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OF CALGARY

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COURT	COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE	CALGARY
APPLICANT	**HSBC BANK CANADA**
DEFENDANT	**X-TREME ENERGY GROUP INC.**
DOCUMENT	**FIRST REPORT TO THE COURT OF ERNST & YOUNG INC. IN ITS CAPACITY AS RECEIVER AND MANAGER OF X-TREME ENERGY GROUP INC.**
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	**Norton Rose Canada LLP** 400 3rd Avenue SW, Suite 3700, Calgary, Alberta T2P 4H2 Attention: Kevin E. Barr Telephone (403).267.8142 Facsimile (403) 264.5973 | Email: kevin.barr@nortonrose.com

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INTRODUCTION

1 On April 30, 2012, the Court of Queen's Bench of Alberta (the "**Court**") issued an order (the "**Receivership Order**") appointing Ernst & Young Inc. ("**EYI**") as the Receiver and Manager (the "**Receiver**") of X-Treme Energy Group Inc. ("**X-Treme**", the "**Debtor**" or the "**Company**").

2 This report is filed by EYI in its capacity as Receiver of X-Treme.

Purpose of this Report

3 The purpose of this report ("**Report**") is to:

(a) summarize Receiver's actions since the date of the appointment of the Receiver;

(b) summarize the Sale Process undertaken for X-Treme's business and assets;

(c) summarize the outcome of the Sale Process; and

(d) respectfully recommend that this Honourable Court grant an order:

(i) approving the actions of the Receiver to date;

(ii) requesting that the Receiver's Confidential Addendum be sealed;

(iii) approving the Sale of the assets of X-Treme to the Proposed Purchaser (as that term is defined herein);

(iv) approving the repayment to the secured creditor of advances made by the secured creditor to the Receiver;

(v) approving the termination of the Capital Leases as described herein;

(vi) approving the termination of the Calgary Sales Office Lease between Petro Fina Capital Corp and X-Treme dated February 1, 2008 (as that term is defined herein;

(vii) approving the termination of the Red Deer Lease between Robust Investments Ltd. and X-Treme dated August 1, 2008 (as that term is defined herein) and approving the assignment agreement assigning the Poplar Grove Lease between Poplar Grove Property Development Inc. and X-Treme dated October 14, 2008 (as that term is defined herein) to the Proposed Purchaser.

Terms of Reference

4 In developing this Report, the Receiver has relied upon unaudited financial information prepared by the Company's management, the Company's books and records and discussions with its management. The Receiver has not performed

an audit or other verification of such information. An examination of the Company's financial forecasts 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. Actual results achieved may vary from this information and these variations may be material, and as such the Receiver expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this Report, or relied upon by the Receiver in preparing this Report.

Currency

5 Unless otherwise noted all currency references in this Report are in Canadian dollars.

BACKGROUND

6 The Company provides manufacturing services primarily to the oil and gas industry specifically in the manufacture of rigs and rig components, safety structures and general machining.

7 The Receiver has retained a core group of employees in order to continue certain aspects of the business. At the time of the Receiver's appointment, more than 200 employees worked at X-Treme.

8 The Company has created a competitive advantage though its quality of product and its Protec division, which supplies such products as emergency showers, hazardous materials containers, pressure test enclosures and other buildings.

9 In Red Deer, the Company leases two buildings totalling approximately 37,500 square feet. This facility houses the CNC (Computer Numerical Control) machine shop, fabrication facility and head office functions (the "**Red Deer Lease**"). The Company has an extensive manufacturing facility in Innisfail where it owns six properties encompassing approximately 14 acres of land including buildings of approximately 67,000 square feet in size. The Company also leases an additional property in Innisfail with a building approximating 17,640 square feet (the "**Poplar Grove Lease**"). Collectively, these properties form the manufacturing facility where rig and "Protec" construction, sand blasting and "rig-up" are carried out.

10 In Calgary, the company leased space from Petro Fina Capital Corp. which operated as a sales centre (the "**Calgary Sales Office Lease**"). The Receiver, in June, 2012, vacated the space comprising the Calgary Sales Office Lease and gave notice to the landlord of same. The Receiver has had no contact from the landlord.

11 The Company had revenues of $19,800,000 in the 7 months to March 31, 2012.

12 The Receiver was appointed in respect of the assets of the Company which are described below:

		Net Book Value (Note 1) as at March 31, 2012
Accounts receivable	$	9,402,714
Inventory		47,636,406
Work-in-progress		9,062,265
Prepaid expenses		569,691
Fixed Assets		12,158,725
Other		250,455
Total	**$**	**79,080,256**

Note 1 - Net book value is based on unaudited books and records of the Company as at March 31, 2012.

SECURED CREDITORS

13 The Company's first secured creditor is HSBC Bank Canada ("**HSBC**"). HSBC was owed approximately $48,200,000 plus accrued interest as at the date of the Receiver's appointment (the "**Secured Debt**"), pursuant to a demand revolving credit facility.

14 The Company has numerous capital and finance leases and these secured creditors were owed a total of approximately $252,000 plus accrued interest as at the date of the Receiver's appointment (the "**Capital Leases**").

