

Clerk's stamp:

COURT FILE NUMBER	1501-12220
COURT	COURT OF QUEEN'S BENCH
JUDICIAL CENTRE	CALGARY
APPLICANT	ALBERTA TREASURY BRANCHES
RESPONDENTS	COGI LIMITED PARTNERSHIP, CANADIAN OIL & GAS INTERNATIONAL INC., CONSERVE OIL GROUP INC. AND CONSERVE OIL 1 st CORPORATION
DOCUMENT	<u>FOURTEENTH REPORT OF THE RECEIVER</u>

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT

Carole J. Hunter
DLA Piper (Canada) LLP
Barristers and Solicitors
1000 250 2 St. S.W.
Phone: 403.698-8782
Fax: 403-697-6600
Email: carole.hunter@dlapiper.com
File No.: 16155-00002

INTRODUCTION AND BACKGROUND

1. Pursuant to an October 26, 2015 Court of Queen's Bench of Alberta Order (the "**Receivership Order**"), MNP Ltd. (the "**Receiver**") was appointed as receiver and manager of COGI Limited Partnership ("**COGI LP**"), its general partner Canadian Oil & Gas International Inc. ("**COGI Inc.**") and Conserve Oil Group Inc. ("**Conserve**"). On November 10, 2015, pursuant to an Order of Justice P. R. Jeffrey, the Receiver's powers were expanded to include powers to manage a number of Conserve's subsidiaries.
2. On January 6, 2016, MNP was further appointed receiver and manager of the assets and undertakings of Conserve Oil 1st Corporation ("**COC1**") and together with COGI LP, COGI Inc. and Conserve, referred to herein as "**COGI**" or the "**Company**").
3. COGI LP is a limited partnership formed pursuant to the laws of the province of Alberta. COGI Inc. is the general partner of COGI LP. Conserve is a private company and the 100% shareholder of COGI Inc. as well as a number of other companies.
4. This is the Receiver's fourteenth report to the Court (the "**Fourteenth Report**"), which should be read in conjunction with the Receiver's prior Reports. Capitalized terms not defined herein are as defined in the prior Reports or the Receivership Order. All references to currency are in Canadian dollars unless otherwise stated.
5. In preparing the Fourteenth Report and making comments herein, the Receiver has been provided with, and has relied upon, certain unaudited, draft and/or internal financial information of COGI, the books and records of COGI, and information from other third-party sources (collectively, the "**Information**"). 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 generally accepted assurance standards or other standards established by the Chartered Professional Accountants of Canada.
6. Copies of the relevant documents relating to these proceedings are available on the Receiver's website at www.mnpdebt.ca/cogi.

PURPOSE OF THE REPORT

7. The purpose of the Fourteenth Report is to provide this Honourable Court with an update as to activities since the date its last report, including the Receiver's comments and information in respect of:

- (a) an application for the approval of an assignment of certain assets of COC1; and
- (b) an application for a sealing order with respect to the Confidential Supplement to the Fourteenth Report (the "**Confidential Supplement**").

THE ASSETS OF COC1

8. The principal assets of COC1 include the following:
- (a) a demand promissory note from Treeosco Inc. ("**Treeosco**") in the principal amount of \$7,127,415.33 in respect of certain indebtedness owing by Treeosco to Toscana L.P., which was subsequently assigned to COC1 through its amalgamation predecessors, Conserve Oil POC Growth II Limited Partnership, Conserve Oil POC Natural Gas I Limited Partnership, Conserve Oil 6th Corporation and Conserve Oil 7th Corporation (the "**Indebtedness**");
 - (b) a general security agreement granted by Treeosco in respect of the Indebtedness;
 - (c) a guarantee from Mustus Energy Ltd. ("**Mustus**") in respect of the Indebtedness;
 - (d) a general security agreement granted by Mustus in respect of the Indebtedness; and
 - (e) a collateral mortgage granted by Mustus in respect of the Indebtedness (the "**Mortgage**") which is registered against certain parcels of land located in MacKenzie County, Alberta (the "**Lands**"). The Mortgage was registered at the Land Titles Office of Alberta on May 14, 2015 as instrument number 152 142 259 in the principal amount of \$7,127,415.33.
- (collectively, the "**COC1 Assets**")
9. The Lands are undeveloped and contain two biomass sites known as La Crete 1 and La Crete 2. The value of the Lands is dependent on the continued development of the two biomass sites.
10. On January 6, 2016, the same date as the receivership proceedings of COC1 commenced, Mustus sold the Lands to Power Wood Canada Corp. ("**PCC**"), a developer of biomass projects. PCC provided Mustus with a \$20,000,000 promissory note to be paid six months after closing of the transaction and Mustus registered a mortgage on the Lands in the principal amount of \$20,000,000. The deadline for PCC to repay Mustus the amount owing under the \$20,000,000 promissory note has been extended on a number of occasions.

