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COURT	COURT OF QUEEN'S BENCH OF ALBERTA	
JUDICIAL CENTRE	CALGARY	
APPLICANTS	THIRD EYE CAPITAL CORPORATION	
RESPONDENTS	RANCH ENERGY CORPORATION, OPSMOBIL INC., 1734163 ALBERTA INC., 1859821 ALBERTA INC., OPSMOBIL GROUP INC., OPSMOBIL CONSTRUCTION INC., OPSMOBIL ENERGY SERVICES INC., AIR DALLAIRE LTD. AND K.L. CAPITAL CORP.	
DOCUMENT	FIRST REPORT OF THE RECEIVER AUGUST 8, 2018	
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INTRODUCTION

1. Third Eye Capital Corporation ("TEC") issued a notice of intention to enforce security on June 6, 2018, pursuant to section 244(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c. B-3 as amended (the "BIA") against Ranch Energy Corporation ("Ranch"), OpsMobil Inc. ("OpsMobil"), 1734163 Alberta Inc. ("1734 AB"), 1859821 Alberta Inc. ("1859 AB"), OpsMobil Group Inc. ("Ops Group"), OpsMobil Construction Inc. ("Ops Construction"), OpsMobil Energy Services Inc. ("Ops Services"), Air Dallaire Ltd. ("Air Dallaire") and K.L. Capital Corp. ("KLCC") (collectively the "Corporations"). Ops Group, Ops Construction, Ops Services, Air Dallaire and KLCC are collectively referred to as "OpsMobil".

2. Ernst & Young Inc. ("EYI") was appointed as receiver (the "Receiver") of the Corporations' current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate, including all proceeds thereof (the "Property") pursuant to an order (the "Receivership Order") of the Court of Queen's Bench of Alberta (the "Honourable Court") dated July 19, 2018, as amended (the "Receivership Date").

3. The Receivership Order authorizes the Receiver, among other things, to carry on the business of the Corporations, to sell, convey, transfer, lease or assign the Property out of the normal course of business, subject to approval of this Honourable Court for any transactions exceeding $100,000, or the aggregate of multiple transactions exceeding $500,000, and to make such arrangements or agreements as deemed necessary by the Receiver.

PURPOSE

4. The purpose of this first report of the Receiver (the "First Report") is to provide this Honourable Court with the Receiver's comments on:

   a) The activities and events leading up to and subsequent to the issuance of the notice of intention to enforce security;

   b) The efforts undertaken by the Receiver to administer the receivership upon appointment;

   c) The application by Airborne Energy Solutions Inc. ("AES") for a constructive trust, specific performance and an approval and vesting order (the "Proposed AES Transaction");

   d) The efforts being undertaken by the Receiver to prepare the remaining Property for a sales solicitation process or processes; and

e) The Receiver's recommendation.

TERMS OF REFERENCE

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

BACKGROUND OF INSOLVENCY PROCEEDINGS

6. As noted, TEC issued a notice of intention to enforce security against the Corporations on June 6, 2018, pursuant to section 244(1) of the BIA.

7. On July 4, 2018, the Honourable Court granted an order (the "Interim Stay Order") approving, amongst other things, an interim stay of proceedings up to July 10, 2018 with respect to the Corporations. The Interim Stay Order was made in relation to:

a) The Corporations' application for an initial order seeking protection pursuant to the *Companies' Creditors Arrangement Act*, R.S.C. 1985, C-36, as amended (the "CCAA"); and

b) TEC's application to appoint EYI as receiver of the assets, undertaking and property of the Corporations.

8. On July 10, 2018, this Honourable Court granted the Corporations protection pursuant to the CCAA (the "Initial Order").

9. Pursuant to the Initial Order, EYI was appointed as monitor (the "Monitor") of the Corporations and a stay of proceedings was granted as against the Corporations and the Monitor up to and including July 20, 2018.

10. On July 19, 2018, the first report of the Monitor was filed, commenting on, among other things, the Corporations' failure to secure additional interim financing, thus constituting a material adverse change within the CCAA proceedings as the Corporations' did not have sufficient liquidity to operate beyond July 20, 2018.

11. Pursuant to orders of this Honourable Court dated July 19, 2018 the CCAA proceedings were suspended and the Corporations were placed in receivership.