OVERVIEW OF THE RECEIVER'S ACTIVITIES

15 Since the date of its appointment, the Receiver has carried out the following actions as detailed below.

Custody & Control

16 On April 30, 2012 the Receiver attended X-Treme's yard and offices located in Red Deer and Innisfail, Alberta to meet with the President, Vice Presidents and employees in order to discuss the transition of operations from management to the Receiver.

17 To-date, the Receiver has made current lease payments in respect of the Poplar Grove Lease, the Red Deer lease for the months of May and June.

18 Physical locks were changed and electronic access was restricted to only those employees engaged by the Receiver.

19 The Receiver has engaged a reputable local third party security company, X-Cops Inc., to ensure the assets are secured on weekends and during non-business hours. This security firm was retained by the Receiver given the relatively remote location of X-Treme's offices and yard and that there were certain concerns regarding the security of the equipment.

20 The lease for office space in Calgary, Alberta used as a sales office was disclaimed.

21 At the time of the Receivership, X-Treme had no outstanding amounts payable to its insurance provider. The Receiver arranged to become the named insured on the existing policy upon its appointment and to-date has made monthly payments to the insurance provider for the months of May and June 2012.

Operations

22 The Receiver attended at the Red Deer and Innisfail locations to oversee daily operations.

23 The Receiver identified those contracts that could reasonably be expected to be completed during the two month period ended June 30, 2012 and generate positive cash flow and superior realization for the creditors, while soliciting offers for the business as a going concern. These topics are covered in further detail below.

24 The Receiver carried on the operations of the Debtor on a business as usual basis for the completion of those contracts.

CWB and API

25 The Receiver advised the Canadian Welding Bureau ("**CWB**") of the Receiver's appointment and made arrangements to extend the Company's existing license during the time of the Receivership.

26 The Receiver advised the American Petroleum Institute ("**API**") of the Receiver's appointment. The expiration date of the Company's current certification(s) had been extended until September 10, 2012.

27 The Receiver offered employment to quality control personnel and certain qualified staff with the ability to certify that the Company continued to deliver product in accordance with the requirements of the CWB and API.

Employees

28 On April 30, 2012, X-Treme employed 238 employees. The Receiver offered temporary employment to all employees until May 4, 2012 in order to assess personnel requirements during the period that the Receiver would operate the business.

29 The Receiver immediately performed an analysis of employment requirements necessary to assist in the completion of the ongoing projects, performing accounting functions and aiding in the collection of outstanding receivables. One hundred sixteen (116) employees accepted offers of employment from the Receiver until May 31, 2012 or June 30, 2012. The functions of these employees included:

(a) operations staff to complete ongoing jobs;

(b) truck drivers to assist in moving equipment and returning equipment between yards and third party sites;

(c) quality control and safety personnel; and

(d) office staff to invoice ongoing projects, collect on receivables and maintain necessary records.

30 The Receiver terminated all other employees' employment with X-Treme, including sales personnel. The termination package received by each employee included a termination letter and a record of employment posted on-line.

31 Information regarding the Wage Earner Protection Plan ("**WEPP**") has been mailed to all terminated employees. The Receiver evaluated all claims under the WEPP and has submitted claims to Service Canada for employees who had an eligible claim for termination pay under the Alberta Employment Standards Code.

32 All accrued regular wages owing at the time of the receivership by X-Treme were paid out in full by the Receiver for the following reasons:

(a) the majority employee amounts would relate to a super priority claim against X-Treme assets as per section 81.4 of the *Bankruptcy and Insolvency Act* (the "**Act**"); and

(b) the cooperation and assistance of the employees was required to complete the receivership and such cooperation was unlikely if payroll arrears were not paid.

33 Since the initial date of the receivership, the workforce has been reduced as jobs were completed, administrative tasks completed and certain employees resigned. As at June 23, 2012 the Receiver had 103 active employees.

Work in Progress at Date of Receivership

34 X-Treme's operations comprise completing both short term projects (days in duration) and long-term projects that could take several weeks or even months. Given the nature of X-Treme's business, at any given point in time the Company would have a significant amount of work in progress underway with a significant portion of the outstanding receivables relating to progress billings. When the Receiver was appointed on April 30, 2012, there was a significant amount of work in progress that needed to be analyzed in order to determine if recoveries would be maximized by completing the projects or simply abandoning them and attempting to collect on the progress billings completed at that time.

35 In addition, the Receiver's analysis indicated that discontinuing the work in progress would likely result in the inability to collect on a large portion of the receivables outstanding from the current customers due to various set-off issues.

36 Discontinuing all projects could have potentially resulted in the inability to collect on approximately $1,500,000 in progress billings that were outstanding as at the date of the commencement of the Receivership. In addition to this, unbilled work in progress would also have been potentially unrecoverable.

37 The Receiver worked with X-Treme's management to complete individual project cash flows and estimated recovery estimates assuming the completion of the partially completed projects in hand. Based on the Receiver's analysis of the projects in hand, the estimated costs and recoveries to complete the projects, the availability of equipment to be used on the projects and the contractor/employee compliment available, the Receiver determined that although completing certain projects would result in an initial outlay of salaries and materials, the completion of certain projects would likely result in a better recovery to the estate when considering the potential collection issues of the outstanding progress billings and unbilled work in progress if the projects were not completed.

