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1. INTRODUCTION AND PURPOSE OF REPORT

Introduction

1. By order of the Court of Queen’s Bench of Alberta (the “**Court**”) dated January 28, 2020, KPMG Inc. was appointed receiver and manager (the “**Receiver**”) of Strategic Oil & Gas Ltd. and Strategic Transmission Ltd. (together, the “**Company**”) pursuant to an application brought by GMT Capital Corp. (“**GMT**”) under section 243(1) of the *Bankruptcy and Insolvency Act*, RSC 1985, c B-3, section 13(2) of the *Judicature Act*, RSA 2000, c J-2, section 99(a) of the *Business Corporations Act*, RSA 2000, c B-9 and section 65(7) of the *Personal Property Security Act*, RSA 2000 c P-7, without security, of all of the current and future assets, undertakings, and properties of every nature and kind whatsoever, and wherever situate, including all proceeds thereof with the exception of the Northwest Territories property (collectively, the “**Property**”) of the Company.
2. Concurrently, the government of the Northwest Territories requested that a separate receiver (the “**NWT Receiver**”) be appointed solely over the assets located in the Northwest Territories. Consequently, a separate receivership order was granted for the Northwest Territories assets.
3. On February 14, 2020, the Receiver filed its first report (the “**First Report**”) which described, among other things, the Company’s primary assets and liabilities, the Receiver’s activities to date, and the Receiver’s proposed sale and investment solicitation process (“**SISP**”).

Purpose of the Report

4. This is the Receiver’s second report to the Court (the “**Second Report**” or this “**Report**”) which has been prepared to provide the Court with:
 - a) An update on the actions of the Receiver since the First Report;
 - b) A summary of the Receiver’s SISP process;
 - c) The Receiver’s statement of receipts and disbursement;
 - d) The Receiver’s and Receiver’s counsel’s, Torys LLP, fees and disbursements for the period of January 28, 2020 to May 31, 2020; and
 - e) The Receiver’s recommendations.

Terms of Reference

5. All materials filed with the Court and all orders granted by the Court in connection with the receivership proceedings will be made available to creditors and other interested parties in electronic format on the Receiver's website <https://www.kpmg.com/ca/strategic>.
6. In preparing this Report, the Receiver has been provided with, and has relied upon, unaudited and other financial information, books and records (collectively, the "**Information**") prepared by the Company and/or its representatives, and discussions with the Company's management and/or representatives.
7. The Receiver has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. The Receiver has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards pursuant to the Chartered Professional Accountants Handbook, and accordingly the Receiver expresses no opinion or other form of assurance in respect of the Information.
8. The information contained in this Report is not intended to be relied upon by any prospective purchaser or investor in any transaction with the Receiver.
9. Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars.

2. ACTIVITIES OF THE RECEIVER SINCE THE FIRST REPORT

Operations

10. The Receiver maintained operations as normal upon its appointment and continued production from the Company's producing wells in the Marlowe area.
11. All former employees were retained and contractors in the various well locations were engaged by the Receiver to continue operations as normal.
12. The Receiver continued and renewed the existing insurance policies held by the Company throughout the CCAA Proceedings. Certain insurers were unwilling to continue coverage while the Company is under receivership, and only allowed for a short renewal period. The Receiver has arranged for alternate insurers in all such cases.
13. The Receiver has carried out the following routine administrative tasks:
 - a) Prepared and filed various statutory returns, which included GST returns;
 - b) Reported to and liaised with the Alberta Energy Regulator ("AER") and the NWT Receiver on various statutory, administrative, and environmental matters; and
 - c) Attended to processing of weekly disbursements.

As further described herein, the SISP was initially deemed to be unsuccessful, and the Receiver initiated plans to shut-in the producing assets on April 28, 2020.

Shut-in

14. The shut-in was performed on the remaining producing assets of the Company in the Marlowe area. All other assets of the Company were already shut in at the date of appointment.
15. The shut-in was designed to render the oil and gas properties inoperative, but left in a safe state requiring only minimal ongoing inspection and maintenance.
16. All employees and contractors were utilized for the shut-in and in addition, a number of additional contractors with required specialties were engaged.