DESCRIPTION OF THE BUSINESS

12. The Corporations' businesses are segregated between natural gas production & processing and oilfield services, as follows:

a) Ranch is the operator or has a working interest in approximately 1,600 oil and gas wells in northeast British Columbia and owns and operates a gas processing plant in the Wildboy district of British Columbia (collectively, the "PNG Assets"). All of Ranch's oil and gas properties were acquired from Predator Oil BC Ltd. ("Predator") on July 10, 2017. The permits associated with the PNG Assets continue to be held by Predator pursuant to a trust agreement as Ranch was not qualified to hold the permits under British Columbia Oil and Gas Commission ("BCOGC") regulations; and

b) OpsMobil is a group of oilfield service companies that provided construction, aviation and energy services in the oil and gas sector. As at the Receivership Date, OpsMobil had 45 employees which were providing operating and oilfield services to Ranch and OpsMobil had no other active material business ongoing.

13. The Receiver understands that the Corporations were negatively impacted by the depressed economic climate in the oil and gas industry as a result of low oil & gas commodity prices, in part leading to their financial difficulty and ultimately, these proceedings.

ADMINISTRATION OF RECEIVERSHIP

14. Upon being appointed, the Receiver completed the following tasks to effect custody and control of Ranch and OpsMobil:

Head Office

15. On the Receivership Date, the Receiver attended OpsMobil's head office. The Receiver met with OpsMobil's management team to discuss the transition to the receivership and communication of the receivership to OpsMobil's employees.

Field Offices

16. The Receiver and OpsMobil management held a conference call with field employees to discuss the transition to the receivership, and began recovering and safeguarding the property, books and records of OpsMobil.

Operations & Employees

17. The Receiver met with various members of OpsMobil management to determine the need to maintain certain ongoing operations in order to maximize value for stakeholders.

18. OpsMobil provides all of the oilfield services for Ranch's oil and gas operations. The Receiver terminated all OpsMobil employees that were not critical to Ranch's operations.

TEC's Security

19. The Receiver understands that TEC is the Corporations' primary secured creditor and holds security against all the present and after-acquired personal and real property of the Corporations.

20. The Receiver has instructed its counsel to conduct an independent legal review and opinion of the security granted by the Corporations to TEC, and that process is underway.

Deemed Trust

21. After taking possession of OpsMobil, based upon the Receiver's discussions with OpsMobil management and a preliminary review of OpsMobil's books and records, the Receiver established that statutory deemed trusts may exist in favour of Her Majesty the Queen in Right of Canada, as represented by the Minister of National Revenue ("CRA") for unremitted source deductions, as set out below:

    a) $3,593,000 of unremitted source deductions deducted by OpsMobil Energy Services Inc. from its employees' salaries and wages prior to the Receivership Date;

    b) $470,000 of unremitted source deductions deducted by OpsMobil Group Inc. from its employees' salaries and wages prior to the Receivership Date;

    c) $428,000 of unremitted source deductions deducted by OpsMobil Inc. from its employees' salaries and wages prior to the Receivership Date; and

    d) $31,000 of unremitted source deductions deducted by OpsMobil Construction Inc. from its employees' salaries and wages prior to the Receivership Date;

    (the "Deemed Trust").

22. The Receiver is currently reviewing the Deemed Trust priority with its legal counsel.

Insurance

23. The Receiver has contacted the existing insurance provider and has confirmed that: (i) the insurance policies remain in effect, (ii) current premiums have been paid, (iii) current insurance coverage is sufficient, (iv) the insurer is willing to continue to provide coverage, and (iv) the insurer would add the Receiver to the policies as loss payee, where applicable.

Receiver's Notice to Creditors

24. On July 30, 2018, the Receiver mailed the Receiver's notice and statement in accordance with Sections 245 and 246 of the BIA, to the creditors of Ranch and OpsMobil as at the Receivership Date per the Corporations' books and records.

