

COURT/ESTATE  
FILE NO. 25-2351565

COURT COURT OF QUEEN'S BENCH OF ALBERTA  
IN BANKRUPTCY

JUDICIAL  
CENTRE CALGARY

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IN THE MATTER OF THE BANKRUPTCY OF SEQUOIA RESOURCES CORP.

APPLICANT PRICEWATERHOUSECOOPERS INC., LIT, IN ITS CAPACITY AS TRUSTEE IN  
BANKRUPTCY OF SEQUOIA RESOURCES CORP.

DOCUMENT **TRUSTEE'S FIRST REPORT TO COURT SUBMITTED BY  
PRICEWATERHOUSECOOPERS INC., LIT**

**DATED JULY 8, 2019**

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## ***Table of Contents***

Introduction	3
Background	3
Sales Process	4
Outstanding Property Taxes on Proposed Sale	5
Trustee's View on the First Sales Process	6
Trustee's View on the Proposed Sale	6
Recommendations	7

## 1. Introduction

- 1.1 On March 23, 2018, Sequoia Resources Corp. (“**SRC**” or the “**Company**”) filed a voluntary assignment into bankruptcy and PricewaterhouseCoopers Inc., LIT was appointed as trustee in bankruptcy (“**Trustee**”) of the Company.
- 1.2 The purpose of this first report (the “**First Report**”) is to provide the Court with the Trustee’s recommendations with respect to the sale of certain of the Company’s assets.
- 1.3 A copy of the filed First Report will be available on the Trustee’s website [www.pwc.com/ca/sequoiareources](http://www.pwc.com/ca/sequoiareources). All non-confidential materials filed relating to the bankruptcy of SRC are available to creditors and other interested parties in electronic format on the Trustee’s website.
- 1.4 Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars.
- 1.5 Certain information contained in this First Report is based on information obtained from the Company’s books and records and discussions with management and staff. The Trustee has not independently verified the accuracy or completeness of such information; accordingly the Trustee does not express an opinion thereon.
- 1.6 This First Report should be read in conjunction with the Trustee’s Preliminary Report, a copy of which is attached as Appendix “A”.

## 2. Background

- 2.1 SRC formed in late 2016 through a series of transactions purchasing primarily dry gas assets. Between September 2016 and August 2017, the Company purchased approximately 3,200 gas wells and their associated facilities and pipelines. The key transactions were as follows:

Source	Transaction Type	Percentage of Wells Acquired
Perpetual Energy Operating Corp. (“PEOC”)	Corporate sale	~75%
Husky Oil Operations Ltd. (“Husky”)	Asset sale	~11%
Waldron Energy (in bankruptcy)	Asset sale	~6%
AlphaBow Energy (Endurance)	Asset sale	~6%
AlphaBow Energy (Cabin Creek)	Asset sale	~1%

- 2.2 In accordance with its duties under the *Bankruptcy and Insolvency Act* (“**BIA**”), the Trustee commenced a review of the Company’s transactions within the review periods of sections 95 and 96 of the BIA, specifically focusing on those transactions that formed the Company noted above.
- 2.3 The Trustee determined that the transaction in which SRC acquired the Perpetual Energy Operating Corp. assets constituted a transfer at under-value per section 96 of the BIA. Upon direction from the bankruptcy inspectors (the “**Inspectors**”) of the estate of SRC (the “**Estate**”), the Trustee made an application to, among other things, set aside the transaction and declare it void as against the Trustee. The Trustee’s Statement of Claim (action 1801-10960.), application, and affidavit in support of the application (together, the “**PEOC Action**”) were filed on August 2, 2018. The Defendants, Perpetual Energy Inc. et al, have defended the PEOC Action, filing applications to stay the PEOC Action and for summary dismissal of the same (the “**Defendants’ Applications**”).
- 2.4 As of the date of this First Report, the Court has not issued a ruling on the Defendants’ Applications.
- 2.5 The Trustee has also determined that the transaction in which SRC acquired the Endurance Energy assets from AlphaBow Energy (“**ABE**”) constituted a transfer at under-value per section 96 of the BIA. Upon direction from the Inspectors, the Trustee will be making an application to, among other things, set aside the transaction and declare it void as against the Trustee. The Trustee expects ABE to defend the application.