17. The shut-in process included, but was not limited to, the following activities:
- a) Negotiation for the retention of specialized contractors;
 - b) Arrangements for the prepayment of contractor invoices;
 - c) Purging of remaining oil and gas product from pipelines, wells, and facilities;
 - d) Installation of shutdown valves to shut-in production flow of oil and gas wells.
 - e) Liquidation and disposal of field assets;
 - f) Review and action environmental and regulatory requirements;
 - g) Arrangements for software records backup and retention;
 - h) Return and destruction of proprietary data as per contract requirements;
 - i) Arrangements for discontinuation of airport services in the area;
 - j) Review of handling of a certain trans-border pipeline;
 - k) Compilation of relevant mineral, surface, and well files; and
 - l) Termination of various contractor and master service agreements.
18. The shut-in is now complete. In order to maintain security of the properties and equipment subject to the Tallahassee PSA, as described and defined further in this Report, the Receiver has organized on-site monitoring of the assets for a time period of approximately one month.

3. ANALYSIS OF THE SISP

19. Upon appointment, the Company had sufficient cash to maintain operations and run a truncated sales process pursuant to the Receiver's SISP.
20. As described in the Receiver's First Report to Court dated February 14, 2020, the Receiver set a bid deadline for April 15, 2020 (the "**Bid Deadline**") to allow sufficient time to market the Property and to ensure the Company retained sufficient financial resources to fund the operations of the Company and have available funds if a sale was not completed to shut-in the operations of the company, complete the receivership administration, and seek its discharge.
21. The Receiver commenced the SISP on February 28, 2020, following approval of the SISP by order of the Court.
22. As per the requirements of the SISP, the Receiver undertook the following:
 - a) Contacted various parties to generate interest in the SISP;
 - b) Prepared a teaser and forwarded to 90 interested parties, including past participants of the previous CCAA SISP, as well as new potential bidders;
 - c) Advertised the SISP in *The Globe and Mail*, *National Post*, *Calgary Herald*, *Edmonton Journal*, and the *Daily Oil Bulletin*;
 - d) Prepared a new virtual data room ("**VDR**") with updated operational details of the Company's assets;
 - e) Liaised with the AER on regulatory and LMR requirements;
 - f) Responded to inquiries from various interested parties; and
 - g) Analyzed bids received to determine qualifying status.
23. A Bid Deadline was set for April 15, 2020, in order to allow the Receiver sufficient time to market the properties, and to maintain sufficient financial resources to fund the operations of the Company.

24. Five interested parties had signed confidentiality agreements, and accessed the VDR. By the Bid Deadline, the Receiver received bids from three potential purchasers of the assets. The details of these bids are contained within the Receiver’s First Confidential Supplemental Report.
25. In order for an offer to be considered a Qualified Bid (as defined in the SISP) as per article 5.1 of the SISP, it was required to include the following:
- a) A letter stating the offer is irrevocable;
 - b) A duly authorized and executed purchase and sale agreement (“PSA”);
 - c) Evidence of the bidder’s financial and otherwise capabilities to consummate the transaction;
 - d) The PSA was not to be conditioned on unperformed due diligence by the bidder;
 - e) Fully disclosed identity of each entity that is bidding;
 - f) Acknowledgment that the bidder relied solely on its own independent review, investigation, and inspection of documents;
 - g) The Offer was to be on an “as is, where is”, “without recourse” basis;
 - h) Evidence of authorization and approval of a bid by bidder’s board of directors;
 - i) A refundable deposit of 10% of purchase price was to be provided;
 - j) A closing date no later than June 30, 2020;
 - k) If the potential bidder was a new entity formed for the purpose of the transaction, a debt or equity commitment letter from the parent entity;
 - l) Evidence of compliance or anticipate compliance with all regulatory approvals;
 - m) Responses to AER Regulatory Requirements as per the SISP;
 - n) Compliance with rules set forth in the SISP;
 - o) Other information as reasonably requested by the Receiver; and

