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COURT	COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE	CALGARY
PLAINTIFF	HSBC BANK CANADA
DEFENDANTS	CALMENA ENERGY SERVICES INC., CALMENA ENERGY HOLDINGS LTD., CALMENA ENERGY SERVICES OPERATING LIMITED PARTNERSHIP, 1414995 ALBERTA LTD., CALMENA ENERGY SERVICES USA CORP., CALMENA DRILLING SERVICES LLC, CALMENA ENERGY SERVICES US LP, BW SERVICES LUXEMBOURG SARL, BWES SERVICES DE MEXICO, S. DE R.L. DE C.V., PAM AMERICAN DRILLING S. DE R.L. DE C.V., CALMENA ENERGY SERVICES DE MEXICO, S. DE R.L. DE C.V., CALMEAN LUXEMBOURG HOLDING S.A.R.L.
DOCUMENT	**THIRD REPORT OF ERNST & YOUNG INC., IN ITS CAPACITY AS COURT-APPOINTED RECEIVER** **December 7, 2015**
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	<u>RECEIVER</u> ERNST & YOUNG INC. 1000, 440 - 2nd Avenue S.W. Calgary, AB T2P 5E9 Neil Narfason / Peter Chisholm Telephone: (403) 206-5067 / (403) 206-5061 Email: neil.narfason@ca.ey.com peter.chisholm@ca.ey.com <u>COUNSEL</u> Borden Ladner Gervais LLP Patrick T. McCarthy, Q.C. / Jessica L. Cameron 1900, 520 3rd Ave S.W. Calgary, AB T2P 0R3 Phone: (403) 232-9715 Fax: (403) 266-1395 Email: pmccathy@blg.com jcameron@blg.com

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6. Given the expense of obtaining foreign recognition in Luxembourg and Mexico, the Receiver concluded that the cost of doing so outweighed any perceived benefits. As a result, the Receiver sought and obtained a court order on February 9, 2015 amending the Receivership Order by removing Calmena Mexico, with the exception of BW HR as it was never subject to the Receivership Order, and Calmena Luxembourg from the definition of the "Debtors" within the Receivership Order, *nunc pro tunc*. The Calmena Group's senior secured creditor, HSBC Bank Canada ("HSBC") consented to this Order.

7. The Receiver effected an orderly disposition of the business, assets and operations of both Calmena Mexico and Calmena Luxembourg by virtue of its control of the parent company, CESI, and as a result of the co-operation extended by the directors of Calmena Mexico and Calmena Luxembourg.

8. The purpose of this third report (the "Third Report") of the Receiver is to provide this Honourable Court with the Receiver's comments and information in respect of the following:

   a) the activities of the Receiver since the second report of the Receiver dated September 28, 2015 (the "Second Report") and to provide a statement of receipts and disbursements for the period from the Appointment Date to November 27, 2015 (the "Receivership Period");

   b) the proposed interim distribution from the Receiver to HSBC;

   c) the remaining efforts to be undertaken by the Receiver to complete the administration of the Receivership; and

   d) the Receiver's recommendation.

TERMS OF REFERENCE

9. Capitalized terms not defined in this Third Report are as defined in the Receivership Order.

10. All references to dollars are in Canadian currency unless otherwise noted.

BACKGROUND

11. The Calmena Group is an international oilfield services company with operational entities providing well bore construction services and both conventional and directional drilling.

INTRODUCTION

1. Ernst & Young Inc. was appointed as Receiver and Manager (the "Receiver") of the property, assets and undertakings (the "Property") of Calmena Energy Services Inc. ("CESI"), Calmena Energy Holdings Ltd. ("Calmena Holdings"), Calmena Energy Services Operating Limited Partnership ("Calmena LP"), 1414995 Alberta Ltd. ("141 AB"), Calmena Energy Services USA Corp. ("Calmena US Corp"), Calmena Drilling Services LLC ("Calmena Drilling Services"), Calmena Energy Services US LP ("Calmena US LP"), BW Services Luxembourg S.A.R.L. ("BW Luxembourg"), BWES Services Mexico, S. De R.L. De C.V. ("BWES Mexico"), Pan American Drilling S. De R.L. De C.V. ("PanAm Mexico"), Calmena Energy Services De Mexico S. De R.L. De C.V. ("CES Mexico"), Calmena Luxembourg Holding S.A.R.L. ("Luxembourg Holding") (collectively the "Calmena Group") pursuant to an Order (the "Receivership Order") of this Honourable Court dated January 20, 2015 (the "Appointment Date").

