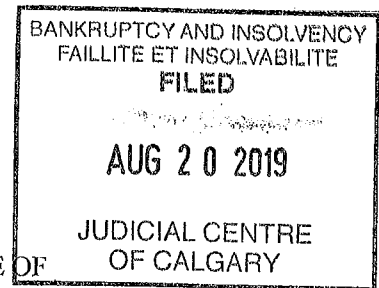


Clerk's Stamp



COURT FILE NUMBER BK NO: 25-2523592
COURT COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE CALGARY
PROCEEDING IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF OAN RESOURCES LTD.

DOCUMENT **SECOND REPORT OF THE PROPOSAL TRUSTEE, HARDIE & KELLY INC. AUGUST 20, 2019**

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**SECOND REPORT OF THE PROPOSAL TRUSTEE
HARDIE & KELLY INC.
AUGUST 20, 2019**

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INTRODUCTION

1. On June 14, 2019 (the “**Filing Date**”), OAN Resources Ltd. (“**OAN**” or the “**Company**”) filed a Notice of Intention to Make a Proposal pursuant to the *Bankruptcy & Insolvency Act* (the “**BIA**”). Hardie & Kelly Inc. consented to act as trustee (the “**Proposal Trustee**”) of the proceedings.
2. On July 2, 2019, the Proposal Trustee prepared a report (the “**First Report**”) to the Court of Queen’s Bench of Alberta (the “**Court**”) in advance of the Company’s July 8, 2019 application for an extension of the time in which OAN was required to file a proposal to its creditors (“**Proposal**”).
3. On July 8, 2019, the Court granted an Order:
 - Extending the time in which the Company must file a Proposal to August 28, 2019, along with an extension of the Stay of Proceedings (the “**Stay**”) afforded the Company pursuant to Section 69 of the BIA; and
 - Authorizing the Company to pay certain amounts owed as of the Filing Date to three vendors deemed by the Company to be critical to maintaining the day to day operations, ongoing cash flow and the safety of field operations.
4. The purpose of this report (the “**Second Report**”) is to provide the Court with information in respect of the following:
 - a. An update in respect of the Company’s operations since the date of the First Report;
 - b. Details of various lien claims registered against the Company’s assets;
 - c. An update as to the Company’s financial performance since the date of the First Report;
 - d. The Company’s updated cash flow forecast;

- e. An update as to the Company's restructuring activities;
- f. The Company's request for a further extension of the time required to file a Proposal and a corresponding extension of the Stay through to October 12, 2019 and the Proposal Trustee's recommendation with respect thereto; and
- g. The Proposal Trustee's comments and recommendation in respect of the Company's application seeking to have the Proposal Trustee's confidential supplement to this Second Report (the "**Confidential Supplement**") sealed for a period of six months.

TERMS OF REFERENCE

5. In preparing this Second Report, the Proposal Trustee has relied upon unaudited financial information, records of the Company, discussions with the Company's management ("**Management**") and a report in respect of the Company's petroleum and natural gas interests prepared by Sayer Energy Advisors ("**Sayer**"). The Proposal Trustee has not performed an audit, review or other verification of such information. An examination of the cash flow information as outlined in the Canadian Institute of Chartered Accountants Handbook has not been performed. Future-oriented financial information relied upon in this report is based on Management's assumptions regarding future events and actual results achieved may vary from this information and the variations may be significant. Accordingly, the Proposal Trustee expresses no opinion or other form of assurance in respect of such information.

OPERATIONAL UPDATE

6. As of the date of the First Report, OAN's recent average monthly oil production was in the range of 65 bbls/day.
7. The Company's initial cash flow forecast (the "**Initial Forecast**") filed at the outset of the proceedings for the period June 24 to September 22, 2019 (the "**Initial Forecast Period**"), assumed an increase in production to approximately

75 bbls/day which would have resulted in an estimated cash flow deficit over the Initial Forecast Period of approximately \$100,000. The Proposal Trustee wishes to highlight that the estimated professional fees associated with the proceedings over the Initial Forecast Period were \$100,000, such that the Company was anticipating effectively breaking even from operations over the Initial Forecast Period.

8. Production levels have since decreased to 47 bbls/day, primarily as a result of the Company's 11-35 well being shut in last month as a result of what Management believes to be a failed bottom hole pump. As it is not possible to bring a service rig in to address the issue due to the well being winter access only, Management decided to shut the well in for August, and possibly September, monitor the inflow and fluid levels, and possibly restart the pump. As a result, the Company estimates that production will remain at approximately 47 bbls/day until such time as a service rig, already in the area, can be accessed, which is not anticipated to occur any earlier than late December 2019.