- p) Received no later than the Bid Deadline.
26. None of the bids received which were considered Qualified Bids for a number of reasons, the most significant of which were:
- a) No bids included the required 10% refundable deposit; and
 - b) No bids included the proper form of the PSA.
27. Accordingly, the Receiver informed all three interested parties that their bids were not in compliance with the SISP, but allowed them a short extension to meet the SISP requirements and become compliant.
28. Notwithstanding the lack of initial compliance with the SISP, the Receiver continued negotiations with two parties, DeerGarden Resources Ltd. (“**DeerGarden**”) and Tallahassee Exploration Inc. (“**Tallahassee**”).
29. The Receiver and its counsel worked with DeerGarden to prepare a proper form of PSA. However, DeerGarden’s PSA included a clause to exclude certain liabilities, namely, asset retirement obligations (“**ARO’s**”) due to the AER. As the assumption of ARO’s was a key consideration in any bid, the AER was not in support of the bid, and the Receiver informed DeerGarden that the bid is not accepted.
30. Tallahassee’s initial bid submission did not properly identify the assets it intended to purchase. Significant time was spent by the Receiver and its counsel, to develop a schedule of the assets (the “**Purchased Assets**”) Tallahassee was going to purchase pursuant to the applicable PSA. However, due to the lack of deposit paid by the Bid Deadline, and the lack of a proper form of PSA, there was some concern as to the ability to complete a sale with Tallahassee in a timely and reasonable manner.
31. The Receiver had set the Bid Deadline to ensure that sufficient financial resources were available to shut-in the producing oil and gas assets safely in the event of there being no bid and accordingly, the Receiver had only a short period of time to accept a bid and close a sale in order for a shut-in to remain feasible. The Receiver was of the view that the Tallahassee offer might be worth pursuing and so continued discussions with same, but also began shut-in procedures.
32. The AER was supportive of the Receiver continuing to investigate the possibility of any sales despite the commencement of the shut-in, so as to reduce the liability to be incurred under its Orphan Well Association.

33. After significant discussions and negotiations between Tallahassee and the Receiver, Tallahassee's bid / initial proposed purchase and sale agreement was amended (the "**Tallahassee PSA**") and subsequently submitted, which met the requirements of Article 5.1 of the SISP.
34. The Receiver is of the view that the Tallahassee PSA provides for the highest and best value for the Company assets given the following:
- a) A limited number of parties have expressed interest in the Company assets;
 - b) None of the bids received at the Bid Deadline satisfied the requirements for a Qualified Bid pursuant to the SISP but subsequently and upon request from the Receiver, Tallahassee brought its bid into compliance and/or otherwise accepted the Receiver's proposed amendments, whereas the other bidders did not;
 - c) The Tallahassee PSA will avoid having a number of oil and gas properties potentially entering the orphan well fund;
 - d) The Tallahassee PSA includes a cash purchase price which will offset certain of the costs of the receivership incurred in completion of the sale;
 - e) The AER is supportive of the Tallahassee PSA; and
 - f) The Receiver will have sufficient resources to fund costs related to closing the Tallahassee PSA.
35. The AER retains discretion to approve the transfer of any applicable licences, permits and approval pursuant to section 24 of the OGCA and section 18 of the Pipeline Act. Accordingly, nothing in this report shall fetter that discretion or constitute any "pre-approval" of any transfers required under AER regulatory requirements.
36. Details of the bids received and the PSA are contained in the Receiver's First Confidential Supplemental Report to this Report (the "**First Confidential Supplemental Report**"). The Receiver will seek a sealing order in connection with the First Confidential Supplemental Report as it contains commercially sensitive information, including the deposit and information concerning the allocation of the proposed purchase price of the Company assets. Disclosure of the information contained in the Confidential Supplement to the Second Report could cause irreparable prejudice to creditors and other stakeholders in the event the transaction contemplated by the Tallahassee PSA does not close. If this

were to occur, the Company assets could be subject to further marketing and any ability to obtain the highest and best price would be severely compromised by the information contained in the First Confidential Supplemental Report entering the public domain. As such, the Receiver seeks a limited sealing order in connection to the First Confidential Supplemental Report.