38 The Receiver's analysis of the projects underway at the time of appointment determined that there was a strong business case to complete the projects identified below as these would maximize recoveries for the creditors.

39 The table below summarizes the contracts that the Receiver determined would be continued:

X-treme Energy Group Inc. - Summary of contracts to be continued
(Unaudited)

Customer	Description	Expected Completion Date	Contract Amount	Account Receivable at April 30, 2012
			($ 000's)	($ 000's)
Saxon Energy Services Inc.	Oil rig manufacture	Jun-12	5,330	506
Xtreme Coil Drilling Corp.	Oil rig manufacture	Jun-12	6,000	546
Tough Enough Drilling Inc.	Oil rig manufacture	May-12	1,800	359
Transalta Corporation	Protec equipment PT45744	May-12	65	45
Husky Energy Inc.	Protec equipment PT45536-8	May-12	238	-
Radient Technologies	Protec equipment PT46021	May-12	59	-
Century Vallen (Note 1)	Protec equipment PT45729-30	May-12	145	69
Vanworks Manufacturing Inc.	Protec equipment	May-12	0	-
		Total :	13,637	1,525

Note 1 - Other completed contract in accounts receivable

40 The Receiver did not continue with any new long-term projects since the date of the Receivership and concentrated on the completion of the projects in progress at the date of the receivership.

41 In addition, the Receiver did not continue any work related to the contract for 5 oil rigs known as the Pemex Contract[1] as this contract had already become the subject of litigation between the three parties prior to the appointment of the Receiver.

[1] **Pemex Contract"** means the Asset Purchase and Services Agreement number 4240299001 dated November 12, 2009 among X-treme, ADT Petroservicicios, S.A. de C.V. and Pemex-Exploracion y Produccion and all subsequent amendments thereto.

Inventorying, Locating, and Securing Assets

42 The Receiver engaged the services of Century Services Inc. to complete an equipment appraisal of all equipment and furniture assets as at April 30, 2012, which also served as an inventory of all equipment and furniture assets on site. The Receiver also worked with management to compare this list to X-Treme's internal equipment listing in order to determine which assets needed to be located and brought back to X-Treme's premises.

The Receiver believes that all X-Treme owned equipment has been brought back to X-Treme's premises and secured with the exception of: certain used equipment in Nisku, Alberta for which the estimated costs to ship the items back to X-Treme's premises exceeds their estimated fair market value.

43 The Receiver did not perform an inventory count as at April 30, 2012, but rather relied on the Company's perpetual inventory system to determine parts and work-in-process inventory levels as at the time of the appointment. Operations having been continued, the inventory levels were expected to reduce as work-in-process was completed and various parts used for such completion. The Receiver also worked with management to identify which assets needed to be located and brought back to X-Treme's premises.

44 The Receiver believes that all X-Treme owned inventory has been brought back to X-Treme's premises and secured with the exception of:

(a) Catwalks and air conditioning units in Nisku, Alberta for which the estimated costs to pay the outstanding balance to the supplier and ship the items back to X-Treme's premises exceeds their estimated fair market value;

(b) VFD Building in Texas, U.S.A.: The Receiver is currently assessing whether the fair market value of a VFD building being held in Texas, U.S.A., exceeds the cost to pay the outstanding balance to the supplier and ship the VFD building back to X-Treme's premises. The VFD building is part of the assets excluded from the Asset Purchase Agreement.

45 The Receiver received claims for 30-Day goods from six suppliers for goods with a value of approximately $61,000. Goods with a value of approximately $28,000 met the criteria of section 81.1 of the Act and were either collected by the respective suppliers or will be used in production and paid for by the Receiver.

46 The Receiver received property claims from four suppliers. The Receiver has identified the property being claimed and has released property to one of the suppliers. The remaining property claims are under review by the Receiver.

47 The Receiver has identified those assets belonging to third parties that are the subject of operating leases, and has made or is in the process of making monthly payments for the months of May and June 2012 for those assets that the Receiver required for the operations of the business.

Lien Issues

48 Since the time of the appointment, the Receiver has been made aware of one lien registered post-appointment on the Innisfail property for products and services provided to X-Treme during the month of April, prior to the appointment of the Receiver. The Receiver is currently reviewing the validity of the lien in order to either work out an arrangement whereby the lien will be lifted, or to have the lien removed in order to allow the Receiver to proceed with the sale of the assets as described below.

Statutory Mailing by Receiver

49 The Receiver compiled a listing of the net book value of X-Treme's assets and liabilities, including a detailed listing of amounts owing to secured and unsecured creditors. This listing was summarized in the Notice and Statement of the Receiver and Manager (subsections 245(1) and 246(1) of the Act) ("**Receiver's Notice**") and mailed out on May 10, 2012 to all known creditors of the Company. In addition, the Receiver's Notice has been posted on the Receiver's website: www.ey.com/ca/X-tremeenergygroup. The Receiver has subsequently responded to numerous inquiries from creditors of X-treme.