LEIN CLAIMANTS

9. Since the date of the first Report, the Court granted two Consent Orders which were consented to by the Company and the Proposal Trustee in respect of Builders' Liens filed by creditors as follows:
 - a. June 21, 2019 – Consent Order permitting the Builders' Liens registered by CWC Services Inc. to remain registered against OAN's well sites and allowing for the lifting of the Stay to enable the filing of a Statement of Claim; and
 - b. July 31, 2019 – Consent Order lifting the Stay to allow Alberta Tubular Products to commence an action for the enforcement of its registered Builders' Liens, to register a Certificate of *Lis Pendens* and to serve a Statement of Claim and Certificate of *Lis Pendens*.

FINANCIAL PERFORMANCE

10. The Proposal Trustee has reviewed the Company's actual receipts and disbursements for the period June 24 – August 11, 2019 in comparison to the corresponding period of the Initial Forecast. A variance analysis is set out in the following table:

| OAN Resources Ltd. | | | | |
|--|------------------|------------------|-----------------|--------------|
| Forecast to Actual Analysis | | | | |
| For the period of June 24 - August 11, 2019 | | | | |
| | Actual | Forecast | Variance | Notes |
| Receipts | | | | |
| Production revenues | 277,444 | 288,622 | (11,178) | a) |
| Miscellaneous | 52,217 | - | 52,217 | b) |
| | 329,661 | 288,622 | 41,039 | |
| Disbursements | | | | |
| Royalties | - | (456) | 456 | |
| Critical suppliers | (190,610) | (199,995) | 9,385 | |
| Field operators | - | (3,000) | 3,000 | |
| Repairs and maintenance | - | (14,500) | 14,500 | c) |
| Micromotion sales meter | (1,395) | (1,463) | 68 | |
| Surface and mineral lease rentals | (11,682) | (11,682) | - | |
| Drilling and property taxes | - | (14,564) | 14,564 | d) |
| Software | (462) | (462) | - | |
| Fuel and lubricants | - | (863) | 863 | |
| Transportation | (4,250) | (4,250) | - | |
| Management consulting | (42,630) | (42,630) | - | |
| Rent and parking | (14,820) | (14,820) | - | |
| Software, phone, internet | (2,498) | (5,460) | 2,962 | |
| Other consultant expenses | (1,430) | (1,733) | 303 | |
| Bank fees | (226) | - | (226) | |
| Office Supplies | (107) | - | (107) | |
| Restructuring professional fees | (15,392) | (55,000) | 39,608 | e) |
| | (285,502) | (370,878) | 85,376 | |
| Net cash inflow (outflow) | 44,159 | (82,256) | 126,415 | |
| Cash - beginning | 119,660 | 116,004 | 3,656 | f) |
| Foreign exchange gain(loss) | 8 | - | 8 | |
| Cash - closing | 163,827 | 33,748 | 130,079 | |

11. The Company maintained a cash balance of approximately \$164,000 as at August 11, 2019.
12. OAN experienced positive cash flow of approximately \$44,000 over the period June 24 – August 11, 2019, which was approximately \$126,000 better than was estimated over the corresponding period in the Initial Forecast. The overall positive variance was the result of several smaller variances summarized as follows:
 - a. Production revenues – the negative variance of approximately \$11,000 is primarily the result of production levels being less than had been anticipated.
 - b. Miscellaneous – the positive variance of approximately \$52,000 relates to a GST refund being received that had not been contemplated in the Initial Forecast.
 - c. Repairs and maintenance – the positive variance of \$14,500 is a result of certain work the Company had initially contemplated completing being subsequently determined to be uneconomical to undertake.
 - d. Drilling and property taxes – the positive variance of approximately \$15,000 is a result of forecasted payments that proved to be related to the pre-Filing Date period ultimately not being made.
 - e. Restructuring professional fees – the positive variance of approximately \$40,000 is the result of a temporary timing difference in respect of invoices being rendered; however, it is anticipated the funds will be expended in due course.
 - f. Cash – beginning – the slight variance of approximately \$3,600 is a result of certain cheques that had been issued in advance of the Filing Date ultimately not clearing the bank.