INDEBTEDNESS AND FORBEARANCE

11. On June 7, 2017, the Receiver issued demand letters and notices of intention to enforce security under section 244(1) of the *Bankruptcy and Insolvency Act* to Treeosco and Mustus. At that time, the amount owing to COC1 was \$8,752,540.37, inclusive of interest.
12. On June 14, 2017, the Receiver, Mustus and Treeosco entered into a forbearance agreement pursuant to which the Receiver agreed to forbear from enforcing the Mortgage until December 31, 2017 to allow Mustus and Treeosco to develop a plan to repay the Indebtedness. The repayment plan was to be submitted no later than August 31, 2017 (which was later extended to October 31, 2017) with repayment in full by December 31, 2017. The parties also agreed that a \$1,000,000 forbearance fee would be added to the Indebtedness (the "**Revised Indebtedness**").
13. Mustus and Treeosco did not provide a repayment plan to the Receiver by October 31, 2017 and did not repay the Revised Indebtedness by December 31, 2017.
14. Since December 31, 2017, the Receiver has continued to forbear from enforcing the Mortgage and the remaining security on a day-to-day basis while it considered the best manner to realize on the COC1 Assets. The realization process is complicated by the following factors:
 - (a) the value of the Lands is dependent on their continued development; and
 - (b) there is a builder's lien and certificate of lis pendens registered on title to the Lands in the amount of \$3,157,538. The lien was registered on October 14, 2014, prior in time to the registration of the Mortgage.

ASSIGNMENT OF DEBT AND SECURITY

15. To provide PCC with the time necessary to develop the biomass projects and, in an attempt to prevent the Receiver from exercising its enforcement rights in respect of the Mortgage over the Lands, Powerwood Limited ("**Powerwood**") (the parent company of PCC) approached the Receiver in the Spring of 2018 in respect of a transaction to take an assignment of the COC1 Assets.
16. The Receiver and Powerwood have negotiated an assignment of debt and security agreement in respect of the COC1 Assets (the "**Powerwood Agreement**"). The Receiver is satisfied that the transaction contemplated by the Powerwood Agreement (the "**Transaction**") represents a reasonable and satisfactory offer for the COC1 Assets.
17. COC1's secured creditor, who has the only economic interest in COC1's assets, is in favour of the Powerwood Agreement.

18. A redacted copy of the Powerwood Agreement attached hereto as **Appendix "A"**.

SEALING ORDER

19. An unredacted copy of the Powerwood Agreement attached to the Confidential Supplement as Appendix "A".
20. With a view to protecting the financial information in respect of the Powerwood Agreement, the Receiver respectfully requests and recommends that the Confidential Supplement be sealed pending further order of this Honourable Court.

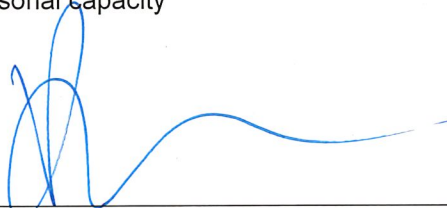
CONCLUSION

21. Based upon the foregoing, the Receiver seeks the Court's approval for the following:
- (a) an Order approving the Powerwood Agreement; and
 - (b) an order sealing the Confidential Supplement to the Fourteenth Report.

All of which is respectfully submitted this 19th day of February, 2019.

MNP Ltd.

In its capacity as Receiver-Manager of
COGI Limited Partnership, Canadian Oil & Gas International
Inc., Conserve Oil Group Inc. and Conserve Oil 1st Corporation
and not in its personal capacity



Per: _____
Victor P. Kroeger, CIRP, LIT, CPA, CA, CFE
Senior Vice President