SALE PROCESS

50 On April 30, 2012, the Court granted the Receiver the power to market any or all the property or any part or parts thereof and negotiating such terms and conditions of sale as the Receiver in its discretion may deem appropriate.

51 The Receiver undertook the sale process as below:

(a) a list of prospective purchasers was generated from EYI's internal oil and gas database and from prospective purchasers that had contacted the Receiver expressing interest in the Property;

(b) an advertisement entitled "Solicitation for Offers in the Matter of the Receivership of X-Treme Energy Group Inc." was published in the on-line publication the "Daily Oil Bulletin" and ran on consecutive business days from May 16, 2012 through May 23, 2012. A copy of this advertisement is included as Schedule **A**;

(c) an interest solicitation letter outlining this opportunity was sent to 65 potentially interested parties. Attached to the solicitation letter was a confidentiality agreement ("**CA**") for execution by any interested parties. A copy of the interest solicitation letter and confidentiality agreement are included in Schedule **B**;

(d) thirty-four (34) duly executed CAs were returned to the Receiver and the confidential information, providing an overview of the Company's business and its financial results, was prepared and forwarded to these parties. A list of the information provided to interested parties is included in Schedule **C**; and

(e) Fourteen (14) interested parties visited the properties in Red Deer and Innisfail.

52 All offers to acquire the Assets were to be received by the Receiver via email or mail by 12:00 noon (Calgary time) on June 1, 2012.

53 All bids, including the superior bid, are the subject of the Receiver's Confidential Addendum to the Court and is subject to Court approval.

54 The superior bidder (the "**Proposed Purchaser**") has indicated it is able to close the transaction by July 6, 2012, if Court approval is granted.

ASSIGNMENT AND ACQUISITION OF CERTAIN LEASED PROPERTY

55 In addition to the assumption of the Poplar Grove lease for a portion of the premises in Innisfail, Alberta, the superior bid is conditional upon the Proposed Purchaser entering into an agreement with that landlord for the acquisition of the property subject to that lease, as well as for the acquisition of adjacent lands currently owned by the same landlord or a related company.

56 The agreements to acquire the land in Innisfail are not expected to close before July 6, 2012, but such closure is not a condition precedent to the proposed asset purchase agreement.

57 Until the acquisition of the property that is the subject to the Poplar Grove lease, the Proposed Purchaser wishes to continue with the Poplar Grove Lease on the same terms and conditions set out therein. The landlord has advised the Receiver verbally that it accepts the assignment and the Receiver will provide the Court with an executed copy of the assignment prior to July 6, 2012.

58 The Receiver has entered into agreements with two customers of X-Treme to temporarily lease a portion of the property that is the subject of Poplar Grove lease, in order to facilitate storage and shipping of the rigs manufactured by X-Treme. The Proposed Purchaser has agreed to the assumption of these temporary sub-leases which are scheduled to terminate no later than October 31, 2012.

59 Given the quantum of the superior bid, which will maximize recoveries to creditors, the Receiver is of the view that the proposed actions with respect to the assignment of the Poplar Grove lease is fair and reasonable in the circumstances and in the best interests of the creditors.

EXCLUDED ASSETS

60 The proposed asset purchase agreement specifically excludes certain assets, most notably the accounts receivable and inventory related to the Pemex Contract, the accounts receivable and inventory related to the Tough Enough contract identified above, and the following specified capital assets (which are the subject of lease agreements):

(a) Festival Ford Sales (1983) Ltd. - 2011 Ford Truck (1FT7X2B65BEA27711);

(b) Festival Ford Sales (1983) Ltd. - 2009 Ford Truck (1FTSX21559EA31187); and

(c) Festival Ford Sales (1983) Ltd. - 2009 Ford Truck (1FTSX21539EA56542).

(the "**Capital Leases**")

61 The Receiver will either attempt to arrive at a mutually acceptable arrangement with the existing customers to collect the accounts receivable related to the Pemex Contract assets and the Tough Enough contract assets, or endeavour to sell these assets through a separate sales process.

IMPACT OF SALE

62 As the Proposed Purchaser has advised the Receiver that it will continue the Debtor's operations, but only out of the Innisfail location, the Receiver will, subject to Court approval of the sale, be taking steps to terminate the Red Deer lease and vacate the Red Deer premises no later than August 30, 2012.

63 As the Proposed Purchaser has advised the Receiver that it would prefer to take the assets free and clear of all encumbrances, the Receiver shall cause the capital leases, with the exception of the leases related to the excluded assets, to be paid out and all registrations related thereto be discharged. All amounts paid to lessors to pay out the capital leases and costs incurred by the Receiver in the payout of the capital leases and discharge of associated registrations, with the exception of those Excluded Assets that are subject to capital leases, shall be the responsibility of the purchaser and the purchase price shall be increased by the amount of such costs.

64 The Capital Leases relating to the excluded assets will be analyzed separately and will either be paid out or, if the pay-out exceeds the Receiver's estimated realization on these assets, the assets would be returned to the secured creditor.

65 The Receiver's counsel will perform a review of the underlying security related to the assets subject to Capital Leases prior to the closing date.