CASH FLOW FORECAST

13. Management, with the assistance of the Proposal Trustee, has prepared an updated 13 week cash flow forecast for the period August 12, 2019 through to November 10, 2019 (the “**Revised Forecast**”) which is attached as **Appendix “A”** to this Second Report.
14. A summary of the Revised Forecast is set out in the table below:

| | |
|--|----------------------|
| Receipts | |
| Production revenues | 228,627 |
| | <u>228,627</u> |
| Disbursements | |
| Royalties (Fairfax GORR and Gunnarr NPI) | (5,298) |
| OPEX | - |
| Payments to Critical Suppliers for pre-filing debt | (44,427) |
| Current Expenses | - |
| Effluent Transportation and Handling | (92,555) |
| Field Operators | (36,740) |
| Repairs and Maintenance | (2,652) |
| Micromotion Sales Meter | (95) |
| Surface and Mineral Lease Rentals | (19,628) |
| Drilling and Property Taxes | - |
| Software | - |
| Fuel and Lubricants | (1,463) |
| Transportation | - |
| G&A | - |
| Management Consulting | (39,080) |
| Rent and parking | (16,119) |
| Software, phone, internet | (11,120) |
| Office supplies | (818) |
| Other consultant expenses | (1,118) |
| Bank fees | (410) |
| Restructuring | (108,484) |
| | <u>(380,007)</u> |
| Net cash (outflow) | (151,380) |
| Cash - beginning | 163,827 |
| Cash - closing | <u><u>12,447</u></u> |

15. The Revised Forecast reflects negative cash flow of approximately \$151,000 over the forecast period, leaving an estimated cash balance of approximately only \$12,000 as at November 10, 2019.
16. The Proposal Trustee offers the following additional comments in respect of the Revised Forecast:
 - a. Approximately \$108,000 of the forecasted deficit relates to the estimated forecasted fees of the Proposal Trustee, the Company's legal counsel and the Proposal Trustee's legal counsel; and
 - b. The otherwise forecasted operational cash flow deficit of approximately \$43,000 is primarily the result of the decrease in production as discussed earlier in this Second Report.
17. As discussed in greater detail below, notwithstanding the forecasted cash flow deficit, the Company's principal secured creditors; being a group of 22 debenture holders owed a total of approximately \$3.3 Million (collectively referred to as the "**Debenture Holders**"), have indicated they are supportive of the Company's application for an extension of the time required to file a Proposal and an extension of the Stay.

RESTRUCTURING EFFORTS

18. Since the date of the First Report, Management in conjunction with its professional advisors and the Proposal Trustee, has continued its investigation and analysis and has held ongoing discussions with the Debenture Holders with a view to the Company ultimately preparing a viable Proposal. As part of this undertaking, the Debenture Holders agreed to and did advance funds on the Company's behalf to allow the Proposal Trustee to engage Sayer to prepare a market valuation analysis of the Company's assets (the "**Sayer Report**").

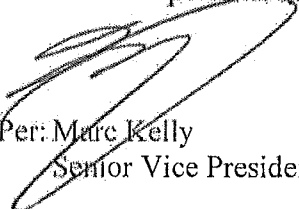
19. The Sayer Report, which was recently issued on August 16, 2019, and the Proposal Trustee's comments thereon will be contained in the Confidential Supplement. As the Sayer Report contains commercially sensitive information, the Company will be making an application to have the Confidential Supplement sealed for a period of six months. For the reasons set out in the Confidential Supplement, the Proposal Trustee is supportive of the Company's request.
20. Through the process of Management's continued investigation and efforts since the Filing Date, it has become apparent to Management that the Company does not currently have the financial ability to advance a viable Proposal absent being able to secure some form of third party funding to form the basis of a Proposal.
21. OAN has advised the Debenture Holders of Management's assessment and the Debenture Holders have indicated to Management and the Proposal Trustee that the possibility of the Debenture Holders funding a viable Proposal is not out of the question; however, the Debenture Holders require additional time to complete an assessment of the value of OAN's assets, consider the claims of lien claimants and other stakeholders while also awaiting professional advice regarding the impact of a restructuring on OAN's tax pools. Consequently, the Debenture Holders are supportive of the Company's request for an extension of the time required to file the Proposal and the Stay.
22. Aside from the obligations to the Debenture Holders, the Company's books and records reflect approximately \$2.8 Million of obligations to unsecured creditors.

RECOMMENDATIONS

23. For the reasons set out in the Confidential Supplement, the Proposal Trustee is of the view that the Company's application for a further extension of the Stay to October 12, 2019 is warranted to allow the Debenture Holders the opportunity to complete their investigation as to whether they are willing to fund a viable Proposal. Absent the granting of an extension to allow the Debenture Holders additional time, the Company will be deemed to have made an assignment into bankruptcy, in which case it is anticipated the Debenture Holders would seek to appoint a receiver over the Company's assets.
24. The Proposal Trustee is also supportive of the Company's request to have the Confidential Supplement sealed for a period of six months for the reasons set out in the Confidential Supplement.

All of which is respectfully submitted this 20th day of August 2019.

