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COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

PLAINTIFF ORPHAN WELL ASSOCIATION

DEFENDENT HOUSTON OIL & GAS LTD.

IN THE MATTER OF THE RECEIVERSHIP OF
HOUSTON OIL & GAS LTD.

DOCUMENT **FIRST REPORT OF THE RECEIVER,
HARDIE & KELLY INC.
DECEMBER 2, 2019**

ADDRESS FOR
SERVICE AND
CONTACT
INFORMATION OF
PARTY FILING THIS
DOCUMENT

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**FIRST REPORT OF THE RECEIVER
HARDIE & KELLY INC.
NOVEMBER 30, 2019**

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INTRODUCTION

1. On October 29, 2019 (the “**Receivership Date**”), the Orphan Well Association (“**OWA**”) made an application to the Court of Queen’s Bench of Alberta (the “**Court**”) for the appointment of an interim receiver and receiver and manager (the “**Receiver**”) of the current and future assets, undertakings and property of Houston Oil & Gas Ltd. (“**Houston**” or the “**Company**”), pursuant to which the Court granted an Order (the “**Receivership Order**”) appointing Hardie & Kelly Inc. (“**H&K**”) as the Receiver of Houston.
2. The purpose of this report (the “**First Report**”) is to provide the Court with:
 - a. Background information in respect of the Company;
 - b. An account of the initial activities of the Receiver since the Receivership Date;
 - c. Details of a royalty agreement between Houston and an apparent related party and the Receiver’s intended course of action thereon;
 - d. The Receiver’s intended plan of action as it relates to the Company’s oil and gas interests;
 - e. Details regarding the Receiver’s recommended proposed engagement of Sayer Energy Advisors (“**Sayer**”) as its sales advisor, subject to approval by this Court;
 - f. Details of the sales process proposed by the Receiver and the Receiver’s recommendation thereon; and
 - g. The Receiver’s Statement of Receipts and Disbursements since the Receivership Date.

TERMS OF REFERENCE

3. In preparing this First Report, the Receiver has relied upon unaudited financial information, a discussion with the former principal of the Company, discussions with former Company contract staff, available books and records of the Company, information provided by the Receiver's legal counsel and discussions with and information provided by Veracity Energy Services Inc. ("**Veracity**"), the Receiver's operational consultants (collectively referred to as the "**Information**"). The Receiver has not performed an audit, review or otherwise attempted to verify the accuracy or completeness of the Information.

BACKGROUND

History

4. Houston is a private oil and gas exploration and production company based in Calgary, Alberta. A recent search (the "**Houston Corporate Search**") of the Alberta corporate registration system (the "**Corporate Registry**"), a copy of which is attached as **Appendix "A"** of this First Report, indicates that Mr. Randy Ruggles is the 100% shareholder and sole director of Houston. The Receiver understands that Mr. Ruggles was responsible for managing Houston's business and operations.
5. Houston has various oil and gas interests in Alberta, substantially comprised of natural gas wells located in South-eastern Alberta in the Herronton, Countess, Shouldice, Carmangay, Eyremore, and Retlaw fields and in North-western Alberta in the Thorhild, Nestow, and Pine Creek fields.
6. Houston holds approximately 1,426 well licenses, 73 facility licenses and 269 pipeline licenses. As of November 2, 2019, Houston's Liability Management Rating with the Alberta Energy Regulator (the "**AER**") was 0.76. The AER's most recent estimate of Houston's total deemed liabilities associated with its assets is approximately \$81.5 Million.

7. The Receiver understands that on August 28, 2019, Houston advised the AER that due to its financial situation, it intended to shut-in all of its operations.
8. On August 30, 2019, the AER issued a suspension order for Houston's sour gas designated well sites requiring Houston to seal, lock and chain the respective wells by September 20, 2019.
9. On October 2, 2019, the AER issued a further order requiring Houston to abandon its remaining wells, facilities and pipelines and shut in its oil and gas facilities by October 16, 2019. Houston subsequently confirmed to the AER that it was unable to comply with the order.

Employees

10. The Receiver understands that Houston did not have any employees and carried on its operations utilizing consultants/contractors ("**Houston Personnel**"). As of the Receivership Date, there was no longer any Houston Personnel working for Houston or undertaking any responsibility for Houston's assets.

Creditors

11. Given the incomplete state of the books and records available to the Receiver, the Receiver is unable to ascertain a meaningful estimate of the total liabilities and extent of actual creditors of the Company.
12. Based on information available to date, the Receiver is not aware of the existence of a secured creditor holding a first charge security interest over all of the Company's assets.

INITIAL ACTIVITIES OF THE RECEIVER

13. Since the Receivership Date, the Receiver's activities have included, but are not limited to, the following:
 - a. On the morning of October 30, 2019, the Receiver and Veracity held a conference call with Mr. Randy Ruggles, the 100% shareholder and sole director of Houston, with a view to obtaining information in respect of Houston including but not limited to:

- Status of wells;
- Location of physical and electronic records;
- Bank account; and
- Contact numbers for Houston Personnel.

Other than advising that the wells had been shut-in by Houston upon the cessation of active operations, Mr. Ruggles was generally not prepared to provide answers to most of the Receiver's questions.

b. The Receiver attended at Houston's office premises in Calgary (the "**Premises**") with a view to attempting to source the Company's records. The landlord advised that the Premises had been abandoned for approximately two months; however, records remained on site. Arrangements were made with the landlord to access and secure the Premises. The Receiver's observations from its review of the Premises were as follows:

- Land and well files appear to be reasonably maintained;
- Accounting records do not appear to be up to date;
- Bank statements were not available; and
- All but one computer had been removed.

c. Through its independent sources, Veracity was able to contact Houston's former field superintendent and contract field operators to discuss the status of the wells. Based on its initial investigation, Veracity ascertained that approximately 50 of the wells had in fact not been shut-in. Veracity subsequently arranged to have these wells shut-in and also confirmed that those wells assessed as potential safety risks, being oil wells and those wells designated as having a Hydrogen Sulphide ("sour gas") component, were properly shut-in. Spot checks of other wells designated as "low risk" were and continue to be undertaken.