PROPOSED AES TRANSACTION

25. On June 13, 2018, AES commenced an action in this Honourable Court (the "AES Action"), against OpsMobil Group Inc., OpsMobil Inc., OpsMobil Energy Services Ltd. (collectively, the "Transacting OpsMobil Entities") and TEC related to a purchase and sale agreement (the "AES PSA") wherein the Transacting OpsMobil Entities agreed to sell to AES, certain segmented aircraft assets of OpsMobil's overall business related to the aerial surveillance and scanning, chemical spraying and local charter business (the "Proposed Aircraft Assets"). In addition, AES and the Transacting OpsMobil Entities entered into a transitional services agreement wherein OpsMobil agreed to provide to AES certain transition services to assist AES with its operation of the Proposed Aircraft Assets until they were fully integrated with AES (the "AES TSA"). The AES PSA and the AES PSA are both dated December 14, 2017.

26. On June 14, 2018, upon application by AES, this Honourable Court granted an order preserving the accounts receivable generated by the Proposed Aircraft Assets (the "Preservation Order"). Such accounts receivable were ordered to be paid into a trust account with Alberta Treasury Branches account number 760-00182687579 (the "Segregated Account").

27. The Receivership Order expressly provided that:

a) AES shall continue to be in possession of and be entitled to operate the Proposed Aircraft Assets that are the object of the AES PSA and the revenues from the Proposed Aircraft Assets, including those revenues subject to the terms of the Preservation Order (the "Aircraft Revenues"), shall be dealt with as contemplated by the Preservation Order; and

b) If it is determined by final decision of this Honorable Court that AES is entitled to the Proposed Aircraft Assets and the Aircraft Revenues:

   i. The Interim Lender's Charge, Administration Charge, and Directors' Charge (as defined in the Initial Order); and

   ii. The Receiver's Charge and Receiver's Borrowing Charge (as defined in the Receivership Order) will not attach to the Proposed Aircraft Assets and the Aircraft Revenues to the extent of that entitlement.

28. Most recently, AES filed an application on August 3, 2018 in this Honourable Court, requesting, among other things, a constructive trust, specific performance and an approval and vesting order in respect of the Proposed AES Transaction (the "AES Application").

29. The Receiver has dealt with the Aircraft Revenues in accordance with the terms of the Preservation Order.

30. The Receiver is aware that OpsMobil and AES have tracked the revenues and expenses from the Proposed Aircraft Assets effective from November 1, 2017.

31. The Receiver was made aware that a receivable arising from a contract between Alberta Agriculture and Forestry and OpsMobil Inc. appears to have been assigned by OpsMobil to AES on or around June 11, 2018. The Receiver is investigating such assignment and whether there were any other assignments made.

32. The Receiver anticipates filing a report, on or about, September 30, 2018 that would provide an overview of the sources and uses of funds involved in the Proposed AES Transaction during the period of November 1, 2017 onward.

RECEIVER'S ANALYSIS OF THE PROPOSED AES TRANSACTION

33. The Receiver's counsel analyzed the Proposed AES Transaction and the Receiver has filed a Brief of Law and Argument (the "Brief") opposing the AES Application. The Receiver's reasons for opposing the AES Application appear in the Brief.

IMPACT OF THE RECEIVERSHIP ON THE PROPOSED AES TRANSACTION

Air Operator Certificate

34. Transport Canada issues air operator certificates ("AOCs") to show that a commercial air service complies with aviation regulations.

35. Transport Canada Advisory Circular No. 800-001 also requires the appointment of an "accountable executive". The accountable executive is a single, identifiable person within each organization who will discharge the certificate holder's responsibilities, and in particular, lead the necessary cultural change. It is imperative that the correct person is identified as the

accountable executive, and that the individual understands and accepts the roles and responsibilities associated with that position.

36. On July 20, 2018, the Receiver terminated the operations manager and pilot serving under the OpsMobil AOC and the OpsMobil President serving as the accountable executive resigned. Transport Canada contacted the Receiver to advise that the OpsMobil AOC was thereby suspended.

37. On July 26, 2018, the Receiver was contacted by Kenneth I. Mizera ("Mr. Mizera"), on behalf of AES, in relation to the OpsMobil AOC. In these conversations, Mr. Mizera suggested that he could be hired by OpsMobil to serve as the accountable executive. The Receiver stated that it would be prepared to rehire the operations manager and pilot, if AES would provide the funding for these individuals to serve these roles.

