

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 **THIRD REPORT OF THE PROPOSAL
TRUSTEE, BDO CANADA LIMITED
JANUARY 12, 2021**

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**THIRD REPORT OF THE PROPOSAL TRUSTEE
BDO CANADA LIMITED
JANUARY 12, 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 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. 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. The purpose of this report (the “**Third 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 Second 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 March 8, 2021 and the Proposal Trustee’s recommendation thereon.

TERMS OF REFERENCE

- 7. In preparing this Third 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.

8. 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.

OPERATIONAL UPDATE

9. 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.
10. Although Newsco still does not have any active jobs in Canada and has reduced its local staffing levels to a skeleton administrative staff, the Company continues to generate revenue from ongoing projects from its divisional operations in India (the "**Indian Operations**").

RESTRUCTURING ACTIVITIES

11. 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 Second Report, Management has:
 - a. continued to respond to inquiries from various creditors and customers regarding the status of the restructuring proceedings;
 - b. continued its confidential discussions and negotiations with an arm's length third party (the "**Interested Party**") about a possible transaction which Management anticipates will form the basis of a Proposal;
 - c. facilitated the Interested Party's ongoing due diligence efforts;
 - 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 commissioning an independent third party appraisal of Newsco's assets which would provide support for the viability of a Proposal which report is expected to be finalized in the near future;
 - 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.
12. 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 March 8, 2021.

FINANCIAL PERFORMANCE

13. In contemplation of the December Application, Management, with the assistance of the Proposal Trustee, 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. A variance analysis of the Company's actual receipts and disbursements over the period November 30, 2020 to January 3, 2021 (the "**Forecast Period**"), versus the corresponding period in the November Forecast is set out in the following table:

November 30, 2020 - January 3, 2021				
	Actual	Forecast	Variance	Notes
Receipts				
Accounts receivable	309,388	196,900	112,488	a)
India payment to Newsco	(884)	-	(884)	
Miscellaneous/Wage&rent Subsidy	25,543	17,400	8,143	
	<u>334,048</u>	<u>214,300</u>	<u>119,748</u>	
Disbursements				
Wages	(156,567)	(151,700)	(4,867)	
Benefits RWAM	(9,467)	(7,900)	(1,567)	
Rent	(21,300)	(18,900)	(2,400)	
Operating & Admin.	(63,768)	(53,300)	(10,468)	
Repayment of intercompany advance	(6,520)	(6,500)	(20)	
Restructuring fees/Valuation Fees	(5,216)	(5,000)	(216)	
	<u>(262,839)</u>	<u>(243,300)</u>	<u>(19,539)</u>	
Net cash flow	71,209	(29,000)	100,209	
Cash - beginning	30,953	30,900	53	
Cash - closing	<u>102,163</u>	<u>1,900</u>	<u>100,263</u>	

15. The Company experienced positive cash flow of approximately \$71,000 over the Forecast Period, which resulted in a positive overall variance of approximately \$100,000 in comparison to the November Forecast. The Proposal Trustee offers the following comment in respect of the above noted significant individual line item variance:

- a. the positive variance of approximately \$112,000 in respect of accounts receivable is a result of collections from the operations in India being greater than anticipated. Management advises that collections from the Indian Operations can be quite sporadic.

UPDATED CASH FLOW FORECAST

16. Management, with the assistance of the Proposal Trustee, has prepared an updated cash flow forecast for the period January 4 – April 4, 2021 (the “**January Forecast**”) a copy of which is attached as Exhibit “1” to the Affidavit of William Melville, sworn on January 11, 2021 and filed in these proceedings.
17. The January Forecast is summarized in the table below:

Receipts	
Accounts receivable	\$416,600
Intercompany advance	3,500
Miscellaneous/Wage Subsidy	37,800
	<hr/>
	457,900
Disbursements	
Wages (gross)	(292,100)
Benefits	(18,600)
Rent	(50,400)
Operating and Admin.	(167,900)
Intercompany advance - repayment	(12,000)
Appraisal fees	(5,000)
	<hr/>
	(546,000)
Net cash flow	(88,100)
Cash - beginning	<hr/>
	102,200
Cash - ending	<hr/>
	\$14,100

18. The January Forecast reflects negative cash flow of approximately \$88,000 over the forecast period, leaving an anticipated ending cash balance of approximately \$14,000 as at April 4, 2021.
19. Cash receipts and disbursements are forecasted to relate primarily to the Indian Operations.
20. The January Forecast contemplates the Company having sufficient funds available to operate through to the requested extension date of March 8, 2021.

RECOMMENDATION

21. For the reasons set out in this Third Report, the Proposal Trustee recommends the granting of an extension of the time in which Newsco must file a Proposal to March 8, 2021.

All of which is respectfully submitted this 12th day of January 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