



Clerk's stamp:

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COURT	COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE	CALGARY
APPLICANT	ALBERTA TREASURY BRANCHES
RESPONDENTS	COGI LIMITED PARTNERSHIP, CANADIAN OIL & GAS INTERNATIONAL INC., AND CONSERVE OIL GROUP INC.
DOCUMENT	<u>THIRD REPORT OF THE RECEIVER</u>
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	Brian Davison, Q.C. DLA Piper (Canada) LLP Barristers and Solicitors 1000 250 2 St. S.W. Phone: 403-294-3590 Fax: 403-213-4481 File No.: 16155-00002



INTRODUCTION AND BACKGROUND

1. MNP Ltd. was appointed as Receiver and Manager (the "**Receiver**") of COGI Limited Partnership ("**COGI LP**"), Canadian Oil & Gas International Inc. ("**COGI Inc.**") and Conserve Oil Group Inc. ("**Conserve**") (collectively "**COGI**" or the "**Company**") pursuant to an October 26, 2015 Alberta Court of Queen's Bench Order (the "**Receivership Order**").
2. MNP Ltd. was further appointed Receiver of the assets and undertakings of Conserve Oil 1st Corporation ("**COC1**") on January 6, 2016. We understand that the receivership appointment related to COC1 is currently under appeal.
3. COGI LP is a limited partnership pursuant to the laws of the province of Alberta. COGI Inc. is the general partner of COGI LP. The limited partners of COGI LP represent between 14,000 and 18,000 German investors.
4. The only business of COGI Inc. is as general partner of COGI LP and to hold title to various assets for the benefit of COGI LP.
5. Conserve is a private company and the owner of all of the issued and outstanding voting shares of COGI Inc. as well as a number of other companies.
6. COGI is part of a complicated corporate structure with many inter-related corporations with common directors, officers and shareholders. The Receiver has had difficulty accessing corporate documents, computer books and minute books, as some records are missing or incomplete and corporate filings have not been updated regularly.
7. The Receiver filed its First Report on November 6, 2015 and its Second Report on November 27, 2015 (collectively referred to as the "**Receiver's Prior Reports**"). This is the Receiver's third report to the Court (the "**Third Report**"), which should be read in conjunction with the Receiver's Prior Reports. Capitalized terms not defined in the Third Report are as defined in the Receiver's Prior Reports or the Receivership Order. All references to currency are in Canadian dollars unless otherwise stated.
8. In preparing the Third 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.
9. 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

10. The purpose of the Third Report is to provide this Honourable Court with an update with respect to the:
 - i. General Activities of the Receiver;
 - ii. Steps to a Sales Process;
 - iii. Receivership Receipts and Disbursements Statement; and

- iv. Request for an increase in the Receiver's borrowing powers granted under the Receivership Order.

ACTIVITIES OF THE RECEIVER – GENERAL UPDATE

11. Since its appointment, the Receiver has carried on various investigations into the affairs of the Companies, has carried on the operations of the Companies, and has incurred operational, administrative and overhead expenses as a result.
12. The Receiver has completed a number of activities since its appointment, including but not limited to:
 - i) Identify Company notes receivable and accounts receivable, and initiate realization and legal demand procedures on same;
 - ii) Identify real property held in trust for COGI, and initiate listing and offering for sale process on this land;
 - iii) Corresponding with creditors and other interested parties to the Receivership, including meeting directly with representatives of the German investors of COGI LP;
 - iv) Completing required GST and income tax return reporting;
 - v) Ongoing review for potential preference or undervalued transactions; and
 - vi) Other activities as described in the Receiver's Prior Reports.
13. The Receiver has worked with Niven Fischer to complete the following activities with respect to the operations of the oil and gas assets of the Company:
 - i) The office and field staff were interviewed and the operations management team was assembled, which included Niven Fischer and Receiver staff;
 - ii) Niven Fischer and the Receiver met with contractors, vendor, and suppliers to negotiate ongoing support and service under the receivership;
 - iii) Niven Fischer and the Receiver identified and took control of the COGI oil and gas operated assets, and set up administration regarding the non-operated assets. The COGI operated assets include 991 wells, 86 facilities, and 749 pipelines. The non-operated COGI assets include 1,380 wells;
 - iv) The Receiver conducted a review of the existing COGI head office lease agreement to current rental market pricing and space requirements. The Receiver identified an alternate location, negotiated a new head office lease at materially lower monthly cost, and then arranged the head office move;
 - v) Niven Fischer rebuilt the emergency response plan for COGI, which was several years out of date;
 - vi) Niven Fischer developed a plan to deal with approximately 1,000 issues over the next year related to pressure vessels that were not compliant with Alberta Boilers branch;
 - vii) The Alberta Energy Regulator ("AER") have inspected 46 COGI sites and identified deficiencies. The Niven Fischer field staff is required to address the deficiencies and