66 The Receiver has extended temporary offers of employment to 65 of the remaining employees to July 7, 2012 in order to retain identified employees who have been offered employment by the Proposed Purchaser as of July 9, 2012, subject to the court approval and closure of the proposed asset purchase agreement.

SUMMARY OF RECEIPTS AND DISBURSEMENTS AND CASH FLOW FORECAST

67 The Receiver has provided below a summary of cash receipts and disbursements from April 30, 2012 to June 22, 2012:

Summary Receipts and Disbursements for the period ended June 22, 2012 (Unaudited)

	Operations	Non-operations	Total
	(000's)	(000's)	(000's)
Opening balance - net	-	-	-
Cash receipts from sales recorded during the Receivership including GST	2,084		2,084
Cash receipts from the collection of pre-exisiting accounts receivable inclu	869		869
Sale of Business - deposits received		1,250	1,250
Other	(0)	0	-
Total Receipts (excluding borrowings from secured creditor)	2,953	1,250	4,203
Payroll and payroll related disbursements	(1,337)		(1,337)
Materials purchases	(348)		(348)
Outside labour and consultants	(228)		(228)
Rent and insurance	(204)		(204)
Property taxes	(63)		(63)
Return of certain bid deposits		(43)	(43)
Professional fees and Appraisals		(366)	(366)
Others	(62)	-	(62)
Borrowings from secured lender (Note 1)	671		671
Total Disbursements (net of borrowings from secured lender)	(2,242)	(409)	(2,651)
Ending balance	**711**	**841**	**1,553**

Note 1 Timing issue related to the funding of X-treme's payrolls before the collection of sufficient accounts receivable.

68 The Company's cash flows from operations were positive approximately $711,000, after taking into account Receiver's borrowings, to June 22, 2012. The Receiver borrowed $670,668 from HSBC in the form of one Receiver's Certificate to cover receivership expenses and administration costs. In accordance with the Receivership Order, the Receiver is authorized to borrow up to $2,500,000.

69 A copy of the projected cash flow to July 31, 2012 is attached as Schedule **D**. The cash flow shows that to continue until July 6, 2012 (the proposed closing date of the sale if approved), no additional funding is required from HSBC. Subsequent to that date, the cash flows from operations are forecast to remain positive.

70 In addition, the terms of the agreement with the Proposed Purchaser provide for the reimbursement to the Receiver of operating costs incurred past June 30, 2012 by the Proposed Purchaser, the reimbursement of certain specified employee costs incurred prior to June 30, 2012, and the reimbursement of a portion of the property taxes paid by the Receiver.

CONCLUSION AND RECOMMENDATION

71 The Receiver has undertaken a broad and extensive marketing process which attracted competitive bids.

72 The Receiver is of the view that the transaction contemplated under the proposed asset purchase agreement represents the highest and best offer for the Property. Moreover, the Proposed Purchaser is willing and able to close the transaction contemplated by July 6, 2012.

73 Based on the foregoing, the Receiver respectfully recommends that this Honourable Court make an order granting the relief requested in paragraph 3(d) of this report and such further and other relief as this Honourable Court deems appropriate in the circumstances.

* * *

All of which is respectfully submitted this 5th day of July, 2012.

ERNST & YOUNG INC.
IN ITS CAPACITY AS RECEIVER AND MANAGER OF X-TREME ENERGY GROUP INC. AND NOT IN ITS PERSONAL CAPACITY

Neil Narfason, CA•CIRP
Senior Vice-President

A

DAILY OIL BULLETIN

May 18, 2012

Solicitation For Offers In The Matter Of The Receivership Of X-Treme Energy Group Inc.

On April 30, 2012 X-Treme Energy Group Inc. (the "**Company**") was placed into receivership. Ernst & Young Inc. was appointed the Company's receiver and manager ("**Receiver**") pursuant to an order issued by the Court of the Queen's Bench of Alberta (the "**Court**"). Accordingly, the Receiver is offering for sale all of the assets (the "**Assets**") of the company on an "as is where is" basis (the "Sale Process").

The Assets comprise extensive owned and leased facilities including paint and sand blasting facilities in Innisfail, Alberta and CNC Shop in Red Deer, Alberta. The Receiver has retained an experienced work force of approximately 110 employees with significant experience in rig construction for a variety of customers and for "Protec" safety systems.

The deadline for receipt of offers is Noon, MDT June 1, 2012. For sale information, a detailed list of assets or to view the assets, please contact:

Deborah Conroy, CA, CIRP
Vice President
514 874 4641
Debbie.conroy@ca.ey.com

A copy of the Order appointing Ernst & Young Inc. as Receiver can be found on the Receiver's web-site at http://www.ey.com/ca/x-tremeenergygroup.

Related Articles
Asset Sales and Acquisitions

B

ERNST & YOUNG
Quality In Everything We Do

Acquisition opportunity

May 14 2012

SUMMARY

On April 30, 2012, X-Treme Energy Group Inc. (the "Company") was placed into receivership. Ernst & Young Inc. was appointed the Company's receiver and manager ("Receiver") pursuant to an order issued by the Court of the Queen's Bench of Alberta (the "Court"). Accordingly, the Receiver is offering for sale all of the assets (the "Assets") of the company on an "as is, where is" basis (the "Sale Process").

