

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 **FOURTH REPORT OF THE PROPOSAL  
TRUSTEE, BDO CANADA LIMITED  
FEBRUARY 2, 2021**

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**FOURTH REPORT OF THE PROPOSAL TRUSTEE  
BDO CANADA LIMITED  
FEBRUARY 2, 2021**

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## **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 (the “**First Report**”) with the Court of Queen’s Bench of Alberta (the “**Court**”) 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. 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 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. On January 22, 2021, 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 10, 2021, Newsco is scheduled to make an application to the Court seeking approval of a sale of substantially all of its assets utilized in North America (the “**Proposed Transaction**”) to Sawafi Newsco USA, LLC (the “**Purchaser**”) pursuant to an *Asset Purchase Agreement* dated February 1, 2021 (the “**Purchase Agreement**”).
9. The purpose of this report (the “**Fourth Report**”) is to provide the Court with:
  - a. background information in respect of the Proposed Transaction and the Proposal Trustee’s analysis thereof;
  - b. the Proposal Trustee’s recommendation in respect of the Proposed Transaction; and

- c. the details of a sealing order being sought in respect of the Proposal Trustee's confidential supplement to the Fourth Report (the "**Confidential Supplement**").

### **TERMS OF REFERENCE**

10. In preparing this Fourth Report, the Proposal Trustee has relied upon unaudited financial information, records of the Company, discussions with the Company's management ("**Management**") and legal counsel and an independent third party appraisal prepared by GB Appraisal Canada, ULC ("**Gordon Brothers**"). The Proposal Trustee has not performed an audit, review or other verification of such information.

### **PROPOSED TRANSACTION**

#### *Background*

11. 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 business and revenues have been affected by lower drilling activity by its customers and the overall impact of COVID-19.
12. As set out in the First Report, the Second Report and the Third Report, although the Company continues to generate revenue from ongoing projects from its divisional operations in India (the "**Indian Operations**"), Newsco does not have any active jobs in Canada (the "**Canadian Operations**") and has reduced its local staffing levels to a skeleton administrative staff. As a result, the Company has not been utilizing its drilling related equipment located in North America in any meaningful manner since June 2019 (the "**Canadian Assets**").
13. The Canadian Assets are located in Calgary, Alberta, Edmonton, Alberta, Estevan, Saskatchewan and Houston, Texas. The Canadian Assets are not utilized to generate income from the Indian Operations.

14. As set out in the February 1, 2021, sworn Affidavit of William Melville No. 4 (“**Melville Affidavit No. 4**”) filed in these proceedings, in July 2019, Management had decided to attempt to sell the Canadian Assets, since the Company had not secured work for the 2019-2020 fall/winter drilling season. Management advises that it had contacted directional drilling companies in North America, international equipment brokers and contacts in the Middle East but found that the interest and prices being offered were very low because many competitors in Canada were also being impacted negatively by the lack of drilling activity and were also looking to sell equipment leading to an oversupply in the marketplace. This problem was exacerbated by low oil prices in early 2020 and the COVID-19 Pandemic, which led to declining drilling activity. Consequently, Newsco has been only able to consummate some small equipment sales.
15. In the Second Report and the Third Report, the Proposal Trustee advised that Management had been having confidential discussions and negotiations with an arm’s-length party about a possible transaction that Management anticipated would form the basis of a Proposal. This led to the negotiation of the Purchase Agreement providing for the sale of significantly all of the Canadian Assets (the “**Purchased Assets**”). As of the date of this Fourth Report, the Purchase Agreement has not been executed by all parties, but is anticipated to be executed in advance of the upcoming Court application scheduled for February 10, 2021.

Terms

16. A redacted copy of the Purchase Agreement is attached as Exhibit “1” to Melville Affidavit #4 , the salient terms of which are summarized as follows:
  - a. the purchase price for the Purchased Assets (the “**Purchase Price**”) has been redacted in light of concerns shared by Management and the Proposal Trustee that if the Proposed Transaction is not approved by the Court, or does not otherwise close for some reason, the public disclosure of the Purchase Price might prove detrimental to Newsco’s future efforts to remarket the Purchased Assets. An unredacted copy of the Purchase Agreement is included in the Confidential Supplement;

- b. the Purchased Assets are detailed on Schedule 1.1(ii) of the Purchase Agreement; however, they can generally be described as:
    - i. directional drilling and measurement-while-drilling (“MWD”) equipment;
    - ii. power sections for positive displacement motors ("mud" motors);
    - iii. downhole tools (non-magnetic drill collars, stabilizers, cross-over subs, UBHO subs, pick-up subs);
    - iv. spare parts inventory; and
    - v. other miscellaneous equipment (kit boxes, sub baskets)
  - c. the Canadian Assets are being acquired on an "*as is, where is*" and "*without recourse*" basis; and
  - d. the Proposed Transaction is subject to the approval of this Honourable Court and the granting of a Sale Approval and Vesting Order (the “**SAVO**”).
17. The Proposal Trustee notes that the parent company of the Purchaser, Sawafi Al-Jazeera Oilfield Products and Services Co Ltd. and the majority shareholder of Newsco, Buffalo Oilpatch Supply Inc. (“**Buffalo Oilpatch**”), are also parties to the Purchase Agreement. The Proposal Trustee understands that this was a requirement of the Purchaser and does not have any impact on the benefits that would accrue to Newsco pursuant to the Proposed Transaction.

