

COURT FILE NUMBER 2001-

COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

APPLICANTS IN THE MATTER OF THE COMPANIES' CREDITORS
ARRANGEMENT ACT, R.S.C. 1985, c. C-36, as amended

AND IN THE MATTER OF CALGARY OIL & GAS
SYNDICATE GROUP LTD., CALGARY OIL AND GAS
INTERCONTINENTAL GROUP LTD. (IN ITS OWN
CAPACITY AND IN ITS CAPACITY AS GENERAL
PARTNER OF T5 SC OIL AND GAS LIMITED
PARTNERSHIP), CALGARY OIL AND SYNDICATE
PARTNERS LTD., and PETROWORLD ENERGY LTD.

DOCUMENT **PRE-FILING REPORT OF BDO CANADA LIMITED,
IN ITS CAPACITY AS PROPOSED MONITOR OF
CALGARY OIL & GAS SYNDICATE GROUP LTD.,
CALGARY OIL AND GAS INTERCONTINENTAL
GROUP LTD., CALGARY OIL AND SYNDICATE
PARTNERS LTD., PETROWORLD ENERGY LTD. and
T5 SC OIL AND GAS LIMITED PARTNERSHIP**

FEBRUARY 8, 2021

ADDRESS FOR SERVICE
AND CONTACT
INFORMATION OF
PARTY FILING THIS
DOCUMENT

PROPOSED MONITOR'S COUNSEL
Cassels Brock & Blackwell LLP
Suite 3800, 888 - 3rd Street SW
Calgary, AB T2P 5C5

Attention: Jeff Oliver
Telephone: 403-351-2921
Facsimile: 403-648-1151
Email: joliver@cassels.com

**PRE-FILING REPORT OF THE PROPOSED MONITOR
BDO CANADA LIMITED
FEBRUARY 8, 2021**

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INTRODUCTION

1. BDO Canada Limited (“**BDO**” or the “**Proposed Monitor**”) understands that Calgary Oil & Gas Syndicate Group Ltd. (“**Syndicate Group**”), Calgary Oil & Gas Intercontinental Group Ltd. (“**Intercontinental**”) (in its own capacity and in its capacity as General Partner of T5 SC Oil and Gas Limited Partnership), Calgary Oil and Syndicate Partners Ltd. (“**Syndicate Partners**”), and Petroworld Energy Ltd (“**Petroworld**”) (collectively referred to as the “**Applicants**”) will be making an application to the Court of Queen’s Bench of Alberta (the “**Court**”) for an order (the “**Initial Order**”) pursuant to the *Companies’ Creditors Arrangement Act*, R.S.C. 1985 c. C-36, as amended (the “**CCAA**”).
2. T5 SC Oil and Gas Limited Partnership (the "**Partnership**") is a partnership to which Intercontinental is the general partner with a 1% interest and Syndicate Partners is the limited partner with a 99% interest. While the Partnership is not an applicant to the Proceedings, it is an integral part of the overall corporate structure of the Applicants and carries on active business operations forming the core of the Applicants’ business. Consequently, the Applicants will be requesting that this Honourable Court also grant a stay of proceedings with respect to the Partnership. The Applicants and the Partnership are collectively referred to as the “**Companies**”.
3. The Applicants propose that BDO be appointed as Monitor of the Companies within the CCAA proceedings (the “**Proceedings**”).

PURPOSE

4. The purpose of this limited scope report (the “**Pre-Filing Report**”) is to provide information to this Honourable Court with respect to:
 - a. BDO’s qualification to act as Monitor;
 - b. Background information in respect of the Companies and their businesses;
 - c. The Proposed Monitor’s understanding of the basis for the CCAA application;

- d. Information surrounding the Companies' request of the Court for the Initial Order and the relief contained therein including, *inter alia*:
 - i. the granting of an initial stay of proceedings through to February 20, 2021;
 - ii. the designation of certain suppliers to be critical suppliers of the Companies (the "**Critical Suppliers**"); and
 - iii. the establishment of certain Court-ordered charges.
- e. An overview of the Companies' initial cash flow forecast prepared in accordance with section 10(2) of the CCAA; and
- f. The Proposed Monitor's recommendations in respect of the above, as applicable.