All offers to acquire the Assets (the "Bids") **(in accordance with the Bid Requirements detailed below)** must be received by the Receiver via email or mail by **12:00 noon (Calgary time) on June 1, 2012. All bids must be addressed to:**

Neil Narfason	*Deborah Conroy*
Senior Vice President	*Vice President*
403.206.5067	*514 874 4641*
neil.narfason@ca.ey.com	*debbie.conroy@ca.ey.com*

The Receiver reserves the right to reject any or all of the offers received and to extend any of the timelines set out below. The Receiver will entertain *en bloc* or piecemeal offers for the Assets. All accepted Bids are subject to Court approval and the Receiver retains the right to discontinue the Sale Process at any time.

BUSINESS OVERVIEW

The Company provides manufacturing services primarily to the oil and gas industry specifically in the manufacture of rigs and rig components, safety structures and general machining.

The Receiver has retained a core group of individuals with extensive experience. There are currently over 100 employees working at X-Treme. The Company has created a competitive advantage through its quality of product, its Protec division and is well positioned for future growth.

In Red Deer, the Company leases two buildings totalling approximately 37,500 square feet. This facility houses the CNC shop, fabrication facility and head office functions.

The Company has an extensive manufacturing facility in Innisfail where it owns six properties encompassing approximately 14 acres of land including buildings of approximately 67,000 square feet in size. The Company also leases an additional property in Innisfail with a building approximating 17,640 square feet. Collectively, these properties form the manufacturing facility where rig and "Protec" construction, sand blasting and "rig-up" are carried out.

The Company had revenues of $19.8 million in the 7 months to March 31, 2012.

SELECT ACQUISITION HIGHLIGHTS

- Extensive owned and leased facilities in Innisfail including paint and sand blasting facilities.
- CNC shop in Red Deer
- Experienced work force (approximately 110 employees currently work at the facilities)
- Significant experience in rig construction for a variety of customers
- "Protec" safety systems

CONFIDENTIALITY

The information contained in this Overview is submitted to parties on a confidential basis for use solely in connection with their consideration of the acquisition opportunity described herein. By its acceptance hereof, the recipient agrees that neither it nor any of its employees or advisors shall use the information for any purpose other than the evaluation of the business opportunity, nor shall it divulge the information or distribute this Overview to any other party, in whole or in part, at any time without the prior written consent of the Company through the Receiver.

BID PROCESS/NEXT STEPS

Prospective purchasers should direct all inquiries to the Receiver who will arrange all contacts for appropriate due diligence. **Prospective purchasers are requested not to contact former employees/consultants of X-Treme other than as directed by the Receiver.** Upon expressing interest in these properties, the interested parties will be sent (and will be required to sign) a confidentiality agreement ("CA"). Once the CA is executed interested parties will receive access to further information and the ability to conduct diligence on the opportunity as well as attend at the X-Treme locations.

Bidders are encouraged to submit their Bids in accordance with the terms of the bidding procedures as below:

1. **All Bids must detail the assets included;**
2. **All Bids must be accompanied by a deposit by way of certified cheque or bank draft for not less than 10% of the bid price; and**
3. **All Bids must clearly set out all Bid conditions.**

The Bid deadline for this opportunity will be Noon, MDT June 1, 2012.

ERNST & YOUNG INC. – RECEIVER AND MANAGER OF X-TREME ENERGY GROUP INC.
1000, 440 2nd Avenue SW, Calgary, Alberta, Canada T2P 5E9

Neil Narfason	*Deborah Conroy*
Senior Vice President	*Vice President*
403.206.5067	*514 874 4641*
neil.narfason@ca.ey.com	*debbie.conroy@ca.ey.com*

<u>CONFIDENTIALITY AGREEMENT</u>

THIS AGREEMENT made effective as of the __ day of May 2012.

GRANTED BY:

____
(the "**Recipient**")

IN FAVOUR OF:

ERNST & YOUNG INC., Receiver and Manager of
X-TREME ENERGY GROUP INC.

1000, 440 2^{nd} Avenue S.W.
Calgary, AB
T2P 5E9

(“**Confidential Information Owner**”)

WHEREAS:

A. The Recipient wishes to undertake due diligence and investigation in relation to a potential acquisition (the "**Potential Acquisition**") by the Recipient of certain assets of X-Treme Energy Group Inc. ("**X-Treme**") and, as such, has obtained and/or will from time to time hereafter obtain, certain Confidential Information (as defined below) relating to the assets, undertaking and property of X-Treme (the "**Assets**");

B. The Confidential Information has and will be received by the Recipient for the sole purpose of conducting due diligence in relation to the Potential Acquisition;

C. As a pre-condition to the Confidential Information, Owner or its representatives or agents providing confidential or proprietary business information concerning the Assets to the Recipient, the Confidential Information Owner requires and the Recipient has agreed to execute and deliver to the Confidential Information Owner a confidentiality agreement in form and substance satisfactory to the Confidential Information Owner and its advisors;