- d. Arrangements were made for the reinstatement and redirection of Houston's emergency response number to Veracity as the service was not functional as of the Receivership Date.
- e. Veracity confirmed Houston had no actual field offices. One of the batteries was used as an informal field office but no documents of any use were located on site.
- f. Upon reviewing the records located on the Premises, the Receiver ascertained the contact information for Houston's insurance broker and contacted the broker to confirm the status of insurance. The Receiver was advised that Houston had cancelled all insurance coverage in September in conjunction with ceasing active operations. After much effort, the Receiver arranged for the reinstatement of general liability, pollution and control of well insurance coverage. The Receiver was advised by the broker that Houston previously only had such coverage in respect of the wells; however, the Receiver has arranged to extend the coverage to include pipelines and facilities. The Receiver is also currently sourcing coverage for property values which the Receiver understands Houston did not previously have in place.
- g. From a review of the available records on the Premises, the Receiver was able to ascertain that Houston held its operating bank account with CIBC. The Receiver arranged for the account to be frozen and requested that any residual funds to be forwarded to the Receiver. Although funds have not yet been forwarded to the Receiver, CIBC advised that there is only a nominal amount remaining in the account. The Receiver has also requested historical bank statements from CIBC as none was located on the Premises. Copies have not been received as of the date of this First Report.
- h. The Receiver and Veracity have responded to and continue to address numerous inquiries from land owners, working interest partners and parties interested in acquiring certain of Houston's assets.

- i. Veracity is in the process of arranging for the trucking and sale of approximately 950 realizable barrels of inventory that was located on sites.
- j. The Receiver and Veracity met with the AER to provide an update as to the status of the initial steps of the Receiver as it relates to the care and custody of the properties and the proposed plan of action. Veracity continues to liaise with the AER to address any field related concerns as they arise.
- k. Arrangements were made to reinstate software access to Qbyte, Metrix and CS Explorer to access historical accounting and production data.
- l. A small number of nominal uncashed cheques payable to Houston were located and deposited into the Receiver's trust account.
- m. The Receiver issued letters to parties that the AER was aware might owe money to Houston, advising of the receivership and requesting payment be made to the Receiver; however, all responses to date indicate that there are either no funds due to Houston or that parties are claiming a right of set-off of amounts owed by Houston.
- n. The Receiver prepared and issued the *Notice of Receiver and Manager* and *Receiver and Manager's Statement* as prescribed by the *Bankruptcy and Insolvency Act*. In light of the incomplete state of the books and records and an inability to access up to date financial statements and an accounts payable ledger, the Receiver issued the *Notice of Receiver* to in excess of 2,700 parties that were located from a vendor list the Receiver was able to access.
- o. Arrangements were made to redirect Houston's mail from the Premises to Veracity's office.
- p. The Receiver met with Sayer Energy Advisors ("**Sayer**") and Veracity to discuss and formulate the parameters of a proposed sales process which is discussed in greater detail later in this First Report.

ROYALTY AGREEMENT

14. From a review of available records, it was discovered that on April 1, 2018, Houston appears to have entered into a royalty agreement with an apparent related party, Pioneer Oil Well Service Corp. (“**Pioneer**”), whereby Houston agreed to pay a 5% gross overriding royalty, with no deductions, on all petroleum substances produced on Houston’s lands from its wells (the “**GORR**”).
15. A recent search (the “**Pioneer Corporate Search**”) of the Corporate Registry, a copy of which is attached as **Appendix “B”** of this First Report, indicates that the 100% shareholder and sole director of Pioneer is Ms. Esther Ruggles. We note that Ms. Ruggles listed address on the Pioneer Corporate Search is the same as Mr. Ruggles’ address listed on the Houston Corporate Search found at **Appendix “A”**.
16. For all intents and purposes, the GORR appears to have the effect of granting a 5% royalty on all of Houston’s production such that in most instances it would have an inherent negative effect on an assessment of the value of any of Houston’s oil and gas interests.
17. The Receiver’s legal counsel has reviewed the GORR and is of the view that the GORR is not an interest in land but instead a contractual interest in production revenues granted for no apparent consideration. Since the GORR is not an interest in land, but a contractual interest, the Receiver, in conjunction with its legal counsel, intends to disclaim the GORR agreement.

ADMINISTRATION STRATEGY

18. In light of Houston having shut-in its operations in advance of the Receivership Date and the lack of funds available to the Receiver to manage operations, the Receiver is not at this time intending on operating Houston’s assets.
19. Notwithstanding the above, the Receiver in conjunction with its legal counsel and Veracity is reviewing a request by a working interest partner to assume operatorship of certain properties.

20. Given the lack of any liquid assets being available to the Receiver, the Receiver is relying on funding advanced by the OWA by way of Receiver Certificates to satisfy the expenses incurred by the Receiver in advance of receipt of any sales proceeds. With a view to limiting administration costs, the Receiver intends to launch a sales process as soon as reasonably practical to attempt to sell and or transfer any of Houston's assets to responsible third parties. Once the sales process concludes, the Receiver anticipates it will be discharged as against any unsold residual assets, which assets will eventually become the responsibility of the OWA to decommission and reclaim.

SALES PROCESS

Sales Advisor

21. Paragraphs 3(k) and 3(l) of the Receivership Order authorize the Receiver to market and sell any and all of Houston's assets. As mentioned earlier in this First Report, it is the Receiver's intention to do so in a sales process.
22. The Receiver is of the opinion that the most appropriate method of exposing Houston's oil and gas properties to the market and soliciting offers is by engaging a professional sales agent specializing in the marketing of oil and gas properties. A professional sales agent has the ability to reach a broader pool of potential bidders than the Receiver, and will be able to offer assistance to the Receiver with the preparation of technical marketing material to attract bids.
23. The Receiver has, subject to Court approval, entered into an agreement with Sayer to act as its sales advisor (the "**Sales Advisor**") to coordinate the marketing efforts on behalf of the Receiver. A copy of the proposed engagement letter (the "**Engagement Letter**") with Sayer is being provided to the Court concurrently with this First Report as **Confidential Appendix "C"**, which the Receiver is recommending be sealed by the Court until three months after the Receiver's discharge. The Receiver is seeking a sealing order with respect to the Engagement Letter because Sayer has requested the Receiver to maintain the confidentiality of its commercially sensitive market data for as long as reasonably practicable.