2. On February 5, 2015, the Receiver filed a Petition for Recognition for CESI, Calmena Drilling Services, Calmena Drilling Services US LP, and Calmena US Corp under Chapter 15 of the United States Bankruptcy Code in United States Bankruptcy Court for the Southern District of Texas ("US Court") in Case No. 15-30786 (the "Chapter 15 Proceedings"). On March 5, 2015, the US Court entered an Order Granting Receiver's Petition for Recognition as a Foreign Main Proceeding and recognizing the Receiver as the Foreign Representative.

3. The Receivership Order erroneously identified one of the Calmena Group as being "Calmena Energy Services US LP", when in fact the correct entity name is "Calmena Drilling Services US LP", the latter of which was recognized in the Chapter 15 Proceedings. The Receiver obtained a Court Order to correct this error.

4. CES Mexico, BWES Mexico, BW HR Pro. S. De R.L. de C.V. ("BW HR") and Pan Am Drilling collectively are "Calmena Mexico"; and BW Luxembourg and Luxembourg Holding together are "Calmena Luxembourg".

5. The Receiver has been advised by its local legal counsel in both Mexico and Luxembourg that in both jurisdictions formal insolvency proceedings with respect to both Calmena Mexico and Calmena Luxembourg will be difficult and involve considerable delay and expense. Despite having been unable to take direct control of the assets and operations of the Calmena Mexico and Calmena Luxembourg entities, the Receiver has had the co-operation of the directors of these companies and has been able to effectively control their operations since the Appointment Date.

12. For additional background on Calmena, please refer to the Receiver's website, www.ey.com/ca/calmena.

ACTIVITIES OF THE RECEIVER

Closing sale of Mexico Drilling Rigs and ancillary assets

13. As described in the Second Report, the Receiver entered into multiple asset purchase agreements (the "Simmons' APAs") for the sale of Mexico Drilling Rigs located in the United States and Mexico, active drilling contract in Mexico (the "Drilling Contract") and ancillary equipment (collectively the "Conventional Drilling Property") to Simmons Edeco Ltd. and certain of its subsidiaries (collectively, "Simmons"). The APAs are attached to the Second Report and were approved pursuant to an Order of this Honourable Court dated September 30, 2015.

14. The sale of the Conventional Drilling Equipment to Simmons closed on October 2, 2015 ("Closing Date") in accordance with the APAs. The Receiver received aggregate proceeds of US$2.83 million upon closing of the Simmons' APAs.

15. Simmons' legal counsel is holding an additional US$300,000 for a period of six months following the Closing Date to cover potential claims that could arise with respect of the conventional drilling rigs in Mexico (the "Mexico Rigs").

16. The Receiver has completed the statement of adjustments associated with the sale of the Mexico Rigs and Drilling Contract to Simmons, the adjustments resulted in a payment of approximately $20,000 from the Receiver to Simmons arising from profit earned in September 2015 on the Drilling Contract.

17. The Receiver is awaiting a final determination of the 2015 *ad valorem* taxes owing on the conventional drilling rig located Houston, Texas to complete the statement of adjustments for the sale of the Mexico Drilling Rig located in Houston, Texas.

18. The closing of the Simmons' APA represents the disposition of the last of Calmena's property that the Receiver has determined would provide a positive recovery to the Receivership.

Employment terminations

19. In conjunction with the closing of the Simmons' APA, Calmena Mexico terminated the employment of 25 employees. The terminated employees received aggregate severance of approximately US$180,000 in accordance with Mexican labour laws.

20. The Receiver further terminated two employees employed by Calmena Drilling Services in the United States, these employee managed Calmena Mexico's conventional drilling operations.

21. Calmena Mexico has retained two accountants at its Reynosa, Mexico office and its corporate controller, employed by Calmena Drilling Services, to assist with the winding down of Calmena Mexico and the collection of accounts receivable.

22. The Receiver has continued to retain an accountant in Calgary, Alberta to assist with the winding down of both Calmena Mexico and Calmena Luxembourg and collection of accounts receivable owing to Calmena Mexico.

23. In connection with the termination of employees, the Receiver has vacated all of Calmena's office and storage locations in Canada and the United States. Calmena Mexico's office in Reynosa, Mexico is on a month to month lease and the Receiver anticipates vacating this premise on collection of all outstanding accounts receivable owing to Calmena Mexico.

Final statement of adjustments - sale of Directional Drilling Equipment

24. As described in the First Report of the Receiver dated May 14, 2015 and approved by an Order of this Honourable Court dated May 20, 2015, the Receiver sold Calmena's directional drilling equipment (the "Directional Drilling Equipment") in the United States pursuant to two asset purchase agreements to 1616057 Alberta Ltd. ("161 Alberta") and Turbo Drill Industries, Inc. ("Turbo Drill").