NOW, THEREFORE, in consideration of the premises and the Confidential Information Owner providing the Recipient with access to the Confidential Information for the purposes of the Potential Acquisition, and other good and valuable consideration, the receipt and sufficiency of which consideration is hereby acknowledged, the Recipient covenants and agrees with the Confidential Information Owner as follows:

1. The covenants contained in this Agreement apply to all data, records, reports, studies, projections, knowledge, patents, theories, information (financial, corporate, business or

otherwise), intellectual property, designs, drawings, plans, opportunities, prototypes, specifications, manuals, photographs, software, hardware, equipment, printouts, reports, market research, business plans, customer lists, supply sources, engineering, trade secrets, information relating to existing and potential financiers and investors, trade lists, processes, techniques, ideas, improvements, innovations, know-how, research and development, calculations, opinions, documents and other information, whether written or oral, and whether or not noted thereon to be confidential, pertaining to the Assets, businesses, liabilities, products, customers, technology, subsidiaries, affiliates, activities or affairs of X-Treme which have been or which may hereafter be disclosed or provided to the Recipient (collectively, the "**Confidential Information**").

2. The Recipient will keep all Confidential Information in strict confidence and shall not disclose or release the Confidential Information to any person except:

   (a) to a governmental or judicial authority upon the direction or order of the governmental or judicial authority and after giving reasonable prior written notice of the disclosure or release to the Confidential Information Owner and marking the Confidential Information by referring to its confidential nature under the terms of this Agreement and endeavouring, where possible, to limit such disclosure;

   (b) where the Confidential Information Owner has given prior written consent to disclosure or release of the Confidential Information to that person; or

   (c) to those directors, senior officers, senior management employees and legal and accounting advisors of the Recipient, as the case may be, who need to know the Confidential Information for the purposes of evaluating the Assets or assisting the Recipient in relation thereto, provided that:

      (i) the Recipient shall notify each of such persons of the obligations contained herein with respect to the confidentiality of the Confidential Information and the restrictions imposed on the use thereof; and

      (ii) the Recipient shall direct each such person to exercise a level of care sufficient to preserve the confidentiality of the Confidential Information and shall direct each such person to abide by the terms and conditions of this Agreement, and shall take all reasonable steps to ensure that the Confidential Information is not disclosed by any of such persons to any other party or used in a manner contrary to the spirit and intent of this Agreement.

3. The obligation of the Recipient to keep the Confidential Information in strict confidence shall not apply where the Confidential Information:

   (a) is otherwise known to the Recipient or is generally known to the public at the time of its disclosure to the Recipient; or

   (b) subsequently comes into the public domain without any breach of the obligations of the Recipient hereunder.

4. The Recipient shall not deal with or use the Confidential Information, directly or indirectly, in any manner whatsoever for any purpose other than in connection with the due diligence associated with the Potential Acquisition.

5. The Recipient shall, within three (3) days of a written request being made by the Confidential Information Owner, return promptly to the Confidential Information Owner all documentation and other tangible manifestations relating to the Confidential Information which have been provided to the Recipient (without retaining any copy thereof) as and when requested by the Confidential Information Owner.

6. This Agreement is in addition to, and not in substitution for or in derogation of, the rights of the Confidential Information Owner at law or in equity arising in any way in connection with the disclosure of the Confidential Information by the Confidential Information Owner to the Recipient.

7. The Recipient agrees that the restrictions contained in this Agreement are reasonable in order to protect the legitimate interests of the Confidential Information Owner and all defences to the strict enforcement of the restrictions by the Confidential Information Owner are hereby unconditionally and irrevocably waived by the Recipient.

8. The Recipient recognizes that a breach or threatened breach by the Recipient of any of its obligations under this Agreement may result in damages to the Confidential Information Owner and that the Confidential Information Owner may not adequately be compensated for those damages by monetary award and, accordingly, the Recipient agrees that if a breach occurs, in addition to all other remedies available to the Confidential Information Owner at law or in equity, the Confidential Information Owner will be entitled, as a matter of right (and without having to show or prove any actual damages), to apply to a Court of competent jurisdiction for relief by way of restraining order, injunction, decree or otherwise, as may be appropriate, to ensure compliance with the provisions of this Agreement.

9. In the event that the Recipient becomes aware of a breach of this Agreement, the Recipient agrees that it shall, within two business days, advise the Confidential Information Owner, in writing, of such breach and provide the details thereof.

10. If any term or provision of this Agreement is declared to be void or unenforceable in whole or in part by a court of competent jurisdiction, it shall be deemed to be severable from the rest of this Agreement and it shall not affect or impair the enforceability or validity of any other covenant or provision of this Agreement.

11. This Agreement shall be governed by and interpreted in accordance with the laws in force in the Province of Alberta. The Recipient hereby irrevocably attorns to the jurisdiction of the Courts of the Province of Alberta for the determination of all matters arising hereunder in the event the Confidential Information Owner should bring an action on this Agreement in the Courts of the Province of Alberta. The Recipient hereby agrees that, notwithstanding the foregoing, the Confidential Information Owner may bring an action on this Agreement in any jurisdiction where the Recipient has assets or in any jurisdiction

where this Agreement has been breached or where a breach is threatened, and in such an event, the Recipient hereby irrevocably attorns to the jurisdiction of the Courts of such jurisdictions for the determination of all matters arising hereunder.