24. In light of the desire to limit costs given the funding limitations in this receivership, the Receiver has not incurred the expense of soliciting proposals from multiple sales advisors. Sayer is well known in the local industry and specializes in coordinating disposition programs in the oil and gas industry and has significant experience working on insolvency engagements. Sayer has worked on engagements with H&K and in conjunction with Veracity in the past in an efficient and effective manner. Both the Receiver and the OWA are satisfied that the terms of the Engagement Letter are commercially reasonable in the circumstances.
25. The Receiver will be seeking this Court's approval to retain Sayer as the Sales Advisor pursuant to the terms of the Engagement Letter, including the Receiver's payment of amounts incurred pursuant to the Engagement Letter.

Sale Solicitation Process

26. The proposed sale solicitation process (the "SSP") is attached is as **Appendix "D"**, the salient features of which are summarized as follows:
 - a. In light of the upcoming Christmas and New Year holiday season, the intention is that the SSP will not officially launch until January 10, 2020.
 - b. Assets are to be offered for sale on an "*as-is, where-is*" basis with no representations or warranties to be provided by the Receiver. To the extent permitted by law and this Court, the property will be sold free and clear of all encumbrances. Any valid encumbrances will instead attach to the net proceeds of a successful sale of the property pursuant to an approval and vesting order made by the Court upon application by the Receiver for approval of a sale agreement;
 - c. The Sales Advisor will prepare marketing materials, including a non-confidential teaser letter to be posted on the Receiver's and the Sales Advisor's website, as well as to be sent directly to the Sales Advisor's database of purchasers and to any parties who have expressed interest in Houston's assets. Information regarding the Sales Process will also be published in the *Calgary Herald* and the *BOE Report*;

- d. The Sales Advisor, with the assistance of the Receiver and Veracity, will prepare a private data room containing detailed confidential information regarding Houston's assets.
- e. Prospective purchasers will be asked to sign a non-disclosure agreement in order to obtain additional information regarding the SSP and Houston's assets and access to the private data room upon request. To the extent that prospective purchasers who have signed a non-disclosure agreement request further information to assist in their due diligence, the Sales Advisor will provide such information as the Receiver and the Sales Advisor deem appropriate;
- f. Prospective purchasers wishing to make a bid for all or part of Houston's properties will be required to provide non-binding letters of intent by February 14, 2020 (the "**Phase 1 Bid Deadline**").
- g. The Receiver will review all bids received by the Phase 1 Bid Deadline with the Sales Advisor and any other relevant parties to assess whether it wishes to pursue a binding offer with any party. The Receiver will notify such bidder(s) (the "**Qualified Bidders**") that they are required to do the following by March 6, 2020 (the "**Final Bid Deadline**"):
 - i. Submit a binding offer in the form of a fully executed purchase and sale agreement (the "**PSA**"), in a form acceptable to the Receiver;
 - ii. The offer shall not be conditional on further due diligence;
 - iii. Provide a staged deposit equal to 10% of the offer price;
 - iv. If applicable, provide an allocation of the offer amount between the specific properties included in the offer; and
 - v. Provide confirmation that the bidder is a licensee in good standing with AER, or proof that it has or will meet the requirements to become a licensee in good standing.

- h. Bids which meet the above requirements, or where any non-compliance has been waived by the Receiver, will be considered qualified final bids (“**Qualified Phase 2 Bids**”). The Receiver will review Qualified Phase 2 Bids with the Sales Advisor and other relevant parties, to assess whether to accept or reject any Qualified Phase 2 Bid as a successful bid (“**Successful Bids**”). In the event several competitive Qualified Phase 2 Bids are received, the Receiver reserves the right to request that the bidders revisit their bids; and
- i. The Receiver will apply to the Court for an order approving the PSA(s) in respect of Successful Bids and an order vesting title to the relevant properties to the purchaser(s) upon entering into all necessary agreements with the purchaser(s).
27. The following represents the proposed timeline of the SSP, subject to amendment by the Receiver in its discretion in consultation with the Sales Advisor, acting reasonably:

December 12, 2019	Seek Court approval of the SSP
December 13, 2019 – January 9, 2020	Compile information, establish electronic data room and prepare marketing materials
January 10, 2020	Launch Sales Process including contacting interested parties, distributing teaser, placing advertisements in <i>BOE Report</i> and <i>Calgary Herald</i> , compiling NDA’s, responding to requests for information and facilitating due diligence meetings and calls
February 14, 2020	Phase 1 Bid Deadline - 12:00 p.m. Calgary time
February 15 – March 5, 2020	Review initial bids, select and notify Qualified Bidders and facilitate final due diligence
March 6, 2020	Final Bid Deadline - 12:00 p.m. Calgary time
March 7 – April 30, 2020	Selection of Successful Bid(s), finalize Purchase and Sale Agreement(s), Court approval(s), close transactions

STATEMENT OF RECEIPTS AND DISBURSEMENTS

28. Attached as **Appendix “E”** is a copy of the Receiver’s Statement of Receipts and Disbursements as at November 30, 2019 (the “**R&D**”) indicating the Receiver maintains only approximately \$12,000 in its operational trust account.
29. Pursuant to Paragraph 21 of the Receivership Order, the Receiver has been authorized to borrow up to \$5,000,000, with a charge against Houston’s assets. As noted on the R&D, the Receiver has to date borrowed \$150,000 from the OWA by way of the issuance of a Receiver Certificate. Approximately \$132,000 of the funds was utilized to pay the premiums associated with arranging for general liability, pollution and control of well insurance coverage.

RECOMMENDATIONS

30. For the reasons as set out in this First Report, the Receiver respectfully requests and recommends the Court approve the following:
- a. The engagement of Sayer as the Sales Advisor and the Engagement Letter and the sealing of **Confidential Appendix “C”** to the First Report which contains a copy of the Engagement Letter; and
 - b. The proposed SSP.