25. The sale of the Directional Drilling Equipment has closed and the Receiver is completing the final statements of adjustments for the sales. The adjustments to the purchase prices arise from 2015 *ad valorem* taxes in the United States on the Directional Drilling Equipment. Claims for 2015 *ad valorem* taxes have been filed by the relevant taxing jurisdictions in the US claims process being administered in Calmena's Chapter 15 Proceedings.

26. 161 Alberta and Turbo Drill have both agreed to postpone completion of the Statement of Adjustments until the final tax reassessments for 2015 *ad valorem* taxes levied against the Directional Drilling Equipment are received by the Receiver.

Estimated costs to complete Receivership

27. The Receiver estimates that the following estimated costs are required to complete the administration of the Receivership:

    a. *ad valorem* taxes in the United States of approximately US$550,000 which the Receiver understands from its US counsel ranks in priority to HSBC's security against Directional Drilling Equipment owned by Calmena in the United States;

    b. salaries and wages and office rent of approximately $60,000 associated with winding down Calmena Mexico and collecting outstanding accounts receivable;

    c. costs associated with tax filings and legal fees associated with winding down Calmena Luxembourg of approximately US$30,000; and

    d. professional fees associated with the Receiver and its legal counsel in Canada, the United States, Mexico and Luxembourg are estimated to be less than $200,000 to complete the administration of the Receivership.

28. The above priority claims and costs to complete the administration of the Receivership are not estimated to exceed $921,500 (based upon a USD to CAD exchange rate of 1.33). The Receiver will be holding back a reserve (the "Reserve") of $1.67 million post interim distribution which will be sufficient to fully settle the above priority claims and costs to complete the administration of the Receivership. Excess funds held by the Receiver at the completion of the Receivership and after the settlement of claims in priority to HSBC would be distributed to the HSBC.

29. The Reserve does not include accounts receivable that the Receiver anticipates collecting prior to the completion of the Receivership including the US$300,000 hold back that is being held by Simmons' legal counsel in connection with the sale of the Mexico Rigs. The collection of outstanding receivables will increase the balance of the Reserve.

STATEMENT OF RECEIPTS AND DISBURSEMENTS

Canadian Dollar Receivership Account

30. The following is a statement of the Receiver's receipts and disbursements from its Canadian dollar bank account during the Receivership Period.

Calmena Energy Services Inc.			Exhibit 1
Statement of Receipts and Disbursements - Canadian dollar bank account			
CAD$, unaudited			
January 20, 2015 to November 27, 2015			
	Notes		
Receipts			
Sale of Directional Drilling Equipment	*a*	1,622,284	
Transfer of cash from US bank account	*b*	675,128	
Transfer from Calmena Luxembourg bank account	*c*	186,446	
Miscellanous refunds		77,336	
Total receipts			2,561,193
Disbursements			
Receiver's fees and costs	*d*	890,047	
Salaries and benefits	*e*	440,462	
Legal fees	*f*	584,584	
Insurance	*g*	135,251	
Rent		96,761	
GST paid		43,851	
Tax services		43,155	
Miscellanous disbursements		41,244	
Utilities		16,437	
Total disbursements			2,291,793
Net change in cash			333,183
Opening cash			-
Closing cash			333,183

31. The Receiver has collected approximately $2.56 million in its Canadian dollar receivership account, as follows:

a. approximately $1.6 million from the sale of Directional Drilling Equipment pursuant to an Order of this Honourable Court dated May 20, 2015;

b. cash transferred from the Receiver's US dollar receivership account to the Canadian dollar receivership account of approximately $675,000; and

c. approximately $186,000 transferred from Calmena Luxembourg's bank accounts.

32. The Receiver has disbursed approximately $2.3 million from its Canadian dollar receivership account, as follows:

d. Receiver's fees and expenses of $890,000;

e. salaries and benefits paid to Calmena's Canadian employees retained by the Receiver;

f. Receiver's legal counsel's fees and expenses of $584,000 including both Canadian and US counsel; and

g. insurance premiums of $135,000 associated with general liability and property insurance in Canada, the United States and Mexico.

US Dollar Receivership Account

33. The following is a statement of the Receiver's receipts and disbursements from its US dollar bank account during the Receivership Period.

