'COURT FILE NUMBER	1201-05287
COURT	COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE	CALGARY
APPLICANT DEFENDANT	HSBC BANK CANADA X-TREME ENERGY GROUP INC.
DOCUMENT	**SEVENTH REPORT OF THE RECEIVER** **May 2, 2014**
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	**<u>RECEIVER</u>** Ernst & Young Inc. 1000, 440 - 2nd Avenue SW Calgary, Alberta T2P 5E9 Attention: Neil Narfason / Neil Honess Telephone: 403-206-5067 / 403-206-5003 Fax: 403-290-4265 Email: Neil.Narfason@ca.ey.com Neil.Honess@ca.ey.com **<u>Counsel</u>** Norton Rose Fulbright Canada LLP 400 3rd Avenue SW, Suite 3700, Calgary, Alberta T2P 4H2 Attention: Howard A. Gorman/Kevin E. Barr Telephone: 403-267-8144 / 403-267-8142 Facsimile: 403-264-5973 Email: howard.gorman@nortonrosefulbright.com kevin.barr@nortonrosefulbright.com

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INDEX OF APPENDICES

INTRODUCTION

1. On April 30, 2012, the Court of Queen's Bench of Alberta issued a Receivership Order appointing Ernst & Young Inc. as Receiver and Manager ("EY" or the "Receiver") of the property, assets and undertakings (the "Property") of 1627090 Alberta Ltd. (formerly X-Treme Energy Group Inc.) ("X-Treme").

2. The Receivership Order authorized the Receiver, among other things, to carry on the business of X-Treme, to sell, convey, transfer, lease or assign the Property out of the normal course of business, subject to Court approval for transactions in excess of $1,000,000 and to make such arrangements or agreements as deemed necessary by the Receiver.

3. The Company was petitioned into bankruptcy on November 5, 2012 by X-Treme's secured creditor. EY is the Trustee of the X-Treme bankruptcy.

4. The purpose of this Seventh Report of the Receiver is to provide this Honourable Court with:

   a) an update on the sale of the Canadian Assets (as that term is defined in the Fourth Report of the Receiver) to Century Services Inc. ("Century") and the proposed distribution of the proceeds thereof;

   b) an overview of the amounts held in escrow pursuant to the sale of certain of X-Treme's assets to Do All Industries Ltd. ("Do All") and the proposed distribution thereof; and

   c) the recommendation for the discharge of the Receiver.

TERMS OF REFERENCE

5. In developing this Seventh Report, the Receiver has relied upon unaudited financial information previously prepared by X-Treme's management, X-Treme's books and records and discussions with its management. The Receiver has not performed an audit or other verification of such information.

6. Terms not expressly defined in this Seventh Report shall have the same meaning as those terms defined in the previous Receiver Reports.

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

BACKGROUND

8. X-Treme provided manufacturing services primarily to the oil and gas industry specifically in the manufacture of rigs and rig components, safety structures and general machining.

9. Background information and other information regarding these receivership proceedings have been posted by the Receiver on its website at: www.ey.com/ca/X-treme.

SALE OF CANADIAN ASSETS

10. In the Sixth Report dated December 10, 2013, the Receiver outlined the proposal from Century to purchase the Canadian Assets. The Receiver recommended acceptance of the "net minimum guarantee" proposal from Century, which provided for a net minimum guarantee amount of

$2,927,000 and an additional recovery to the Receiver of 85% of any amount received above $3,561,000. Funds would be payable to the Receiver once Century had sold the Canadian Assets (the "Century Proposal").

11. A Sale and Vesting Order was approved by this Honourable Court on December 18, 2013 approving the Century Proposal.

12. Subsequently, Century marketed and sold the Canadian Assets for $3,400,000. Accordingly, no amount in excess of the net minimum guarantee amount was payable to the Receiver and, on or about March 25, 2014, Century paid the Receiver $2,927,000 (the "Century Sale Amount").

DEVELOPMENT PERMIT ENVIRONMENTAL HOLDBACK RE DO ALL SALE

13. A sale of certain of X-Treme's assets to Do All, as more fully described in the Receiver's First Report and the Confidential Addendum thereto, (the "Business Sale") was approved by this Honourable Court on July 9, 2012. The Business Sale closed on or about August 24, 2012.