All of which is respectfully submitted this 30th day of November 2019.

Hardie & Kelly Inc., in its capacity as
Receiver and Manager of Houston Oil & Gas Ltd.
and not in its personal capacity

Per:



Marc Kelly
Senior Vice President

APPENDIX “A”

Government Historical Corporation/Non-Profit of Alberta ■ Search

Corporate Registration System

Historical Date: 2019/10/30
Date of Search: 2019/11/28
Time of Search: 11:08 AM
Search provided by: BORDEN LADNER GERVAIS LLP
Service Request Number: 32099366
Customer Reference Number: 436743-000024

Corporate Access Number: 2019851597

Legal Entity Name: HOUSTON OIL & GAS LTD.

Legal Entity Status: Active

Alberta Corporation Type: Named Alberta Corporation

Method of Registration: Amalgamation

Registration Date: 2016/08/05 YYYY/MM/DD

Date of Last Status Change: 2018/10/24 YYYY/MM/DD

Registered Office:

Street: 53120A RANGE ROAD 13
City: PARKLAND COUNTY
Province: ALBERTA
Postal Code: T7Y 2T2

Directors:

Last Name: RUGGLES
First Name: RANDY
Street/Box Number: 53120A RANGE ROAD 13
City: PARKLAND COUNTY
Province: ALBERTA
Postal Code: T7Y 2T2

Voting Shareholders:

Last Name: RUGGLES
First Name: RANDY
Street: 53120A RANGE ROAD 13
City: PARKLAND COUNTY
Province: ALBERTA

Postal Code: T7Y 2T2

Percent Of Voting Shares: 100

Details From Current Articles:

The information in this legal entity table supersedes equivalent electronic attachments

Share Structure: THE ATTACHED SCHEDULE A IS INCORPORATED INTO AND FORMS PART OF THIS FORM.

Share Transfers Restrictions: THE ATTACHED SCHEDULE B IS INCORPORATED INTO AND FORMS PART OF THIS FORM.

Min Number Of Directors: 1

Max Number Of Directors: 10

Business Restricted To: NONE

Business Restricted From: NONE

Other Provisions: THE ATTACHED SCHEDULE C IS INCORPORATED INTO AND FORMS PART OF THIS FORM.

Other Information:

Amalgamation Predecessors:

Corporate Access Number	Legal Entity Name
2015958792	HOUSTON OIL & GAS LTD.
2018166377	GAS LITE ENERGY INC.

Last Annual Return Filed:

File Year	Date Filed (YYYY/MM/DD)
2018	2018/10/24

Outstanding Returns:

Annual returns are outstanding for the 2019 file year(s).

Filing History:

List Date (YYYY/MM/DD)	Type of Filing
2016/08/05	Amalgamate Alberta Corporation
2018/10/02	Status Changed to Start for Failure to File Annual Returns

2018/10/24

Enter Annual Returns for Alberta and Extra-Provincial Corp.

Attachments:

Attachment Type	Microfilm Bar Code	Date Recorded (YYYY/MM/DD)
Statutory Declaration	10000107103785403	2016/08/05
Share Structure	ELECTRONIC	2016/08/05
Restrictions on Share Transfers	ELECTRONIC	2016/08/05
Other Rules or Provisions	ELECTRONIC	2016/08/05

The Registrar of Corporations certifies that, as of the historical date of this search, the above information is an accurate reproduction of data contained in the official public records of Corporate Registry.



APPENDIX “B”

Government Corporation/Non-Profit Search of Alberta ■ Corporate Registration System

Date of Search: 2019/11/28
Time of Search: 11:09 AM
Search provided by: BORDEN LADNER GERVAIS LLP
Service Request Number: 32099378
Customer Reference Number: 436743-000024

Corporate Access Number: 2018730743
Legal Entity Name: PIONEER OIL WELL SERVICE CORP.
Legal Entity Status: Active
Alberta Corporation Type: Named Alberta Corporation
Registration Date: 2015/01/21 YYYY/MM/DD

Registered Office:
Street: 53120A RANGE ROAD 13
City: PARKLAND COUNTY
Province: ALBERTA
Postal Code: T7Y 2T2

Directors:
Last Name: RUGGLES
First Name: ESTHER
Street/Box Number: 53120A RANGE ROAD 13
City: PARKLAND COUNTY
Province: ALBERTA
Postal Code: T7Y 2T2

Voting Shareholders:
Last Name: RUGGLES
First Name: ESTHER
Street: 53120A RANGE ROAD 13
City: PARKLAND COUNTY
Province: ALBERTA
Postal Code: T7Y 2T2
Percent Of Voting Shares: 100

Details From Current Articles:**The information in this legal entity table supersedes equivalent electronic attachments**

Share Structure: SEE SCHEDULE "A" ATTACHED
Share Transfers Restrictions: SEE SCHEDULE "B" ATTACHED
Min Number Of Directors: 1
Max Number Of Directors: 10
Business Restricted To: NONE
Business Restricted From: NONE
Other Provisions: SEE SCHEDULE "C" ATTACHED

Other Information:**Last Annual Return Filed:**

File Year	Date Filed (YYYY/MM/DD)
2018	2018/10/24

Outstanding Returns:

Annual returns are outstanding for the 2019 file year(s).

Filing History:

List Date (YYYY/MM/DD)	Type of Filing
2015/01/21	Incorporate Alberta Corporation
2018/10/24	Enter Annual Returns for Alberta and Extra-Provincial Corp.

Attachments:

Attachment Type	Microfilm Bar Code	Date Recorded (YYYY/MM/DD)
Share Structure	ELECTRONIC	2015/01/21
Restrictions on Share Transfers	ELECTRONIC	2015/01/21
Other Rules or Provisions	ELECTRONIC	2015/01/21

The Registrar of Corporations certifies that, as of the date of this search, the above information is an accurate reproduction of data contained in the official public records of Corporate Registry.