*Proposal Trustee’s Assessment*

18. Section 65.13 of the BIA provides that an insolvent person filing an NOI may not sell or dispose of assets outside the ordinary course of business unless authorized to do so by the Court.

19. Section 65.13 also provides for various procedural requirements to be followed and certain criteria to be taken into account by the Court when considering whether to approve any proposed transaction, for which the Proposal Trustee provides its comments below.
20. A search of the Alberta Personal Property Registry (the “**PPR**”) notes several registrations as set out below for which the Proposal Trustee has noted its comments in relation to the nature and or amount of obligations outstanding:
  - a. ICICI Bank Canada – \$40,000. Management advises that this amount is owed in respect of COVID 19 funding assistance provided by the Canadian Government but that there is no security agreement in place in relation to the funds and that the security registration related to the cash security in relation to bank guarantees given to two customers of the Indian Operations;
  - b. Buffalo Oilpatch - \$1,387,702.83;
  - c. William Melville - \$91,308.82;
  - d. Bill Melville Productions Ltd. - \$125,007.50;
  - e. Judith Melville - \$55,392.38;
  - f. Edmond Melville - \$250,000;
  - g. Meridian Onecap Credit Corp. – Management advises that this registration was in relation to lease financing of IT equipment that has been fully paid and for which the security interest has been released; and
  - h. National Leasing Group - Management advises that this registration was in relation to lease financing of IT equipment that has been fully paid and for which the security interest has been released.

21. The above parties have been served notice of the application seeking to approve the Proposed Transaction in accordance with Section 65.13(3) of the BIA. To date, the Proposal Trustee has not instructed its legal counsel to undertake a review of the respective security interested of the above noted parties but would anticipate doing so as part of its review and assessment of any Proposal put forth by the Company.
22. Section 65.13(4) provides for the Court to consider, among other things, certain factors for which the Proposal Trustee has the following comments:
  - a. The Proposal Trustee is of the view that the process leading up to the Proposed Transaction was reasonable in the circumstances for the following reasons:
    - i. As detailed in the Confidential Supplement, based on the appraisal report dated January 19, 2021 prepared by Gordon Brothers (the “**Appraisal**”), the Proposal Trustee is of the view that the Purchase Price is reasonable in comparison to the Proposal Trustee’s assessment of the liquidation value of the Purchased Assets. A copy of the Appraisal is included in the Confidential Supplement as the Proposal Trustee and Management are concerned that if the Proposed Transaction is not approved by the Court, or does not otherwise close for some reason, that the public disclosure of the Appraisal might prove detrimental to Management’s future efforts to remarket the Purchased Assets; and
    - ii. Given Management’s previous efforts to sell the Canadian Assets and the Appraisal, the Proposal Trustee is of the view that it is unlikely that incurring the costs associated with administering a public marketing process in respect of the Purchased Assets would yield a higher net result. In addition, such a marketing process would cause Newsco to incur additional costs associated therewith.

- b. The Proposal Trustee has been aware of the process leading up to the Proposed Transaction and approved of it in the circumstances.
  - c. As set out in detail in the Confidential Supplement, the Proposal Trustee is of the view that the Proposed Transaction will result in net proceeds greater than would be anticipated were the Purchased Assets liquidated in a bankruptcy proceeding.
  - d. A number of the creditors who have registered a security interest at the PPR are related to Newsco and are aware of the Proposed Transaction. Notwithstanding, with the exception of paying invoices rendered by the restructuring professionals that are subject to the Administration Charge, the sales proceeds from the Proposed Transaction are otherwise to be held by the Newsco's legal counsel to be utilized to form the basis of a Proposal to creditors. Consequently, the Proposal Trustee is of the view that no creditors are otherwise prejudiced by the Proposed Transaction and need not have been consulted; and
  - e. the Proposal Trustee is of the view that the Purchase Price is reasonable based on the analysis set out in the Confidential Supplement.
23. Management and legal counsel for the Purchaser have confirmed to the Proposal Trustee that the Purchaser is not related to Newsco or Management. Consequently, the Proposal Trustee is of the view that the considerations set out in Sections 65.13(5) and 65.13(6) of the BIA as it related to related parties are not applicable.
24. As set out in the First Report, Newsco is indebted to certain employees for outstanding wages in Canada and India. In light of the Company's legal counsel maintaining the sales proceeds as set out above pending the presentation of a Proposal to the Company's creditors, there should be no payments to consider pursuant to consider as prescribed by Section 65.13(8) of the BIA at this time.

**SEALING ORDER**

25. As set out earlier in this First Report, the Trustee and Management are of the view that the public disclosure of the Purchase Agreement and the Appraisal would be detrimental to the Company's remarketing efforts if the Proposed Transaction is not approved by the Court or otherwise does not close. As a result, the salutary effects of the sealing order being sought by Newsco outweigh its deleterious effects. Consequently, the Proposal Trustee will be supporting Newsco's application to have the Confidential Supplement sealed until three months following the closing of the Proposed Transaction.

**RECOMMENDATIONS**

26. For the reasons set out in this Fourth Report and the Confidential Supplement, the Proposal Trustee recommends:
- a. the approval of the Purchase Agreement and granting of the SAVO; and
  - b. the sealing of the Confidential Supplement until three months after the Proposed Transaction has closed.

All of which is respectfully submitted this 2<sup>nd</sup> day of February 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