report back to the AER. The field foremen are spending up to 30% of their time addressing AER inspections;

- viii) One of COGI's partners challenged for operatorship of certain wells through the Court. The Receiver and Niven Fischer have reviewed options to transfer licenses with the AER. It was determined that the appropriate next step was shutting - in production of two of the joint fields due to low gas prices and having no agreement with the partner related to sharing of the operating costs. Ongoing negotiations are being conducted with this COGI partner;
- ix) The City of Red Deer has advised the Receiver that it is intending to build a school near an abandoned COGI facility and well site (the "Abandoned Site") that may not have been fully remediated on the surface prior to the Receivership. The Receiver and Niven Fischer have held ongoing discussions and correspondence with the City of Red Deer regarding the status of the Abandoned Site and whether the Receiver is required to participate in the on-going remediation program;
- x) The Receiver and Niven Fischer are making ongoing efforts to recover approximately \$3,000,000 in accounts receivable related to the operations of the COGI oil and gas assets. Significant time has been required to reconcile the pre receivership information, determine joint venture interest holdings, review claims of offset of payables and receivables, and negotiate with the various accounts receivable (some of which are also in financial hardship or receivership).

DEVELOPMENT OF A SALE PROCESS

- 14. As a result of the Company's low Liability Management Rating ("LMR") with the AER, the Receiver understands that a sales process with respect to the COGI oil and gas assets has not been supported to date as the AER would not transfer the well licenses.
- 15. Many of the Company's oil and gas wells have been "shut in" both pre Receivership and post Receivership due to low pricing, environmental issues, and other factors, which has further reduced the Company's LMR.
- 16. The Receiver understands that a recent decision of the Court of the Queen's Bench of Alberta may influence the Receiver's ability to commence a sales process. However, we are further advised that this decision has been appealed by the AER. At the time of this report, it is not clear to the Receiver if a sale process related to the COGI oil and gas assets is supported at this time.
- 17. The Receiver is developing a potential well reactivation program that could see some of the Company's non-operating wells brought back to producing status over the next several months. The potential impact would be an improvement to cash flow, increase the value of the Company's oil & gas reserves and positively impact the Company's LMR rating which may support a sales process to be conducted on the COGI oil and gas assets.
- 18. The initial stage of the well reactivation program (the "Initial Reactivation Program") is being developed to show that that a broader reactivation program would be effective in achieving a LMR rating sufficient to support a sales process for the COGI oil and gas assets.

RECEIVERSHIP RECEIPTS AND DISBURSEMENTS

- 19. A copy of the Receiver's Interim Statement of Receipts and Disbursements ("**Interim R&D**") for the period of October 26, 2015 to April 30, 2016 is attached as Exhibit "A".
- 20. Total revenue from the operation of the oil and gas assets to April 30, 2016 is approximately \$7.2 million, as shown on Schedule 1 to the Interim R&D. Additional material receipts include \$2 million

in borrowing under the Receiver's Certificate #1, and a further approximate \$1.9 million in realizations on COGI assets by the Receiver.