APPENDIX “C”
(CONFIDENTIAL)

APPENDIX “D”

**SCHEDULE "A" TO
ORDER DATED DECEMBER 12, 2019**

SALE SOLICITATION PROCESS

INTRODUCTION

On October 29, 2019, the Alberta Court of Queen's Bench (the "**Court**") made an order (the "**Receivership Order**") appointing Hardie & Kelly Inc. ("**HK**") as Receiver and Manager (the "**Receiver**") over the current and future assets, undertakings and properties of every nature and kind whatsoever, and wherever situate, including all proceedings therefrom (the "**Property**") of Houston Oil & Gas Ltd. ("**Houston**").

The Receiver intends to conduct a sale solicitation process (the "**SSP**") as set out below to market and sell the Business (as defined below) and Property of Houston. The SSP will be conducted with the approval of the Court, and under the SSP, all qualified interested parties will be provided with an opportunity to participate in the SSP. The SSP is intended to solicit interest in a sale of the assets of Houston.

The Receiver has engaged [**AGENT**] as Selling Agent (in such capacity, the "**Selling Agent**") to administer and carry out the marketing steps contemplated by the SSP.

This document (the "**SSP Procedure**") outlines the SSP, which is comprised principally of three stages: pre-marketing, marketing, and offering and evaluation.

OPPORTUNITY AND SSP SUMMARY

1. The SSP is intended to solicit interest in, and opportunities for a sale of all or part of the Houston's Property (the "**Opportunity**"), which primarily consist of wells, pipelines, facilities and other oil and gas production assets located in Alberta.
2. In order to maximize the number of participants that may have an interest in the Opportunity, the SSP will provide for the solicitation of interest for the sale of Houston's interest in the Property. In particular, interested parties may submit proposals to acquire all, substantially all or a portion of the Property (a "**Sale Proposal**").
3. Except to the extent otherwise set forth in a definitive sale agreement with a successful bidder, any Sale Proposal will be on an "as is, where is" basis and without surviving representations or warranties of any kind, nature, or description by the Receiver, the Selling Agent or Houston, or any of their respective affiliates, agents, advisors or estates, and, in the event of a sale, all of the right, title and interest of Houston in and to the Property to be acquired will be sold free and clear of all pledges, liens, security interests, encumbrances, claims, charges, options, and interests therein and thereon pursuant to Court orders, except as otherwise provided in such Court orders.
4. Solicitation of interest for Sale Proposals will be on an unpriced basis whereby no set asking price will be stipulated.

5. As described more fully in this SSP, the major stages in the SSP Procedure will be comprised of the following:
- (a) Pre-Marketing: preparation of all marketing material, assembly of all relevant due diligence material, establishment of an electronic data room and preparation of potential buyer lists;
 - (b) Marketing: advertising, contacting potential buyers, responding to requests for information and disseminating marketing material to potential buyers; and
 - (c) Offer Submission and Evaluation: solicitation, receipt of, evaluation and negotiation of offers from potential buyers, as described below.
6. The offer submission and evaluation stage of the SSP will be comprised of a two phase offering process: “**Phase 1**” being the submission of letters of intent (“**LOIs**”) from qualified bidders, and “**Phase 2**” being the submission of formal binding offers from those parties that submitted LOIs and that have been invited by the Selling Agent and the Receiver to participate in Phase 2 (defined below as Phase 1 Qualified Bidders).

PROPERTY & REGULATOR

7. Houston is the operator or has a working interest in the Property comprised of approximately 1,438 well licenses, 73 facility licenses and 272 pipeline licenses.
8. The Alberta Energy Regulator (“**AER**”) regulates oil and gas and related activities in Alberta, including wells, facilities, oil refineries, natural gas processing plants, pipelines and oil and gas roads, through licenses, authorizations, orders and regulations. Bidders will be required to be licensees in good standing with the AER, or to be otherwise eligible to obtain or hold AER licenses, permits or approvals with respect to the Property.

TIMELINE

9. The following table sets out the key milestones under the SSP:

Milestone	Deadline
Launch Sales Process	January 10, 2020
Phase 1 Non-Binding LOI Deadline	February 14, 2020
Phase 2 Binding Offer Deadline	March 6, 2020
Closing Dates	April 30, 2020

PRE-MARKETING STAGE

10. As soon as reasonably practicable, but in any event by no later than January 10, 2020 (the “**Commencement Date**”):

- (a) the Selling Agent will prepare: (i) a process summary (the “**Teaser Letter**”) describing the Opportunity, outlining the process under the SSP and inviting recipients of the Teaser Letter to express their interest pursuant to the SSP; (ii) a non-disclosure agreement (an “**NDA**”); and (iii) a confidential Information Memorandum (“**CIM**”). The Teaser Letter, NDA and CIM shall be in form and substance satisfactory to the Receiver. The CIM will specifically stipulate that the Selling Agent, the Receiver and their respective advisors make no representation or warranty as to the accuracy or completeness of the information contained in the CIM, the Data Room (as defined below), or made available pursuant to the SSP or otherwise, except to the extent expressly contemplated in any definitive sale agreement with a Successful Bidder (as defined below) ultimately executed and delivered by the Receiver;
- (b) the Selling Agent, with the assistance of the Receiver, will gather and review all required due diligence material to be provided to interested parties and shall establish a secure, electronic data room (the “**Data Room**”), which will be maintained and administered by the Selling Agent during the SSP;
- (c) the Selling Agent will develop a draft form of LOI (the “**LOI Form**”) and a purchase and sale agreement for use during the SSP (the “**Draft Purchase Agreement**”), which agreement or agreements shall be in form and substance satisfactory to the Receiver; and
- (d) the Selling Agent, in consultation with the Receiver, will prepare a list of potential bidders, including: (i) parties that have approached one or more of the Selling Agent, Houston or the Receiver indicating an interest in the Opportunity; and (ii) local, national and international strategic and financial parties who the Selling Agent and the Receiver believe may be interested in purchasing all or part of the Property pursuant to the SSP (collectively, “**Known Potential Bidders**”).

MARKETING STAGE

- 11. As soon as reasonably possible after the Commencement Date, the Selling Agent shall:
 - (a) arrange for a notice of the SSP (and such other relevant information as the Selling Agent, in consultation with the Receiver, considers appropriate) (the “**Notice**”) to be published in the BOE Report and the Calgary Herald and any other newspaper or journals as the Selling Agent, in consultation with the Receiver, considers appropriate, if any; and
 - (b) send the Teaser Letter and NDA to all Known Potential Bidders and to any other party who responds to the Notice as soon as reasonably practicable after such identification or request, as applicable.

