

COURT FILE NUMBER

1901-08251

COURT

COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE

CALGARY

PLAINTIFF

NATIONS FUND I, LLC

DEFENDANT

BEARSTONE ENVIRONMENTAL SOLUTIONS INC.

APPLICANT

**KPMG INC., IN ITS CAPACITY AS COURT APPOINTED
RECEIVER AND MANAGER OF BEARSTONE
ENVIRONMENTAL SOLUTIONS INC.**

DOCUMENT

**SECOND SUPPLEMENTAL REPORT TO THE COURT
SUBMITTED BY KPMG INC., IN ITS CAPACITY AS
COURT APPOINTED RECEIVER AND MANAGER OF
BEARSTONE ENVIRONMENTAL SOLUTIONS INC.**

DATE

OCTOBER 8, 2019

ADDRESS FOR SERVICE AND
CONTRACT INFORMATION OF
PARTY FILING THIS DOCUMENT:

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1. INTRODUCTION AND PURPOSE OF REPORT

1. Bearstone Environmental Solutions Inc. (“**Bearstone**” or the “**Company**”) provides environmental oilfield services to the oil and gas industry throughout Western Canada. The Company’s primary assets include vacuum and water trucks and related equipment.
2. Bearstone’s senior secured lender is Nations Fund I, LLC (“**Nations**” or the “**Lender**”).
3. Nations brought an application to have KPMG Inc. (“**KPMG**”) appointed as receiver and manager of Bearstone (the “**Receiver**”) pursuant to section 243 (1) of the *Bankruptcy and Insolvency Act* and section 13(2) of the *Judicature Act*, RSA 2000, c J-2 to, *inter alia*, take possession of and exercise control over the assets of the Company and any and all proceeds, receipts and disbursements arising out of or from the assets (the “**Property**”).
4. Prior to being appointed as Receiver of Bearstone, KPMG issued the First Report and the First Confidential Supplemental Report of the Proposed Receiver on July 17, 2019, and the Second Report and Second Confidential Supplemental Report of the Proposed Receiver on July 29, 2019 (collectively, the “**Proposed Receiver’s Pre-Filing Reports**”). The Proposed Receiver’s Pre-Filing Reports were issued in connection with the application brought by Nations, and provided, *inter alia*:
 - a) Background information on the Company;
 - b) An overview of the Silverpoint Transaction; and
 - c) The Proposed Receiver’s analysis of the same.
5. On August 6, 2019, the Court of Queen’s Bench of Alberta (the “**Court**”) issued an order appointing KPMG as the Receiver over all the Property and undertakings of Bearstone, (the “**Receivership Order**”).
6. On August 6, 2019, the Court also granted an order (the “**Sale Approval and Vesting Order**”), which approved:
 - a) The transaction contemplated between Bearstone, Nations, Silverpoint Energy Services Inc. (“**Silverpoint**”), and New West Energy Services Inc. (“**New West**”), resulting in the transfer of substantially all of the Company’s assets located at the Medicine Hat location to Silverpoint

(the “**Silverpoint Transaction**”), and the adoption of the related asset purchase and sale agreement (the “**Amended Silverpoint APA**”) by the Receiver, details of which are provided in the Proposed Receiver’s Pre-Filing Reports (defined herein); and

- b) The vesting of the right, title and interest in and to the Purchased Assets with the Purchaser (as defined in the Amended Silverpoint APA).
7. The Receiver has prepared this second supplemental report (the “**Second Supplemental Report**” or the “**Report**”) to provide the Court with further information in connection with the Receiver’s first report to the court dated October 2, 2019 (the “**First Report**”) and the Receiver’s first confidential supplemental report to the court dated October 2, 2019 (the “**First Confidential Supplemental Report**”).
 8. The Report should be read in conjunction with the First Report and the First Confidential Supplemental Report.
 9. Capitalized terms not otherwise defined herein are as defined in the Proposed Receiver’s Pre-Filing Reports, the First Report or the First Confidential Supplemental Report.
 10. Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars.
 11. All materials filed with the court and all orders granted by the Court in connection with the receivership will be made available to creditors and other interested parties in electronic format on the Receiver’s website <http://home.kpmg/ca/bearstone> (the “**Receiver’s Website**”).
 12. The Second Supplemental Report is prepared to provide this Honourable Court with an analysis of the potential range of values of the deficiency to Nations.

2. ANALYSIS OF NATIONS' POTENTIAL DEFICIENCY

13. The table below outlines the Receiver's estimated range of potential outcomes in the Bearstone receivership and a range of values for the possible final deficiency on Nations' secured claim. Such table is based on information currently available, the Receiver's best estimates, and a "high" and "low" scenario.
14. Given the numerous variables still to be resolved, the actual deficiency may fall outside the range illustrated below:

Estimated Net Realizable Value		
CAD \$	High	Low
Receipts	2,947,443	2,589,121
Disbursements		
Professional Fees to Date	(383,895)	(383,895)
Estimated Professional Fees to Discharge	(100,000)	(125,000)
Estimated Trust/Liens	(70,000)	(100,000)
Estimated Future Costs	(35,000)	(60,000)
Total Estimated Disbursements	(588,895)	(668,895)
Total Estimated Net Realizable Value	2,358,548	1,920,226
Estimated Deficiency to Nations		
Nations' Secured Debt	(5,132,650)	(5,132,650)
Proceeds from Silverpoint Transaction	1,700,000	1,700,000
Total Estimated Net Realizable Value	2,358,548	1,920,226
Total Estimated Deficiency to Nations	(1,074,102)	(1,512,424)

15. The final deficiency remains uncertain and the range of values detailed above is dependent on a number of matters that may materially affect the final outcome, including:
- Final sale proceeds pursuant to the RB Offer;
 - Estimated future accounts receivable collections are uncertain; accordingly a range of recoveries from 45% to 75% of the current book value of the remaining accounts receivable in the "Low" and "High" scenarios respectively is utilized;
 - Estimated professional fees to discharge are estimated and dependent on the RB Offer being concluded as envisaged, time spent collecting remaining accounts receivable and fees incurred in dealing with other receivership matters;

- d) Potential priority ranking payments (source deductions, GST and lien claimants) are uncertain and have not been fully quantified. Book values have been utilized for this analysis;
- e) Estimated future costs (which exclude professional fees) are dependent on the efficacy of the removal of assets from the Grande Prairie facility and any residual issues related thereto (including, *inter alia*, occupation rent, insurance, security);
- f) The final amount outstanding to Nations (including interest and fees) is yet to be determined and accordingly the value used above is that detailed in the Affidavit of Mark Skura sworn June, 12, 2019 and prior to the approval of the Silverpoint Transaction; and
- g) The Silverpoint Transaction resulted in a reduction of the Nations' debt by \$1.7 million.

16. Accordingly, the potential deficiency faced by Nations is likely in a range from \$1 million to \$1.5 million.

This Report is respectfully submitted this 8th day of October, 2019

KPMG Inc.

**In its capacity as Court-Appointed Receiver of
Bearstone Environmental Solutions Inc.
and not in its personal or corporate capacity**



Per: Neil Honess
Senior Vice President