TERMS OF REFERENCE AND DISCLAIMER

- 5. In preparing this Pre-Filing Report, the Proposed Monitor has been provided with, and has relied upon unaudited financial information, certain books and records of the Companies, financial information prepared by the Companies and discussions with the Companies' management ("**Management**") and the Companies' legal counsel (collectively the "**Information**").
- 6. The Proposed Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided as necessary; however, the Proposed Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such Information in such a manner that would wholly or partially comply with standards as set out in the *Chartered Professional Accountants Canada Handbook* (the "**CPA Handbook**"). Consequently, the Proposal Monitor expresses no opinion or other form of assurance in respect of any such Information contained in this Pre-Filing Report.

7. Some of the Information referred to in this Pre-Filing Report consists of forecasts and projections prepared by Management based on its estimates and assumptions. An examination or review of any financial forecast and projections as outlined in the CPA Handbook has not been performed. Readers are cautioned that actual results will vary from projections and such variances could be significant.
8. Unless otherwise stated, all monetary amounts noted herein are expressed in Canadian dollars.

BDO CANADA LIMITED'S QUALIFICATIONS TO ACT AS MONITOR

9. BDO is a trustee within the meaning of section 2(1) of the *Bankruptcy and Insolvency Act* and is not subject to any of the restrictions on who may be appointed as Monitor set out in Section 11.7(2) of the CCAA. BDO has provided its consent to act as Monitor in the Proceedings, a copy of which is attached as Exhibit "25" to the Affidavit of Mr. Ryan Martin sworn on February 5, 2021 (the "**Initial Ryan Affidavit**") and filed in the Proceedings.

BUSINESS OVERVIEW

General

10. The Companies are a group of affiliated privately-held entities that are engaged in energy production in Alberta, with expertise in the exploration, development and production of natural gas and liquefied natural gas. The Companies' oil and gas portfolio is primarily owned, managed and operated by Intercontinental, whose business operations are further conducted through the Partnership.
11. The core focus of the Companies' operations is the production of natural gas and natural gas liquids from 10 wells in the Spirit River Formation in the Ferrier area in Alberta. Recent production levels have totaled approximately 2,700 boe/d, of which approximately 83% consisted of natural gas production and approximately 17% consisted of liquefied natural gas production.
12. The Companies do not have any employees with their operations being managed by four consultants.

Syndicate Group

13. Syndicate Group is a holding company holding 100% of the voting shares in Syndicate Partners.

Syndicate Partners

14. Syndicate Partners is a holding company, holding 100% of the voting shares in Intercontinental and Petroworld. As noted earlier in this Pre-Filing Report, Syndicate Partners is a limited partner with a 99% interest in the Partnership.

Intercontinental

15. Intercontinental's oil and gas assets are located in the Ferrier area of west central Alberta, on the Sunchild First Nation. Intercontinental has a 100% working interest and comprehensive 3D seismic coverage in the assets, which are part of the Spirit River Formation. As noted earlier in this Pre-Filing Report, Intercontinental is a general partner in the Partnership and holds 1% of the partnership interest therein.

Petroworld

16. Petroworld's sole business operations are to provide office space and supplies and office management support to Intercontinental.

Partnership

17. Intercontinental's business operations are conducted through the Partnership.

BDO'S UNDERSTANDING OF THE BASIS OF THE APPLICATION

18. As set out in detail in the Initial Ryan Affidavit, as a junior energy group, the Companies have been significantly impacted by challenging market conditions in the Canadian oil and gas industry, including the protracted depressed energy pricing, as well as market volatility due to several factors including the COVID-19 pandemic.

19. Management advises that while positive cash flow is currently generated from operations, it is insufficient to provide for the immediate satisfaction of all obligations. However, Management believes that given the total proved reserve values of the Companies oil and gas assets and the potential end of the COVID-19 pandemic, the Companies' financial struggles are temporary and that there is a viable financial outlook in the long-term.
20. As set out in detail in the Initial Ryan Affidavit, the Companies' principal secured creditor is Crown Capital Partner Funding, LP, by its general partner Crown Capital LP Partner Funding Inc. (collectively, "**Crown Capital**") and the current principal obligations to Crown Capital are in excess of \$27 million.
21. Several events of default pursuant to the obligations to Crown Capital occurred in or around March 2020. Consequently, a forbearance and amending agreement dated October 16, 2020 (the "**Forbearance Agreement**") was entered into, pursuant to which Crown Capital agreed to forbear from enforcement proceedings. The terms of the Forbearance Agreement contemplate that a strategic alternative process with the Companies' oil and gas assets be undertaken. Consequently, on January 14, 2021, the Companies entered into an engagement agreement with Peters & Co. Limited to act as financial advisor to administer such a process (the "**FA Process**"). The deadline for non-binding proposals in the FA Process is March 17, 2021. Management advises that it is concerned that the FA Process will ultimately result in a distressed sale of the oil and gas assets, which Management does not believe is the best alternative, particularly in the current market place with less than optimal conditions.
22. In addition to the secured obligations to Crown Capital, Management advises that approximately \$12.2 million is owed to trade creditors, many of whom have commenced actions in respect of outstanding accounts.