12. The Selling Agent will send the CIM and grant access to the Data Room to those parties who have executed and delivered the NDA to the Selling Agent as soon as reasonably practicable after such execution and delivery.
13. Requests for information and access to the Data Room will be directed to the Selling Agent, to the attention of the persons listed in **Schedule "A"** hereto. All printed information shall remain the property of the Receiver and, if requested by the Selling Agent or the Receiver, shall be returned without further copies being made and/or destroyed with an acknowledgement that all such material has either been returned and/or destroyed and no electronic information has been retained.
14. Any party who expresses a wish to participate in the SSP (a "**Potential Bidder**") must, prior to being given any additional information such as the CIM and access to the Data Room, provide to the Selling Agent:
 - (a) an NDA executed by it, and which shall inure to the benefit of any ultimate Successful Bidder; and
 - (b) a letter setting forth the identity of the Potential Bidder, the contact information for such Potential Bidder and full disclosure of the direct and indirect principals of the Potential Bidder.
15. If a Potential Bidder has delivered the NDA and the letter contemplated in paragraph 15(b) with disclosure that is satisfactory to the Receiver, acting reasonably, then such Potential Bidder will be deemed to be a "**Phase 1 Qualified Bidder**". No Potential Bidder shall be deemed not to be a Phase 1 Qualified Bidder without the approval of the Receiver.

OFFER SUBMISSION AND EVALUATION STAGE

Phase 1

Due Diligence

16. The Selling Agent in consultation with the Receiver, subject to competitive and other business considerations, will afford each Phase 1 Qualified Bidder such access to due diligence materials through the Data Room and information relating to the Property and Business as it deems appropriate. Due diligence access may further include on-site inspections and other matters which a Phase 1 Qualified Bidder may reasonably request and to which the Selling Agent, with the approval of the Receiver, in its reasonable business judgment, may agree. The Selling Agent will designate a representative to coordinate all reasonable requests for additional information and due diligence access from Phase 1 Qualified Bidders and the manner in which such requests must be communicated. Neither the Selling Agent nor the Receiver will be obligated to furnish any information relating to the Property to any person other than to Phase 1 Qualified Bidders. Further and for the avoidance of doubt, selected due diligence materials may be withheld from certain Phase 1 Qualified Bidders if the Receiver, in consultation with the

Selling Agent, determines such information to represent proprietary or sensitive competitive information.

LOI Submission

17. Potential Bidders must rely solely on their own independent review, investigation and/or inspection of all information and of the Property and Business in connection with their participation in the SSP and any transaction they enter into with the Receiver on behalf of Houston.
18. Phase 1 Qualified Bidders who advise the Selling Agent that they wish to submit an offer will be provided with a copy of the LOI Form.
19. A Phase 1 Qualified Bidder who wishes to pursue the Opportunity further must deliver an executed LOI, identifying each specific Property the Phase 1 Qualified Bidder is interested in, to the Selling Agent at the addresses specified in Schedule "A" hereto (including by email or fax transmission), so as to be received by them not later than 12:00 PM (Calgary time) on or before February 14, 2020 (the "**Phase 1 Bid Deadline**").
20. An LOI so submitted will be considered a qualified LOI (a "**Qualified LOI**") only if:
 - (a) it is submitted on or before the relevant Phase 1 Bid Deadline by a Phase 1 Qualified Bidder;
 - (b) it identifies or contains the following:
 - (i) the purchase price, in Canadian dollars, including details of any liabilities to be assumed by the Phase 1 Qualified Bidder and key assumptions supporting the valuation. If a Phase 1 Qualified Bidder wishes to acquire more than one Property, a price for each Property must be stipulated;
 - (ii) a description of each Property that is expected to be subject to the transaction and any of the Property or obligations for each Property expected to be excluded;
 - (iii) a specific indication of the financial capability, together with evidence of such capability, of the Phase 1 Qualified Bidder and the expected structure and financing of the transaction;
 - (iv) a description of the conditions and approvals required for a final and binding offer; and
 - (v) any other terms or conditions of the Sale Proposal that the Phase 1 Qualified Bidder believes are material to the transaction;
 - (c) it contains a statement that the Phase 1 Qualified Bidder is a licensee in good standing with the AER, or is eligible to obtain or hold AER licenses, permits or

approvals with respect to the Property, and its current Liability Management Rating is 1.0 or greater; and

- (d) it contains such other information as reasonably requested by the Selling Agent or Receiver from time to time.
21. The Receiver may waive compliance with any one or more of the requirements specified above and deem such non-compliant bids to be a Qualified LOI. For the avoidance of doubt, the completion of any Sale Proposal shall be subject to the approval of the Court and the requirement of approval of the Court may not be waived.

Preliminary Assessment of Phase 1 Bids and Subsequent Process

22. Following the Phase 1 Bid Deadline, the Receiver will assess the Qualified LOIs with respect to the Property in consultation with the Selling Agent. If it is determined by the Receiver that a Phase 1 Qualified Bidder that has submitted a Qualified LOI (i) has a *bona fide* interest in completing a Sale Proposal or; and (ii) has the financial capability (based on availability of financing, experience and other considerations) to consummate such a transaction based on the financial information provided, then such Phase 1 Qualified Bidder will be deemed a “**Phase 2 Qualified Bidder**”, provided that the Receiver may, in its reasonable business judgment, limit the number of Phase 2 Qualified Bidders (and thereby eliminate some Phase 1 Qualified Bidders from the process). Only Phase 2 Qualified Bidders shall be permitted to proceed to Phase 2 of the SSP.
23. In the event that no Qualified LOIs are submitted by the Phase 1 Bid Deadline, then the Receiver may terminate the SSP.
24. Upon the determination by the Receiver of the manner in which to proceed to Phase 2 of the SSP, the Receiver will prepare a bid process letter for Phase 2 (the “**Bid Process Letter**”), which will include a Draft Purchase Agreement which will be made available in the Data Room, and the Bid Process Letter will be sent to all Phase 2 Qualified Bidders who are invited to participate in Phase 2.