21. Total direct operating expenses to April 30, 2016 are approximately \$6.7 million, as shown on Schedule 1 to the Interim R&D. Additional disbursements to April 30, 2016 include approximately \$1.2 million to Niven Fischer for operating the oil and gas assets, and approximately \$1.1 million for legal and Receiver's fees. Other material disbursements include payments to employees for pre receivership payroll outstanding, payment of the CCAA Administration Charge, and payments to Arrow Point and POA for their share of collected revenue.
22. The Receiver held approximately \$1.3 million in its receivership trust accounts ("**Cash on Hand**") as of April 30, 2016.
23. The Receiver is in the process of finalizing its accounts for May 2016. At the time of this report, it appears that the receivership disbursements exceeded receipts by approximately \$700,000 in May 2016.
24. The Receiver has estimated the receipts and disbursements under the COGI receivership for the period of June 1, 2016 to August 31, 2016. Based on current revenue and expense assumptions for the receivership, the receivership disbursements will exceed its receipts by approximately \$550,000 each month given the current status quo level of operations. Accordingly, the Receiver projects that the Cash on Hand will be required to cover the COGI receivership operations for May 2016 and June 2016, with no funds expected to be remaining in the Receiver's trust accounts as of July 1, 2016.
25. The Receiver requires additional funding to continue operations of the COGI oil and gas assets, and continuing efforts to realize on the balance of the COGI assets. Further, the Receiver intends to conduct the Initial Reactivation Program in an effort to be in a position to initiate a sales process of the COGI oil and gas assets. The Receiver is of the view that an additional \$3,000,000 of funding is required in order to cover the expected receivership operations for June 1st to August 31, 2016, which includes the Initial Reactivation Program.
26. The Receiver has discussed the required additional funding with the Alberta Treasury Branch ("ATB"), as lender under the Receiver Certificates and priority Secured Creditor. We understand that ATB is in favour of the increase in borrowing powers of the Receiver, as discussed above.

CONCLUSION

27. Based upon the foregoing the Receiver seeks the Court's approval for the following:
 - i) Approving the activities of the Receiver to date;
 - ii) An order increasing the Receiver's borrowing powers from \$2,000,000 to \$5,000,000.

All of which is respectfully submitted this 3rd day of June, 2016.

MNP Ltd.

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

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

COGI Limited Partnership, Canadian Oil & Gas International Inc. and Conserve Oil Group Inc. - In Receivership

Interim Statement of Receipts and Disbursements
For the Period October 26, 2015 to April 30, 2016

	October 26/15 March 31/16 \$	Activity During Period \$	October 26/15 April 30/16 \$
Receipts			
Net Receipts from Operations	724,410.03	(260,744.99)	463,665.04
Receiver's Certificate	2,000,000.00	-	2,000,000.00
Cash in Bank	1,470,053.01	21,444.37	1,491,497.38
Interest Income	957.61	80.85	1,038.46
Rental Income	72,040.65	(651.35)	71,389.30
Accounts Receivable	197,651.78	(1,510.42)	196,141.36
Sale of Assets	380.95	-	380.95
Miscellaneous Refunds	4,511.90	-	4,511.90
GST Collected (Net)	111,966.79	9,528.09	121,494.88
Total Receipts	4,581,972.72	(231,853.45)	4,350,119.27
Disbursements			
Bank Charges	705.02	98.95	803.97
Filing Fees	210.00	370.00	580.00
Interest Expense	-	12,835.87	12,835.87
Change of locks	247.50	-	247.50
Pre- Receivership Payroll	64,404.50	-	64,404.50
Legal Fees and Disbursements	538,240.29	50,003.76	588,244.05
Consulting Services - Niven Fischer Energy Services Inc.	948,528.05	264,257.13	1,212,785.18
Receiver's Fees	351,986.20	133,132.92	485,119.12
CCAA Administration Charge	200,000.00	-	200,000.00
Payments to Arrow Point and POA	435,175.48	-	435,175.48
Funds transferred to bky estate	1,238.86	41,561.85	42,800.71
Total Disbursements	2,540,735.90	502,260.48	3,042,996.38
Excess of Receipts over Disbursements	2,041,236.82	(734,113.93)	1,307,122.89
Represented By:			
General Bank Account	(301,282.64)	382,367.40	81,084.76
Funds Held in Interest Bearing Account	2,342,519.46	(1,116,481.33)	1,226,038.13
	2,041,236.82	(734,113.93)	1,307,122.89