23. In light of Management's belief that the Companies' have long-term viability, Management is of the view that it should be afforded the opportunity to further pursue potential restructuring alternatives prior to acceding to what Management believes will be a sale of the oil and gas assets through the FA Process. Although the Applicants acknowledge the defaults in respect of the principal obligations to Crown Capital, Management believe that the commencement of proceedings under the CCAA is in the best interests of the Companies and is necessary to provide the stability required in order to provide time for Management to pursue potential restructuring alternatives for the benefit of all stakeholders.
24. Should the Court grant the Initial Order, Management advises that it intends to place the FA Process on hold to allow the Companies' time to explore and pursue alternative restructuring scenarios.

CASH FLOW FORECAST

25. In accordance with section 10(2) of the CCAA, Management has prepared a cash flow forecast (the "**Initial Forecast**") and accompanying notes and assumptions for the period February 1 - May 2, 2021 (the "**Initial Forecast Period**") a copy of which is appended as Exhibit "24" to the Initial Ryan Affidavit and **Appendix "A"** to this Pre-Filing Report. The Initial Forecast has been prepared by Management for the purpose described in the notes attached, using the probable and hypothetical assumptions set out in the attached notes. A summary of the Initial Forecast, together with a brief description of the material components is provided below.

	February 1 - May 2, 2021
Receipts	
Production revenues	\$ 5,452,650
	<u>5,452,650</u>
Operating Disbursements	
Royalties	618,486
Production royalties	221,491
Operating expenses	483,715
Transportation	136,159
G&A contractors	150,533
G&A rent	36,000
Gas processing fees	1,048,122
GST remittance	186,500
Professional fees	349,998
	<u>3,231,004</u>
Non-Operating Disbursements	
Finance leases	249,782
Interest expense	716,826
	<u>966,608</u>
Total Disbursements	<u>4,197,612</u>
Net cash flow	1,255,038
Cash - beginning	23,128
Cash - closing	<u>\$ 1,278,166</u>

26. In our capacity as the Proposed Monitor of the Applicants, we have reviewed the reasonableness of the Initial Forecast in accordance with section 23(1)(b) of the CCAA and can offer the following comments:

- a. The Applicants are projecting positive cash flow of approximately \$1.3 million over the Initial Forecast Period based on the following key assumptions:
 - i. third party engineering reports and price decks have been utilized for purposes of production and pricing assumptions. Management anticipates that recent maintenance work will yield increased production over the Initial Forecast Period;
 - ii. the Applicants will regain full access to production revenues commencing with the settlement of revenues from January production on February 25, 2021; and

- iii. principal payments to Crown Capital will continue to be deferred during the Initial Forecast Period.
- b. As set out in the Initial Ryan Affidavit, the Forbearance Agreement with Crown Capital provides that the Companies' marketers make payment of production revenues into a "lockbox account" with the Bank of Montreal (the "**Blocked Account**") that Management is only able to view online. The Applicants then submit requests to Crown Capital for money from the Blocked Account to fund payment of operating expenses, which requests are addressed at the discretion of Crown Capital. In connection with the commencement of proceedings under the CCAA, the Companies will be seeking authority to operate without the Blocked Account with a view to improving Management's ability to operate more efficiently during the CCAA proceedings. If that relief is granted, the Proposed Monitor would continue to supervise and report upon the Companies' expenditures in the ordinary course.
- c. The Proposed Monitor wishes to highlight that the Initial Forecast indicates that the Companies currently only have a nominal amount of funds initially available which could prove problematic in the short-term in the event suppliers require pre-payment for goods or services, or if emergent situations arise. Management has advised that it is working towards arranging for interim financing to address such payment requirements that may arise prior to the settlement of January production revenues on February 25, 2021.
- d. Based on the Initial Forecast and accompanying assumptions, the Proposed Monitor considers that the Companies' liquidity appears sufficient for the Initial Forecast Period provided that satisfactory arrangements are made to address any potential unexpected short-term cash requirements and the current restrictions associated with the Blocked Account can be resolved.