Calmena Energy Services Inc.			Exhibit 2
Statement of Receipts and Disbursements - US dollar bank account			
USD$, unaudited			
January 20, 2015 to November 27, 2015			
	Notes		
Receipts			
Sale of Mexico Drilling Rigs to Simmons	*a*	2,830,016	
Sale of Mexico Drilling Rig to GPA Energy	*b*	3,018,078	
Transfer from Calmena Mexico	*c*	1,500,000	
Transfer of debtor's US bank account	*d*	1,378,910	
Accounts receivable collections	*e*	814,909	
Miscellanous refunds		82,807	
Insurance refund		73,681	
Total receipts			9,698,401
Disbursements			
Salaries and benefits	*f*	949,657	
Transfer of cash to CAD bank account	*g*	555,975	
Insurance premiums	*h*	220,160	
Legal fees		67,134	
Settlement of Luxembourg accounts payables		45,975	
Rent		45,225	
Miscellanous disbursements		21,952	
Utilities		21,889	
Total disbursements			1,927,966
Net change in cash			7,770,435
Opening cash			-
Closing cash			7,770,434

34. The Receiver has collected approximately US$10 million in its US dollar receivership account, as follows:

a. US$2.8 million from the sale of the Conventional Drilling Property to Simmons pursuant to an Order of this Honourable Court dated September 30, 2015;

b. US$3.0 million from the sale of Rig 737 to GPA Energy, S.A. de C.V., pursuant to an Order of this Honourable Court dated September 30, 2015;

c. the transfer of US$1.5 million from Calmena Mexico representing positive working capital held by Calmena Mexico as at the Appointment Date;

d. $1.4 million transferred from Calmena Drilling Services; operating bank account held with HSBC Bank USA as at the Appointment Date; and

e. approximately $815,000 from the collection of outstanding accounts receivable in the United States owed to Calmena Drilling Services.

35. The Receiver has disbursed approximately $2.2 million from its US dollar receivership account, as follows:

f. salaries and benefits of US$950,000 paid to Calmena Drilling Services employees in the United States. Employees responsibilities included completing a directional drilling contract that was in progress as of the Appointment Date and managing Calmena Mexico's conventional drilling operations;

g. US$556,000 transferred to the Receiver's Canadian dollar receivership account;

h. insurance premiums of $220,000, primarily associated with liability and property insurance for Calmena Mexico's conventional drilling business that continued to operate during the Receivership Period until the sale of the Conventional Drilling Property was completed.

36. Therefore, total cash on hand held by the Receiver as at November 27, 2015 is $10.67 million (using a current exchange rate for US to Canadian of 1.33).

INTERIM DISTRIBUTION

37. The Receiver has obtained an independent security review from Canadian counsel, MacPherson Leslie & Tyerman LLP, as well as from its US counsel, Norton Rose Fulbright LLP (together the "Security Review"), indicating that the security granted by the Calmena Group to HSBC constitutes a valid and enforceable first charge security over all present and after acquired assets and undertakings of the Calmena Group. As of the Appointment Date, the Calmena

Group owes HSBC approximately $16.0 million (the "HSBC Indebtedness") excluding interest and professional fees accruing during the Receivership Period.

38. The Security Review also indicates that Alpine Capital Corp. is the Calmena Group's second secured creditor, having subordinated its interests to HSBC pursuant to an Inter-Lender Agreement, dated September 24, 2012.

39. The Receiver is proposing to make an interim distribution (the "Interim Distribution") to HSBC of $9.0 million. The Interim Distribution will provide a sufficient reserve to fund other priority claims and the remaining administration of the Receivership. Excess funds held by the Receiver at the completion of the Receivership and after the settlement of claims in priority to HSBC would be distributed to the HSBC.

40. The Receiver will be making an application in the US Courts in the Chapter 15 proceeding for approval to issue an interim distribution from proceeds realized upon the property of Calmena Drilling Service (the "US Proceeds"); until this approval is granted, the Receiver will not issue any distributions from the US Proceeds.

COMPLETION OF RECEIVERSHIP

41. The Receiver has to complete the following tasks to complete the administration of the Receivership:

    a. continue efforts to collect outstanding receivables owing to Calmena Drilling Services and Calmena Mexico. Outstanding receivables include an income tax refund in the United States, insurance refunds owing due to early cancellation of policies as a result of property sales and a receivable owing from a customer of Calmena Mexico;

    b. collect the US$300,000 being held in trust by Simmons' legal counsel for a period of six months following the Closing Date of the sale of Mexico Rigs to Simmons. The funds are being held to cover potential claims that could arise with respect of the Mexico Rigs; and

    c. complete final administration and wind down.

RECOMMENDATION

42. The Receiver recommends that this Honourable Court approve the Interim Distribution to HSBC.

All of which is respectfully submitted this 7th day of December, 2015.

ERNST & YOUNG INC.
in its capacity as Court Appointed
Receiver of the Calmena Group

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

Peter Chisholm, CA, CIRP
Vice-President