14. As detailed in the Receiver's First Report, a sum of $250,000 (the "Environmental Holdback") was placed in escrow by Do All in respect of a section of the X-Treme yard at Innisfail, Alberta where Do All would potentially undertake construction of a building (legally described as Lot 3, Block 71, Plan 7921753 and Lot U1, Block 71, Plan 7921753).

15. The Environmental Holdback would be released to Do All if:

a) Do All had applied for a development permit ("DP") prior to March 31, 2014 but the DP was not granted by June 30, 2014; or

b) Do All had applied for a DP and the DP was refused for environmental issues.

16. The Environmental Holdback would be released to the Receiver if:

a) Do All failed to apply for a DP by March 31, 2014;

b) Do All had applied for and was refused a DP for non-environmental reasons; or

c) Do All was granted a DP.

17. The Receiver has confirmed that no application for a DP was made by the March 31, 2014 deadline and, as a result, the Environmental Holdback is now releasable to the Receiver.

18. Pursuant to an Order of the Court of Queen's Bench of Alberta dated February 6, 2014, Do All was placed into receivership and Alvarez & Marsal appointed as receiver (the "Do All Receiver").

19. The Environmental Holdback is currently being held by Osler Hoskin & Harcourt LLP ("Osler") pursuant to an Escrow Agreement executed in connection with the Business Sale. The Receiver is in the process of executing a Direction to Pay with P & O XEG Assets Ltd. (being the assignee of Do-All) ("P & O"). Under the terms of the Escrow Agreement, the Holdback is subject to an escrow fee of 5% per annum which was to be paid by P & O upon release. P & O has advised that it is insolvent and not in a position to pay the escrow fee. Osler has advised that it is asserting its first lien rights over the Environmental Holdback for payment of its fees for acting as escrow agent. The total escrow fee is $12,917.67 plus GST.

20. The Receiver expects the return of the Environmental Holdback by May 16, 2014.

ESCROW AMOUNTS IN RESPECT OF THE BUSINESS SALE OF THE POPLAR GROVE LEASE

21. Poplar Grove Property Development Inc. ("Poplar Grove") leased a building and yard site in Innisfail, Alberta across the road from X-Treme's existing offices and yard (the "Poplar Grove Site") to the Company (the "Poplar Grove Lease"). The Receiver continued using the Popular Grove Site during the Receivership until the Business Sale closed. The Receiver fully paid Popular Grove all lease payments and related costs.

22. As a condition of the Business Sale, the Poplar Grove Lease was to be assigned to Do All.

23. Poplar Grove initially refused to consent to the assignment. In order to agree to the assignment and therefore allow the Business Sale to close, the Receiver and Poplar Grove agreed that the sum of $881,919 would be held in escrow with Norton Rose Fulbright Canada LLP (the Receiver's counsel) in respect of the following:

   a) $210,000 for certain remediation required on the Poplar Grove Site (the "Remedial Amount"); and

   b) $671,919 of leasehold improvements allegedly performed on or around the time of X-Treme entering into the Poplar Grove Lease (October 14, 2008), bearing interest at a rate of 8% (the "Leasehold Improvements Amount").

Remedial Amount

24. As the Receiver utilized the Popular Grove Site until the Business Sale closed, the Receiver undertook with Poplar Grove to restore the Poplar Grove Site to good condition.

25. Poplar Grove suggested a potential contractor (who estimated costs of between $70,000 and $75,000) for the remedial work. The Receiver instead used a Calgary based company known to the Receiver (the "Remediating Contractor") who estimated costs at between $30,000 and $40,000. The work to remediate was carried out in early November 2012; due to weather delays and a requirement for a greater than originally estimated amount of gravel, the final costs were approximately $46,435.

26. In Spring 2013 the Receiver was advised by Poplar Grove that the remedial work carried out did not "take" as there were some "soft spots" remaining in the Popular Grove yard. The Receiver arranged for the Remediating Contractor to repair the "soft spots" and added additional gravel to the yard to try to appease Poplar Grove. This work was carried out in late spring 2013 at a further cost of approximately $29,350.