Phase 2: Formal Offers and Selection of Successful Bidder

25. Paragraphs 28 to 39 below and the conduct of Phase 2 bidding are subject to paragraphs 23-26, above, and any adjustments made to Phase 2 in accordance with the Bid Process Letter and any further Court order regarding the SSP.

Formal Binding Offers

26. Phase 2 Qualified Bidders that wish to make a formal Sale Proposal shall submit to the Selling Agent a sealed binding offer that complies with all of the following requirements at the addresses specified in Schedule “A” hereto (including by email or fax transmission), so as to be received by the Selling Agent not later than 12:00 PM (Calgary time) on March 6, 2020 or such other date and time as may be modified in the Bid Process Letter (the “**Phase 2 Bid Deadline**”):

- (a) the bid shall comply with all of the requirements set forth in respect of Phase 1 Qualified LOIs;
- (b) cash is the preferred form of consideration, but if the bid utilizes other consideration, a description of the material terms of the consideration shall be provided;
- (c) the bid (either individually or in combination with other bids that make up one bid) is an offer to purchase some or all of the Property on terms and conditions reasonably acceptable to the Receiver;
- (d) unless otherwise agreed, the bid shall take the form of the Draft Purchase Agreement and shall include a letter stating that the Phase 2 Qualified Bidder's offer is irrevocable until the selection of the Successful Bidder (as defined below), provided that if such Phase 2 Qualified Bidder is selected as the Successful Bidder, its offer shall remain irrevocable until the closing of the transaction with such Successful Bidder;
- (e) the bid includes duly authorized and executed transaction agreements as listed in the Draft Purchase Agreement; including, but not limited to, the purchase price and any other key economic terms expressed in Canadian dollars (the "**Purchase Price**"), together with all exhibits and schedules thereto, the name or names of the ultimate beneficial owner(s) of the Phase 2 Qualified Bidder including their respective percentage interests;
- (f) to the extent that a bid is conditional upon new or amended agreements being entered into with other parties, the interested parties shall provide the proposed terms of such amended or new agreements and identify how such agreements may differ from existing agreements to which Houston may be a party. A Phase 2 Qualified Bidder's willingness to proceed without such conditions and, where such conditions are included in the bid, the likelihood of satisfying such conditions shall be an important factor in evaluating the bid;
- (g) the bid includes written evidence of a firm, irrevocable commitment for financing or other evidence of ability to consummate the proposed transaction that will allow the Receiver to make a determination as to the Phase 2 Qualified Bidder's financial and other capabilities to consummate the proposed transaction;
- (h) the bid should not be conditioned on the outcome of unperformed due diligence by the Phase 2 Qualified Bidder, apart from, to the extent applicable, the disclosure of due diligence materials that represent proprietary or sensitive competitive information which was withheld in Phase 2 from the Phase 2 Qualified Bidder;
- (i) each Phase 2 Qualified Bidder must provide with its bid details regarding its ability to obtain, and method of financing the transaction, the timetable for obtaining financing and, if appropriate, the amount of senior debt, subordinated

debt, equity and any other source of financing contemplated in the pro forma capital structure;

- (j) the bid fully discloses the identity of each entity that will be entering into the transaction or the financing, or that is participating or benefiting from such bid;
- (k) the bid includes a commitment by the Phase 2 Qualified Bidder to provide a refundable deposit in the amount of not less than 10% of the purchase price offered upon the Phase 2 Qualified Bidder being selected as the Successful Bidder, which shall be paid to “Hardie & Kelly Inc. in trust” (the “**Deposit**”). One half of the Deposit shall be paid to “Hardie & Kelly Inc. in trust” upon the submission of the Phase 2 Qualified Bidder’s Phase 2 Bid. The second half of the Deposit shall be submitted upon the Phase 2 Qualified Bidder being selected as the Successful Bidder. The Successful Bidder’s Deposit shall be applied as against the Purchase Price and all other Deposits submitted by Phase 2 Qualified Bidders who are not selected as the Successful Bidder shall be returned within one week of obtaining court approval for the Successful Bid;
- (l) the bid includes acknowledgments and representations of the Phase 2 Qualified Bidder that: (i) it has had an opportunity to conduct any and all due diligence regarding the Property and Houston or any of them prior to making its offer (apart from, to the extent applicable, the disclosure of due diligence materials that represent proprietary or sensitive competitive information which were withheld in Phase 2 from the Phase 2 Qualified Bidder); (ii) it has relied solely upon its own independent review, investigation and/or inspection of any documents and/or the Property in making its bid; and (iii) it did not rely upon any written or oral statements, representations, warranties, or guarantees whatsoever made by the Selling Agent, Houston or the Receiver or the Receiver’s operational consultants, whether express, implied, statutory or otherwise, regarding the Business, Property or Houston, or the accuracy or completeness of any information provided in connection therewith, except as expressly stated in the definitive transaction agreement(s) signed by the Receiver on behalf of Houston;
- (m) all required corporate approvals of the Phase 2 Qualified Bidder will have been obtained prior to the submission of the bid;
- (n) the bid shall identify any material conditions in favour of the purchaser to be resolved prior to closing the transaction;
- (o) the bid is received by the relevant Phase 2 Bid Deadline;
- (p) the bid contemplates court approval; and
- (q) the bid contemplates a schedule for closing the transaction set out therein which is on or before April 30, 2020 (the “**Closing Date**”).

27. Following the Phase 2 Bid Deadline, the Receiver will assess the Phase 2 bids received with respect to the Property. The Receiver will designate the most competitive bids that

comply with the foregoing requirements to be “**Phase 2 Qualified Bids**”. No Phase 2 bids received shall be deemed to be Phase 2 Qualified Bids without the approval of the Receiver in consultation with the AER. Only Phase 2 Qualified Bidders whose bids have been designated as Qualified Bids are eligible to become the Successful Bidder(s).