### 3. **Sales Process**

- 3.1 The Trustee has determined that the transactions in which SRC acquired the Waldron Energy assets (“**Waldron Assets**”), the Husky Oil Operations Ltd. Assets (“**Husky Assets**”), and the ABE Cabin Creek assets (“**Cabin Creek Assets**”) did not constitute a preference or transfer at under-value per sections 95 or 96 of the BIA.
- 3.2 The Trustee subsequently requested and received approval from the Inspectors to engage Sayer Energy Advisors (“**Sayer**”) to conduct a public sales and marketing process for the Waldron Assets, Husky Assets and Cabin Creek Assets.
- 3.3 In June 2018, the Trustee engaged Sayer and the sales process for the Waldron Assets and Cabin Creek Assets (together, the “**First Sales Process**”) was launched on August 30, 2018. The sale process for the Husky Assets was commenced by Sayer in May 2019 (the “**Second Sales Process**”). The bid deadline for the Second Sales Process was June 20, 2019. The Trustee continues to review the potential offers received in the Second Sales Process.
- 3.4 The First Sales Process included the following steps:
  - 3.4.1 preparing an information brochure (the “**Teaser**”) along with sales and marketing materials and contacting approximately 900 prospective bidders;
  - 3.4.2 advertising the bankruptcy sale on Sayer’s website, where detailed information was consolidated into one document which was downloaded a total of 303 times during the First Sales Process;

- 3.4.3 advertising in various industry publications including the BOE Report (September 6, 2018, viewed 1,744 times) and the Daily Oil Bulletin (September 11, 2018, viewed 536 times). Sayer also placed advertisements relating to the opportunity in A&D Watch and PLS Inc. in an attempt to reach parties not currently on Sayer's distribution lists in Canada and the U.S.;
- 3.4.4 preparing and operating a virtual data room ("**VDR**");
- 3.4.5 executing confidentiality agreements ("**CA's**") with 20 prospective bidders; and
- 3.4.6 holding face-to-face meetings and conference calls with numerous of the prospective bidders.
- 3.5 A copy of the Teaser and advertisements for the First Sales Process is included at Appendix "**B**".
- 3.6 The First Sales Process resulted in ten companies submitting offers relating to the Waldron Assets and Cabin Creek Assets prior to the bid deadline October 4, 2018. In consultation with Sayer, the Trustee reviewed the offers and commenced negotiations with the interested parties in order to clarify terms and resolve outstanding conditions, including certain financial and diligence conditions.
- 3.7 Ultimately, this resulted in 5 acceptable bids that had the greatest benefit to the Estate which were brought forward for consideration and approval by the Inspectors. After obtaining Inspector approval, the Trustee continued to negotiate with the bidders and has completed an asset purchase agreement ("**APA**") with Forden Energy Inc. ("**Forden**") for certain oil and gas assets located in Crystal Lake and Sullivan Lake (the "**Proposed Sale**"). A redacted copy of the Forden APA is attached as Appendix "**C**"; and
- 3.8 The Trustee has received approval from the Inspectors to make an application to the Court for approval of the Proposed Sale.

#### **4. Outstanding Property Taxes on the Proposed Sale**

- 4.1 On June 20, 2017, this Court granted an order in the receivership proceedings of Virginia Hills Oil Corp. and Dolomite Energy Inc., Court File No. 1701-02184 (the "**Virginia Hills Order**"), which order provided that the linear portion of municipal tax claims did not form part of a "special lien" on the debtor's property. On June 12, 2018, the Alberta Court of Appeal heard an appeal of the Virginia Hills Order, which was brought by certain municipalities. On February 11, 2019, the Court dismissed the municipalities' appeal and found that the linear tax claims are unsecured claims (the "**Virginia Hills Decision**").
- 4.2 As a result of the Virginia Hills Decision and to better understand the total property taxes outstanding on the Proposed Sale, an external consultant, Altus Group, was hired to review and gather all outstanding property taxes on the Proposed Sale through its effective date. A summary for the transaction, broken down by pre-filing, post-filing, linear and interest/penalties is shown below:

Property taxes: Forden		Ponoka	Wetaskiwin
Pre Filing Non Linear	5,816	4,589	1,277
Pre Filing Non Linear Int/Penalties	1,086	835	251
Post Filing Taxes: 2018	45,425	44,326	1,100
Post Filing Int/Penalties	10,433	10,286	148
Estimated FY19 Taxes to Feb 28	9,470	9,241	229
<b>Property taxes adjusted on FSOA</b>	<b>72,232</b>	<b>68,442</b>	<b>2,754</b>

- 4.3 The calculation above will be used in the Final Statement of Adjustments (“FSOA”) of each transaction, reducing the total proceeds of the Proposed Sale paid to the Trustee. The Property Taxes on Proposed Sale calculated above will be paid directly to the municipality by the Purchasers.

## 5. *Trustee’s View on the First Sales Process*

- 5.1 The Trustee is of the view that the First Sales Process was fair and reasonable given that:
- 5.1.1 Sayer has specific and extensive experience and expertise in marketing reserve-based assets in the exploration and production industry;
  - 5.1.2 The assets were widely marketed to industry participants, as demonstrated by advertising views, downloads on Sayer’s website and mailings;
  - 5.1.3 The process was well defined with sufficient time for interested parties to proceed with due diligence;
  - 5.1.4 The Trustee has significant recent experience with sales mandates for similar businesses in the exploration and production industry; and
  - 5.1.5 The First Sale Process was conducted by Sayer under the oversight of the Trustee, an officer of the Court, which is experienced in managing similar sale processes.
- 5.2 The Trustee considers that the First Sales Process represents a reasonable balance between the Company’s circumstances and the time reasonably required to market and solicit bids in order to complete a transaction for a business of this nature.
- 5.3 As set out above, it is the Trustee’s view that the assets have been widely marketed and that the process for receiving and evaluating offers has been open and fair. Accordingly, the Trustee is seeking approval of the Court of the Trustee’s actions in carrying out the First Sales Process.

## 6. *Trustee’s View on the Proposed Sale*

- 6.1 The Trustee is currently seeking approval of the Court for the Proposed Sale. The Trustee’s opinion on this sale is set out below and the economic terms are set out in the Confidential Supplement to the First Report, and unredacted copies of the APAs for the Proposed Sale are attached thereto.
- 6.2 The Proposed Sale is a result of a sales process that ensured the Company’s assets were marketed widely by Sayer as outlined above. There has been interest from various parties for the assets included in the Proposed Sale, however the offer accepted represents the highest and best offer received for the respective assets. The purchase prices in respect of

the transaction is fair and reasonable given the condition of the subject assets and the market. The Confidential Supplement to the First Report provided to the Court includes additional supporting information.

- 6.3 The Trustee has discussed its position on the Proposed Sale with the Alberta Energy Regulator (“**AER**”) who has agreed to grant Forden discretion under the conditions agreed upon and documented in Forden’s discretionary approval application.
- 6.4 The Trustee has received approval from the Inspectors to seek approval from the Court for the Proposed Sale.

## **7. Recommendations**

- 7.1 The Trustee is of the opinion that the Proposed Sale are in the best interests of the Estate and for all of the reasons described above, recommends that this Honourable Court grant an order approving the Proposed Sale.

All of which is respectfully submitted on this 8<sup>th</sup> day of July 2019.

**PricewaterhouseCoopers Inc., LIT**  
In its capacity as Trustee of Sequoia Resources Corp.



Paul Darby, LIT  
Trustee

## ***Appendix A- Trustee's Preliminary Report***



## ***Appendix B- Cabin Creek and Waldron Teasers and Advertisements***

## ***Appendix C – Redacted Forden APA for the Proposed Sale***