38. Nothing further transpired from these discussions.

39. Effective August 1, 2018 the OpsMobil AOC was cancelled by Transport Canada.

40. Upon receiving AES' Application, the Receiver contacted Transport Canada to determine the steps required to reinstate the OpsMobil AOC. These discussions and consultations are continuing.

Funding Requirements

41. AES has requested that the Receiver funds AES' operations relating to the Proposed Aircraft Assets that remain in the operating name of OpsMobil (the "Post-Receivership AES/OpsMobil Obligations"). The Receiver is unable to do so as the Receiver does not have the ability to use funds from the Segregated Account, nor had it forecast such payments in the Receiver's forecast of expenses to be funded from the Receiver's borrowings. Funds from the Segregated Account can only be released upon further order of the Court. The Receiver entered into discussions with TEC and AES about the matter, but no consent was reached between AES and TEC.

42. The Receiver does not have any recommendations regarding the Post-Receivership AES/OpsMobil Obligations until this Honourable Court decides on the Proposed AES Transaction.

43. The Receiver has funded AES' insurance for the month of August, as the insurance coverage also covers the remaining OpsMobil ground risk hull insurance that are not operated.

DISMISSAL OF THE PROPOSED AES TRANSACTION

44. Although the Receiver has concerns about the current structure of the Proposed AES Transaction, as more particularly outlined in the Receiver's Brief, the Receiver is also concerned that unwinding the Proposed AES Transaction could result in unfavourable consequences for certain stakeholders of AES and OpsMobil. Accordingly, the Receiver sets out the following alternatives:

Continued AES Participation

45. Subject to the Court's approval, the Receiver would be prepared to support either of two possible solutions which may contain the adverse consequences to stakeholders:

a) A settlement between TEC, OpsMobil and AES which resolves the concerns of the Receiver identified in the Brief, such as payment by AES of a market related cash purchase price instead of a part-cash, part- set off payment; or

b) AES participates in a sales and investment solicitation process as a stalking horse bidder ("Stalking Horse AES Sales Process") while maintaining the status quo of operations currently undertaken.

46. A Stalking Horse AES Sales Process would be supported by the Receiver as it:

a) provides stability to the employees;

b) allows customers to continue to receive the pipeline monitoring and surveillance services presently provided by AES to prevent the environmental, health and safety risks and violation of their regulatory operations; and

c) establishes a fair and transparent process for participants and is designed to maximize value for all stakeholders.

47. AES would receive a reasonable break fee for participating as the stalking horse bidder if a superior bid was received.

Unwinding the Proposed AES Transaction

48. Should the Court not direct that the Proposed AES Transaction be closed as requested by AES, the Receiver will require a transition period of at least 45 days to integrate the operations back into OpsMobil.

49. During the transition period, the Receiver intends to:

a) work with Transport Canada to apply for a new AOC, or work with Transport Canada and a third-party AOC licensed operator to add the OpsMobil aircraft and staff to their operations until a sales and investment solicitation process is completed;

b) offer employment contracts under the same conditions currently in place; and

c) confirm with the insurer that insurance coverage is sufficient and that the insurer would be willing to continue to provide coverage.

50. The Receiver anticipates that a transition period until September 30, 2018 would be sufficient to transition the operations back into OpsMobil. As noted, the Receiver has already begun to undertake many of the foregoing measures.

RECEIVER'S INTENDED ACTION ON REMAINING ASSETS

51. The Receiver is analyzing a broad sales solicitation process to maximize the value of Ranch's assets, as well as package together the remaining OpsMobil assets (with or without the Proposed Aircraft Assets) and market either as *en bloc* divestitures or to auction houses. The Receiver will bring an application as soon as reasonably practical to seek approval from the Court for the sales solicitation process.

RECOMMENDATION

52. Absent a settlement acceptable to the Receiver and the Court, the Receiver respectfully recommends that this Honourable Court not approve the Proposed AES Transaction for the reasons advanced in the Brief, and that the Court allows the Receiver a transition period until September 30, 2018 to transition the operations back into OpsMobil.

Dated at Calgary, this 8th day of August, 2018.

ERNST & YOUNG INC.
in its capacity as the
Receiver of the Corporations

Neil Narfason, CPA, CA, CIRP, LIT, CBV
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