28. The Receiver may waive strict compliance with any one or more of the requirements specified above and deem such non-compliant bids to be a Phase 2 Qualified Bid.
29. The Selling Agent, upon receiving instructions from the Receiver, shall notify each Phase 2 Qualified Bidder in writing as to whether its bid constituted a Phase 2 Qualified Bid within ten (10) business days of the Phase 2 Bid Deadline, or at such later time as the Receiver deem appropriate.
30. If the Receiver is not satisfied with the number or terms of the Phase 2 Qualified Bids, the Receiver, in consultation with the Selling Agent, may extend the Phase 2 Bid Deadline without Court approval, or the Receiver may seek Court approval for an amendment to the SSP.
31. The Receiver may terminate further participation in the Phase 2 Bid Process by any interested party, or modify dates or procedures in this SSP as deemed appropriate or necessary, or terminate the process altogether.
32. The Receiver may aggregate separate bids from unaffiliated Phase 2 Qualified Bidders to create one or more “**Phase 2 Qualified Bid**”.
33. In the event that no Phase 2 Qualified Bids are submitted by the Phase 2 Bid Deadline, then the Receiver may terminate the SSP.

Evaluation of Competing Bids

34. A Phase 2 Qualified Bid will be evaluated based upon several factors, including, without limitation, items such as the Purchase Price and the net value and form of consideration to be paid provided by such bid, the identity, circumstances and ability of the Phase 2 Qualified Bidder to successfully complete such transactions, including any conditions attached to the bid and the expected feasibility of such conditions, the proposed transaction documents, factors affecting the speed, certainty and value of the transaction, the assets included or excluded from the bid, any related restructuring costs, compliance with AER requirements, the likelihood and timing of consummating such transactions, and the ability of the bidder to finance and ultimately consummate the proposed transaction within the timeline established by the Receiver.

Selection of Successful Bid

35. The Receiver: (a) will review and evaluate each Phase 2 Qualified Bid with the applicable Phase 2 Qualified Bidder, and such Phase 2 Qualified Bid may be amended, modified or varied as a result of such negotiations, and (b) identify the highest or otherwise best bid (the “**Successful Bid**”), and the Phase 2 Qualified Bidder making such Successful Bid (the “**Successful Bidder**”) for any particular Property in whole or part.

The determination of any Successful Bid by the Receiver shall be subject to approval by the Court.

36. The Receiver shall have no obligation to enter into a Successful Bid, and the Receiver reserves the right to reject any or all Phase 2 Qualified Bids.

Sale Approval Hearing

37. At the hearing of the application to approve any transaction with a Successful Bidder (the “**Sale Approval Application**”), the Receiver shall seek, among other things, approval from the Court to consummate any Successful Bid. All the Phase 2 Qualified Bids other than the Successful Bid, if any, shall be deemed rejected by the Receiver on and as of the date of approval of the Successful Bid by the Court.

Confidentiality and Access to Information

38. Participants and prospective participants in the SSP shall not be permitted to receive any information that is not made generally available to all participants relating to the number or identity of Potential Bidders, Phase 1 Qualified Bidders, LOIs, Phase 2 Qualified Bidders, Phase 2 Qualified Bids, the details of any bids submitted or the details of any confidential discussions or correspondence between the Receiver and such other bidders or Potential Bidders in connection with the SSP. The Receiver may however, with the consent of the applicable participants, disclose such information to other bidders for the purpose of seeking to combine separate bids from Phase 1 Qualified Bidders or Phase 2 Qualified Bidders.

Supervision of the SSP

39. The Receiver will participate in the SSP in the manner set out in this SSP Procedure and the SSP Order and is entitled to receive all information in relation to the SSP.
40. This SSP does not, and will not be interpreted to create any contractual or other legal relationship between Houston, the Selling Agent or the Receiver and any Phase 1 Qualified Bidder, any Phase 2 Qualified Bidder or any other party, other than as specifically set forth in a definitive agreement that may be signed with the Receiver on behalf of Houston and approved by the Court.
41. Without limiting the preceding paragraph, neither the Receiver nor the Selling Agent shall have any liability whatsoever to any person or party, including without limitation any Potential Bidder, Phase 1 Qualified Bidder, Phase 2 Qualified Bidder, the Successful Bidder, or any other creditor or other stakeholder of Houston, for any act or omission related to the process contemplated by this SSP Procedure, except to the extent such act or omission is the result of gross negligence or willful misconduct of the Receiver or Selling Agent. By submitting a bid, each Phase 1 Qualified Bidder, Phase 2 Qualified Bidder, or Successful Bidder shall be deemed to have agreed that it has no claim against the Receiver or Selling Agent for any reason whatsoever, except to the extent such claim is the result of gross negligence or willful misconduct of the Receiver or Selling Agent.

42. Participants in the SSP are responsible for all costs, expenses and liabilities incurred by them in connection with the submission of any LOI, Phase 2 bid, due diligence activities, and any further negotiations or other actions whether or not they lead to the consummation of a transaction.
43. The Receiver shall have the right, in consultation with the Selling Agent, to modify the SSP and the deadlines set out herein (including, without limitation, pursuant to the Bid Process Letter) if, in its reasonable business judgment, such modification will enhance the process or better achieve the objectives of the SSP.

SCHEDULE "A"

Selling Agent

Sayer Energy Advisors
1620, 540 – 5th Avenue SW
Calgary, AB T2P 0M2

TPavic@sayeradvisors.com
(403) 266-6133

Attention: Tom Pavic

Receiver

Hardie & Kelly Inc.
110, 5800 2nd Street SW
Calgary, Alberta
T2H 0H2

CSmith@insolvency.net
(403) 536-8506

Attention: Charla Smith

APPENDIX “E”

Houston Oil & Gas Ltd., in receivership
Statement of Receipts and Disbursements
as at November 30, 2019

Receipts

Receiver's Certificate	\$ 150,000.00	
Accounts receivable	615.85	
Miscellaneous refund	54.43	
		150,670.28

Disbursements

Insurance	132,644.00	
Software licenses	5,345.60	
GST paid	290.35	
Redirection of mail	253.45	
Emergency response line	208.00	
		138,741.40
Cash on hand		\$ 11,928.88