27. Poplar Grove subsequently declared that the remediation was still not sufficient. This was despite the Remediating Contractor (i) adding a significant amount of gravel in excess of that originally on the Poplar Grove Site when the yard was first prepared (ii) having the yard "proof rolled" a process by which an end dump truck full of gravel drives around the yard while being videotaped showing that the yard is compacted and can hold the weight of the loaded truck (the Receiver has a copy of this videotape) and (iii) engaging a soil compaction company to take samples at the Poplar Grove Site - its report confirmed that the yard was properly compacted. Attached as Appendix "A" is the soil compaction report.

28. The Receiver refuses to perform further remediation work. The Receiver is of the view that Poplar Grove is trying to force the Receiver to add more gravel than was initially in place in the yard and, as such, is effectively asking the Receiver to put the Poplar Grove Site in a superior condition than it was in when either X-Treme entered the Poplar Grove Lease or when the Receiver was appointed.

29. Furthermore, the Receiver believes that: i) Poplar Grove will never accept the repairs to the site; ii) in the summer/fall of 2013 Poplar Grove advised that the work was not to the required state and iii) said they would not sign off to allow release of the Remedial Amount.

30. The Receiver is of the view that the Poplar Grove Site is in a low lying, "swampy" area with poor drainage. The Receiver has undertaken considerable remediation work to the point where the Poplar Grove Site is now in a substantially better condition than when the Receiver was appointed. The Receiver is of the view that it does not have any further obligation with respect to remedial work, that the issues with the Poplar Grove Site were not caused by the Receiver and that Poplar Grove is trying to use leverage over the Receiver to get the Poplar Grove Site enhanced.

31. The Receiver contends that it has completed the remediation and that Poplar Grove is unreasonably refusing to allow the release of the Remedial Amount to the Receiver.

Leasehold Improvements Amount

32. Poplar Grove has not provided any documentary evidence to support its claim for unpaid amounts due from X-Treme in respect of leasehold improvements on the Poplar Grove Site. Furthermore, Poplar Grove had indicated it would release these amounts upon the Receiver arranging the return of certain steel beams and the repair of a membrane on the Poplar Grove Site. The Receiver returned the beams and repaired the membrane but no release of these funds has been authorized by Poplar Grove.

33. Notwithstanding the above, as Do All has entered into receivership and ceased its operations in Innisfail in the spring of 2013, the Receiver considers the need for the assignment of the Popular Grove lease to Do All a moot point in any event. In addition, X-Treme is in bankruptcy and any claims for Leasehold Improvement Amounts advanced by Popular Grove are subordinate to the claims of HSBC Bank Canada ("HSBC"). Therefore, the Receiver is seeking an application to have the entire Leasehold Improvement Amount released to the Receiver.

VFD BUILDING IN TEXAS

34. At the date of receivership, a Variable Frequency Drive Building (the "VFD Building") had been partially constructed by a subcontractor, M&I Electric Industries Inc. ("M&I"), located in Texas. The VFD Building was to have been used to complete one of the rigs under construction by X-Treme. The VFD Building was excluded from both the Business Sale and the Century Proposal.

35. The Receiver was informed that as a standalone unit, and in its incomplete state, the VFD Building has only minimal value. Although the Receiver has previously attempted to sell the VFD Building to a third party, the Receiver has been unable to do so.

36. Furthermore, obtaining possession of the VFD Building would be difficult given it was (i) located in M&I's facility in Texas, (ii) M&I had unpaid construction and storage costs of approximately $200,000 that it required to be settled before it would allow the VFD Building to be removed from

its premises and (iii) the costs of repatriating the VFD Building to Canada (permits, travel, storage) were estimated to be approximately $30,000. The Receiver believed that obtaining possession of the VFD Building without an agreement with M&I would likely involve expensive and difficult litigation.

37. Accordingly, the Receiver negotiated with M&I whereby M&I would attempt to sell the VFD Building and account to the Receiver for any surplus above the amounts owed to M&I. M&I was unable to find a third party buyer and subsequently agreed to purchase the VFD Building directly from the Receiver for US$50,000 and a release of any and all claims against X-Treme.

38. This sale was duly concluded on or about April 7, 2014 and a copy of the executed bill of sale is attached as Appendix "B" to this report.