12. If the closing of the Potential Acquisition does not take place, this Agreement will continue indefinitely, unless otherwise agreed in writing by the Confidential Information Owner.

13. No waiver of any particular requirement hereunder shall be construed as a general waiver of this Agreement, and any failure by or delay by the Confidential Information Owner in enforcing their rights against any particular breach of this Agreement shall not limit or affect their rights to enforce their rights against any other breach hereof.

14. This Agreement may not be assigned by the Recipient without the prior written consent of the Confidential Information Owner.

15. This Agreement shall enure to the benefit of the Confidential Information Owner and its successors and assigns and shall be binding upon the Recipient and its successors and permitted assigns, as the case may be.

16. This Agreement constitutes the entire agreement between the parties hereto with respect to the subject matter herein and supersedes all prior contracts, agreements and understandings pertaining to the subject matter of this Agreement. No modification or alteration of this Agreement shall be binding unless executed in writing by the parties hereto. There are no representations, warranties, collateral agreements or conditions affecting this transaction that have been made or relied upon by any party hereto other than as set out herein in writing.

17. This Agreement may be executed in counterpart and pursuant to facsimile transmission.

IN WITNESS WHEREOF the Recipient has executed this Agreement on the day and year first above written.

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Print Name of Recipient, if corporation

Per:______________________________

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Print Name of Authorized Representative of Recipient

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List of documents for interested parties

1	Company Overview	110821-Product PhotosforReOrientation.pdf
2	Computer equipment lease	Dell Servers Lease.pdf
3	Vehicle lease	Ford Financing 1.pdf
4	Vehicle lease	Ford Financing 2.pdf
5	Vehicle lease	Ford Financing 3.pdf
6	Equipment lease	GE Capital Gildemeister lathe and forklift.pdf
7	List of property	Land and Buildings Description (Redacted).pdf
8	Vehicle Lease	Solid Services Lease - truck.pdf
9	Office lease	Steelcase office furniture.pdf
10	Equipment lease	Travelers 35571 Graziano Lathe.pdf
11	Equipment lease	Travelers C091025 Office Furniture.pdf
12	Equipment lease	Travelers Financial 04055-02 Haas.pdf
13	2010 Financial Statements	XEG 2010 Group Financial Statements.pdf
14	2010 Tax return	XEG 2010 Tax Return.pdf
15	2011 Financial Statements	XEG 2011 Consolidated FS.pdf
16	2011 Tax return	XEG 2011 Tax Return.pdf
17	Asset listing	XEG Asset held for Resale March 2012.pdf
18	Capital asset listing	XEG March 2012 Capital Assets.pdf
19	Office and CNC shop lease	XEG RD Office and CNC Lease.pdf
20	Shop 3 lease	XEG Shop 3 Lease.pdf
21	2012 YTD Financials	XEG Unaudited March 2012.pdf
22	List of equipment and machinery	XEG Asset Listing.pdf

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In the Matter of the Receivership of X-treme Energy Group Inc.
Forecasted Cash Flow from operations

For the week ended	June 29	July 6	Total to July 6, 2012	July13	July 20	July 27	Total to July 31, 2012
Cash, Balance Forward	302,559	66,908	302,559	53,023	773,668	628,659	53,023
Payables as of June 29		(210,631)					
Indirect - Including consumables		(100,114)					
Sub-total Materials	-	(310,745)	(310,745)	-	-	-	-
SG&A							
SG&A paid		(21,800)			(21,800)		
Transfer to XEG payroll account	(326,410)						
Payroll Hourly	-	(144,400)		-	(202,340)	(101,170)	
Payroll CNC		(5,940)		-	(5,940)	(2,970)	
Payroll Salary		(52,000)		-	(52,000)	(26,000)	
Source Deductions		(183,735)		(98,970)	-	(148,455)	
Bonus and vacation - 1 mth and 2 mth staff	(367,471)	(13,538)					
Monthly Obligations	(175,000)	(144,811)		(11,900)	(25,000)		
Environmental Contingency						(500,000)	
Total Non-Discretionary Payments	(868,881)	(876,969)	(1,745,849)	(110,870)	(307,079)	(778,594)	(1,196,543)
Accounts Receivable billed		88,435		223,564.46	42,000.00	377,064.00	
AR received week of June 29 per deposit	21,218						
SRED 2010 AB						96,631	
SRED 2011 and 2012 AB and Fed						50,000	
Accounts receivable Unbilled	612,012	774,649	-	607,950	120,070	-	
Total Collections	633,229	863,084	1,496,314	831,514	162,070	523,695	1,517,280
Cash, ending balance	**66,908**	**53,023**	**53,023**	**773,668**	**628,659**	**373,760**	**373,760**

Note 1 - Includes $50,000 for SRED 2011 and 2012 claims yet to be filed. Collection will likely be after July 2012
Note 2 - Includes realization from Tough Enough of approximately $377,000 to which some collection risk still remains.