37. Subsequent to the Receiver's acceptance of the Tallahassee PSA, an Amending Agreement to the Tallahassee PSA was executed, to take into account a CRA Joint Election by Tallahassee and the Receiver, and a related indemnification for the Receiver against any amounts arising from the election, as further described in the First Confidential Supplemental Report.

4. STATEMENT OF RECEIPTS AND DISBURSEMENTS

38. Below is the Receiver's interim receipts and disbursements for the period January 28, 2020 to June 17, 2020 (the "SRD"):

Interim Statement of Receipts and Disbursements	
January 28, 2020 to June 17, 2020	
	Amount (CAD \$)
Cash Receipts	
Production revenues	2,691,019
Opening cash balance	5,395,735
GST collections	135,862
Tallahassee PSA deposit	20,000
Landlord deposit refund	17,443
Interest	1,233
Total cash receipts	8,261,292
Cash disbursements	
Contractor and operational disbursements	(3,653,061)
Payroll	(740,677)
Insurance	(606,453)
GST paid	(177,062)
Rent	(95,793)
Utilities	(48,868)
Telephone, cable and internet	(43,214)
Office expenses	(26,435)
GST remitted	(17,611)
Legal fees	(714)
Bank fees	(375)
Total cash disbursements	(5,410,264.04)
Excess receipts over disbursements	2,851,028

39. Receipts primarily relate to the collection accounts receivable from production revenues from the producing Marlowe area assets. Terms of collection are approximately 25 days subsequent to the end of the production month.
40. The Receiver's disbursements during the receivership period primarily relate to the ongoing operations of the Company in support of the producing assets. This would include rent, payroll, contractors, insurance, and equipment repairs and maintenance, among other items. As the shut-in of the producing assets is now largely complete, ongoing disbursements will reduce significantly.
41. The Receiver and the Receiver's counsel have billed fees but unpaid fees in the amount of \$294,026 and \$139,969 respectively, for the period of January 28, 2020 to May 31, 2020, representing five

months of active and ongoing Company operations. A summary of the Unpaid Receivership Professional Fees is set out below:

Summary of Receivership Professional Fees			
Service Period	Fees and Disbursements		Total Amount
	Disbursements	GST (5%)	
KPMG Inc.			
January 28 - May 31, 2020	280,024	14,001	294,026
Total KPMG Inc.	280,024	14,001	294,026
Torys LLP			
January 28 - January 31, 2020	1,988	99	2,087
February 1 - February 28, 2020	40,269	2,008	42,277
March 1 - March 31, 2020	5,695	285	5,980
April 1 - April 30, 2020	41,462	2,070	43,532
May 1 - May 31, 2020	43,899	2,195	46,093
Total Torys LLP	133,312	6,657	139,969
Total Professional Fees	413,336	20,658	433,994

42. The Receiver is seeking approval of the Unpaid Receivership Professional Fees. Copies of the invoices described therein, including detailed time analysis, will be made available to the Court, if requested.
43. The Receiver is of the view that, in light of the nature, extent and value of the assets, and the Receiver's activities including: (a) the Receiver's operational activities since January 28, 2020; (b) the development and initiation of the SISF; (c) the drafting and negotiation of a PSA; (d) the shut-in of the producing assets; and (e) the liaising with the AER, the Unpaid Receivership Professional Fees are fair and reasonable.

5. RECEIVER'S RECOMMENDATIONS

44. The Receiver submits this Second Report, respectfully requesting that the Court:
- a) Approve the Second Report, the First Confidential Supplemental Report, and the activities of the Receiver as set out therein;
 - b) Approve the Tallahassee PSA;
 - c) Approve the SRD; and
 - d) Approve the Unpaid Receivership Professional Fees for the Receiver and the Receiver's counsel, Torys LLP, for the period of January 28, 2020 to May 31, 2020;

This Report is respectfully submitted this 6th day of July, 2020

KPMG Inc.

**In its capacity as Court-appointed Receiver of
Strategic Oil & Gas Ltd. and Strategic Transmission Ltd.
and not in its personal or corporate capacity**



Per: Neil Honess
Senior Vice President