STATEMENT OF RECEIPTS AND DISBURSEMENTS

39. The Receiver's statement of receipts and disbursements for the period of April 30, 2012 to May 2, 2014 is attached as Appendix "C". This is a pro-forma statement showing estimated receipts and disbursements to the conclusion of the receivership.

40. As detailed in prior reports, HSBC is the first ranking secured creditor and has a remaining outstanding amount due to it of approximately $40 million. As set out in the Receiver's Third Report, the Receiver had its legal counsel provide a security opinion with respect to the HSBC debt which advised that HSBC's security ranks in priority to all other claims.

41. Accordingly, all remaining funds, including the following, net of the final receivership costs will be disbursed to HSBC (the "HSBC Final Distribution"):

a) cash on hand;

b) Environmental Holdback;

c) Remedial Amount;

d) Leasehold Improvements Amount; and

e) VFD Building sale proceeds.

APPROVAL OF PROFESSIONAL FEES

42. The Receiver's total fees and expenses are $1,095,345 (plus applicable taxes) including an accrual for future costs and disbursements. The Receiver's legal counsel's fees total $432,111 (plus applicable taxes) including approximately $4,500 of unbilled time plus a final accrual to complete the receivership.

43. Copies of the Receiver's invoices and the Receiver's legal counsel's invoices are not attached but are available to this Honourable Court if requested.

REMAINING ACTIONS AND DISCHARGE OF THE RECEIVER

44. In the event that this Court approves the HSBC Final Distribution, the Receiver's administration of the estate, upon closing, will essentially be complete. The Receiver may have some

miscellaneous administrative items to attend to post-discharge however these items are considered immaterial and, in the Receiver's opinion, should not prevent this Honourable Court from granting an unconditional discharge effective upon the HSBC Final Distribution.

45. The Receiver respectfully requests that this Honourable Court approve an Order approving the HSBC Final Distribution and unconditionally discharging the Receiver from any and all obligations as Receiver of X-Treme effective upon making the HSBC Final Distribution.

RECOMMENDATIONS

46. The Receiver respectfully requests that this Honourable Court approve:

a) the release of the Remedial Amount;

b) the release of the Leasehold Improvements Amount;

c) the Receiver's Final Statement of Receipts and Disbursements;

d) HSBC Final Distribution;

e) the fees and disbursements of the Receiver and the legal fees and disbursements of the Receiver's legal counsel along with the estimate of fees to complete the receivership administration; and

f) the discharge of the Receiver upon the Receiver making the HSBC Final Distribution.

All of which is respectfully submitted this 2nd day of May, 2014.

* * *

ERNST & YOUNG INC.
in its capacity as Receiver and Manager
of 1627090 Alberta Ltd. (formerly
X-Treme Energy Group Inc.)
and not in its personal capacity

Neil Narfason, CA•CIRP, CBV
Senior Vice-President

Appendix "A"

JASA ENGINEERING INC.
BAY 8, 5555 - 2 STREET S.E. CALGARY, ALBERTA T2H 2W4
tel: 403-543-6080 fax: 403-543-6083 e-mail: engineering@jasa.ca

SUMMARY OF FIELD DENSITY TESTS

CLIENT: Ex-Tech Contracting Ltd.

PROJECT: Dennis Well's Yard 3
3635 - 61 Avenue, Innisfail, Alberta

DATE: July 19, 2013

FILE: 213-619

TECH.: TC

TEST NO.	TEST LOCATION	SOIL DESCRIPTION	DEPTH (m)	DENSITY (kg/m^3)	MOIST (%)	MAX DENSITY (kg/m^3)	MOIST OPT (%)	SPEC (%)	PERCENT COMPACT (%)
1	55mN, 30mW of NW Corner of Bldg	SaGr	TSB	2240	5.9	2275	6.0	98	98.5
2	80mN, 60mW of NW Corner of Bldg	"	"	2238	6.4	2275	"	"	98.4
3	70mW, 10mN of SW Corner of Bldg	"	"	2256	6.2	2275	"	"	99.2
4	120mS, 70mW of SW Corner of Bldg	"	"	2248	5.7	2275	"	"	98.8
5	100mS, 60mW of SW Corner of Bldg	"	"	2236	5.5	2275	"	"	98.3

REMARKS:

Tests taken on storage yard sub-base.
Test locations referenced to existing building corners.
Depth referenced to top of sub-base.

