a Proposal to February 1, 2021.

All of which is respectfully submitted this 8<sup>th</sup> day of December 2020.

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