Hardie & Kelly Inc.
in its capacity as the Proposal Trustee of OAN Resources Ltd.
and not in its personal capacity



Per: Marc Kelly
Senior Vice President

APPENDIX "A"

OAN Resources Ltd.
Cash Flow Forecast
(Unaudited - prepared by management)

| Notes | Week 4 | Week 5 | Week 6 | Week 7 | Week 8 | Week 9 | Week 10 | Week 11 | Week 12 | Week 13 | Total |
|--|-----------|-----------|-----------|-----------|-----------|----------|-----------|-----------|-----------|----------|------------|
| | Week of | Week of | Week of | Week of | Week of | Week of | Week of | Week of | Week of | Week of | (12-Month) |
| | 12-Aug-18 | 19-Aug-18 | 26-Aug-18 | 30-Sep-18 | 30-Sep-18 | 7-Oct-18 | 14-Oct-18 | 21-Oct-18 | 28-Oct-18 | 4-Nov-18 | |
| Production revenues | 70,352 | - | - | 50,432 | - | - | - | 77,511 | - | - | 228,297 |
| | 70,352 | - | - | 50,432 | - | - | - | 77,511 | - | - | 228,297 |
| Disbursements | | | | | | | | | | | |
| Royalties (Fairfax GORR and Gunnar NPI) | | | | | | | | | | | |
| OpEx | | | | | | | | | | | |
| Payments to Critical Suppliers for pre-filing debt | | | | | | | | | | | |
| Current Expenses | | | | | | | | | | | |
| Effluent Transportation and Handling | | | | | | | | | | | |
| Field Operators | | | | | | | | | | | |
| Repairs and Maintenance | | | | | | | | | | | |
| Micromedex Sales Meter | | | | | | | | | | | |
| Surface and Oilfield Lease Rentals | | | | | | | | | | | |
| Fuel and Lubricants | | | | | | | | | | | |
| G&A | | | | | | | | | | | |
| Management Consulting | | | | | | | | | | | |
| Rent and parking | | | | | | | | | | | |
| Software, phone, internet | | | | | | | | | | | |
| Office supplies | | | | | | | | | | | |
| Other consultant expenses | | | | | | | | | | | |
| Bank Fees | | | | | | | | | | | |
| Restructuring | | | | | | | | | | | |
| Net cash inflow (outflow) | | | | | | | | | | | |
| Cash - beginning | | | | | | | | | | | |
| Cash - closing | | | | | | | | | | | |

OAN Resources Ltd.
Prep.
16-Aug-18

OAN Resources Ltd.
 Cash Flow forecast
 (Unaudited - prepared by management)

Notes regarding assumptions:

- 1 Net oil sales revenues from sales of crude oil. Revenue from prior months is recorded on the 25th day of the current month. Amount of revenue has been estimated based on pricing as based on forecast price information provided by Haskargo, which markets and sells the Company's oil. Production is forecast risk of crown royalties taken in kind, by analyzing historical production for wells currently operating and applying appropriate decline factors for each well, which is an industry accepted and common means of production forecasting.
- 2 Gross Overriding Royalty (GORR) to Fathom Energy and Sunbeam Resources.
- 3 Royalty remaining pre-litigation amount owing to Callid Suppliers as designated in Court Order dated July 8, 2019.
- 4 Processed oil and effluent which passes through batteries, pipelines, and processing facilities are charged on a fixed rate per m³ of fluid. This is invoiced by way of Joint Interest Billing 60-90 days after it is incurred.
- 5 Crinson Oil & Gas provide contract field operations services for daily well monitoring and servicing, which is invoiced by way of Joint Interest Billing 60-90 days after it is incurred. Each well and facility is charged a fixed rate per month.
- 6 Estimated monthly cost for wellsite base on industry averages. It is assumed that this will be required to be paid on a COD basis.
- 7 Average monthly cost for uses of data services to monitor microseismicity meter, located at the 16-34 lease. It is assumed that this will be required to be paid on a COD basis.
- 8 Expenses for fuel and lubricant supplies, based on industry averages. It is assumed that this will be required to be paid on a COD basis.
- 9 Certain management salaries are reduced throughout the period in order to ensure funds are available to meet cash flow obligations. This plan has been agreed to by members of the management team.
- 10 Monthly rent for office based on contractual amount.
- 11 Monthly charges for accounting software, Cloud and Back-up services, internet and phone services, including 24-hour phone service.
- 12 Office supplies purchased on an as needed basis and paid COD.
- 13 Monthly payments to consultants for regulatory, financial and production accounting services.
- 14 Automobile bank debts based on historical costs.
- 15 Anticipated payments to legal counsel and Proposal 7 trustee related to proposed proceedings. Amounts reflect cash cost projections with allows for utilization of refiners at end of process.