SaGr - Sandy Gravel
TSB - Top of Sub-Base

COPIES TO:

REVIEWED: [signature]

JASA

Appendix "B"

BILL OF SALE

This Bill of Sale made effective as of the 4 day of April, 2014,

BETWEEN:

ERNST & YOUNG INC. solely in its capacity as Court appointed receiver and manager of the property, assets and undertakings of X-Treme Energy Group Inc., and not in its personal capacity (the **"Vendor"** or the **"Receiver"**)

- and -

M&I ELECTRIC INDUSTRIES INC., a corporation incorporated under the laws of the State of Texas (the **"Purchaser"**)

WHEREAS the Purchaser agrees to purchase and the Receiver agrees to sell all of the property as set out in the attached Schedule "A" hereto (the "**Conveyed Assets**") for the good and valuable consideration exchanged between the parties including the mutual covenants set out herein.

NOW THEREFORE THIS BILL OF SALE WITNESSETH THAT in consideration of the foregoing and for other good and valuable consideration now paid by the Purchaser to Vendor (the receipt and sufficiency of which is hereby acknowledged), the parties hereto covenant and agree as follows:

1. **Sale and Purchase Price**

For the consideration of payment of US $50,000.00 (the **"Purchase Price"**), the receipt and sufficiency of which is hereby acknowledged by the Vendor, the Vendor hereby sells, assigns, transfers, sets over, delivers and conveys to the Purchaser the Conveyed Assets and all of the right, title, interest, property, claim and demand of the Vendor thereto and therein, whether accrued, contingent or otherwise, with full power to the Purchaser to take such measures for the full recovery and enjoyment of the rights that the Vendor, but for this Bill of Sale, may have taken.

2. **No Claims Against the Receiver or X-Treme Energy Group Inc.**

The Receiver and X-Treme Energy Group Inc. shall not be liable for any act or omission on their part, or any reliance thereon, including without limitation, any act or omission pertaining to the discharge of their duties pursuant to this Bill of Sale. Any claims against the Receiver or X-Treme Energy Group Inc. in connection with the performance of their duties under this Bill of Sale, including any obligation for any additional fees or tax related to the Conveyed Assets, are extinguished and forever barred.

3. **As Is, Where Is**

The sale of the Conveyed Assets by the Vendor to the Purchaser is made on an "as is, where is" basis without any collateral agreements, conditions, representations or warrantees whatsoever, express or implied, arising at law, by statute or in equity or otherwise, with respect to the Conveyed Assets, including without limitation, without any representation or warranty as to quality, fitness, merchantability or title.

4. **Removal and Transportation of Property**

The Purchaser is responsible for the removal and transportation, if any, of the Conveyed Assets and is responsible for any damage caused by the removal and transportation of the Conveyed Assets, if required.

5. **No Set-Off**

All amounts payable, released and/or accepted under this Bill of Sale shall be paid, released and/or accepted without set-off or counterclaim and without any deduction or withholding whatsoever.

6. **Successors and Assigns**

The rights and obligations of the Vendor and the Purchaser hereunder shall not be assignable without the prior written consent of either party. This Bill of Sale shall enure to the benefit of and be binding upon the respective successors and permitted assigns of the parties.

7. **Entire Agreement**

This instrument sets forth the entire agreement between the parties in respect of the subject matter hereof and supersedes and takes the place of any and all oral or written arrangements, understandings or agreements between the parties with respect to the Conveyed Assets.

8. **Governing Law**

This Bill of Sale shall be governed by and construed in accordance with the laws of the Province of Alberta and the federal laws of Canada applicable therein, and the parties hereto irrevocably attorn to the courts of the Province of Alberta with respect to any dispute arising from or out of this Bill of Sale.

9. **Further Assurances**

The Vendor will at the request of the Purchaser, and the Purchaser will at the request of the Vendor, execute and deliver such further documents and take such further steps as are reasonably necessary or appropriate to give effect to the intent and meaning of this Bill of Sale.

10. **Counterparts**

This Bill of Sale may be executed in several counterparts and by facsimile or PDF, each of which so executed shall be deemed to be an original and such counterparts together shall constitute one and the same instrument.

11. **Representative Capacity**

The Vendor is executing this Bill of Sale in its representative capacity as capacity as Court appointed receiver and manager of the property and assets of X-Treme Energy Group Inc. and not in its personal capacity, and neither the Vendor nor its agents nor any of their directors, officers, agents or employees shall have any personal or corporate liabilities hereunder or at common law, or by statute, or equity, or otherwise as a result hereof. PROVIDED HOWEVER that ERNST & YOUNG INC. does hereby represent in its personal capacity that it is the duly appointed Court appointed receiver and manager of the property, assets and undertakings of X-Treme Energy Group Inc. and that it has all power and authority required to make the sale evidenced by this Bill of Sale.

IN WITNESS WHEREOF this Bill of Sale has been executed by the Vendor and the Purchaser as of the date first written above.

[THIS SPACE INTENTIONALLY LEFT BLANK]

ERNST & YOUNG INC. solely in its capacity as Court appointed receiver and manager of the property, assets and undertakings of X-Treme Energy Group Inc., and not in its personal capacity

Per: ______________________________
Name: Neil Narfason SVP
Authorized Signatory

GST Registration # 87135 8107 RT0002

M&I ELECTRIC INDUSTRIES INC.

Per: ______________________________
Name: Andrew L. Pahda SVP&CFO
Authorized Signatory

Appendix “C”

1627090 Alberta Ltd. (formerly X-Treme Energy Group Inc.) - In Receivership
Proforma Statement of Receipts and Disbursements
April 30, 2012 to May 2, 2014
C$ - unaudited

Receipts

Sale of assets *en bloc*	9,330,037.73
Sales during receivership	4,888,753.03
Sale of remaining assets	3,050,800.00
Leasehold Improvements Amount	671,919.00
Pre-Receivership AR (GST Included)	662,150.46
GST collected	311,171.54
Development Permit Environmental Holdback	250,000.00
Remedial Amount	210,000.00
Corporate Tax Refund - Provincial	98,550.55
Sale of VFD building	54,338.25
Refunds- miscellaneous	33,249.04
Transfer from US Bank Account	24,963.92
Pre-receivership expense reimbursement	24,080.00
GST refund	21,471.11
SRED Receipts	17,917.39
	19,649,402.02

Payment to secured creditor	12,245,199.47
Payroll / Source deductions	3,105,676.19
Receiver's fees and disbursements	1,095,345.26
Labour / Miscellaneous	435,588.55
Receiver's counsel's fees and disbursements	432,111.10
Occupation rent	313,090.81
Raw Materials	302,147.33
Contract Services	198,821.47
Lease Costs	191,756.24
GST remitted	182,203.32
Insurance	121,586.72
Security	128,440.06
Repairs & Maintenance	120,858.90
GST paid - operations	85,384.90
Utilities	82,592.01
Municipal taxes	62,844.99
Worker's Compensation Board	59,628.34
GST on Receiver's Fees	54,767.26
Construction / Labour - Miscellaneous	46,580.80
Rent Paid	45,964.27
Equipment Leasing	43,180.47
Advance payment on account	35,840.24
Fuel & Sundry Costs	29,853.55
Bank charges	28,840.42
Other miscellaneous disbursements	26,390.89
Freight	26,216.22
Transfer to Canadian Bank Account	24,767.02
Building Maintenance Services	21,816.20
GST on legal fees	21,276.54
Computer services	18,108.72
Telephone	14,311.87
Transfer to Bankruptcy Estate	13,839.92
Development Permit Environmental Holdback escrow fees	12,917.67
Appraisal fees	5,500.00
Waste Disposal	5,064.09
Outside consulting	3,000.00
Office Supplies / Expenses	2,777.58
Photocopies	2,577.49
Mileage / Vehicle Allowance	1,265.23
Licensing Fees	1,139.16
Filing fees paid to Official Receiver	70.00
Operating Expense	60.75
	19,649,402.02
Balance on hand	- 0.00