27. Our review consisted of inquiries, analytical procedures and discussions related to information supplied to us by Management. Since hypothetical assumptions need not be supported, our procedures with respect to them were limited to evaluating whether they were consistent with the purpose of the Initial Forecast. We have also reviewed support provided by Management for the probable assumptions and the preparation and presentation of the Initial Forecast.
28. Based on our review, nothing has come to our attention that causes us to believe that, in all material respects:
- a. The hypothetical assumptions are not consistent with the purpose of the Initial Forecast;
 - b. As at the date of this Pre-Filing Report, the probable assumptions developed by Management are not suitably supported and consistent with the plans of the Applicants or do not provide a reasonable basis for the Initial Forecast, given the hypothetical assumptions; or
 - c. The Initial Forecast does not reflect the probable and hypothetical assumptions.
29. Since the Initial Forecast is based on assumptions regarding future events, actual results will vary from the information presented, even if the hypothetical assumptions occur, and such variations may be material. Accordingly, we express no assurance or representations as to whether the Initial Forecast will be met. We express no opinion or other form of assurance with respect to the accuracy of any financial information presented in this Pre-Filing Report. The Initial Forecast has been prepared solely for the purpose of demonstrating the Companies' ability to fund operations during the Initial Forecast Period and readers are cautioned that it might not be appropriate for other uses.

ADMINISTRATION CHARGE

30. The Applicants will be seeking a first charge on the assets, property and undertaking of the Companies' in favour of the Applicants' legal counsel, the Monitor and counsel to the Monitor as security for the professional fees and disbursements incurred in respect of the Proceedings in the amount of \$350,000 (the "**Administration Charge**").
31. Should the request for an Initial Order be granted and if the Court sees fit to include priority charges therein at this time, the Proposed Monitor believes that it is appropriate that the proposed beneficiaries of the Administration Charge be afforded the benefit of such a charge as they will be undertaking key roles in the Applicants' efforts towards completing a successful restructuring.
32. The Proposed Monitor believes that the quantum of the Administration Charge being sought is reasonable and appropriate in the circumstances and is not unreasonable in comparison to similar Court-ordered charges in comparable proceedings for a time period that exceeds the initial 10-day stay period.

CRITICAL SUPPLIERS' CHARGE

33. As detailed in the Initial Ryan Affidavit, the Applicants have identified a number of suppliers whose services and products Management believes are essential to the ongoing operations and that the interruption of the supply of these goods or services could negatively impact ongoing natural gas and liquefied natural gas production (the "**Critical Suppliers**").
34. The Applicants will be seeking:
 - a. the Court's authorization to pay amounts owing for goods and services supplied to the Applicants by the Critical Suppliers both prior to and after the date of the Initial Order if the Monitor consents and, in the opinion of the Applicants following consultation with the Monitor, the supplier or vendor is necessary for the operation or preservation of the Applicants' businesses or property; and

- b. a nominal charge in the amount of \$60,000 to protect the Critical Suppliers ranking subordinate to the Administration Charge (the “**Critical Suppliers’ Charge**”).
35. Should the Initial Order be granted and if the Court sees fit to include priority charges therein at this time, the Proposed Monitor believes that the nature of the relief being sought in respect of the Critical Suppliers is appropriate in the circumstances particularly given the necessity for the Monitor’s consent to make payments to the Critical Suppliers.

DIRECTORS’ CHARGE

36. The Applicants will be seeking a charge on the assets, property and undertaking of the Companies’ in favour of the Applicants’ directors and officers (the “**Directors’ Charge**”) in the amount of \$100,000 ranking subordinate to the Administration Charge and the Critical Suppliers’ Charge.
37. Management asserts that a successful restructuring will only be possible with the continued participation of its directors and officers, as these individuals have specialized expertise and relationships with the Applicants’ stakeholders. In addition, they also have significant knowledge regarding the Applicants’ business and operations which cannot be easily replicated or replaced.
38. The proposed quantum of the Directors’ Charge was calculated to provide sufficient coverage for approximately one month’s estimated GST remittance and the deductible that would be required to be paid in respect of a claim against the Applicants’ directors and officers’ insurance coverage.
39. The Proposed Monitor agrees that the Applicants’ directors and officers will add value to the restructuring process and is of the view that the creation of the proposed Directors’ Charge is reasonable and appropriate in the circumstances should the Initial Order be granted and if the Court sees fit to include priority charges therein at this time.

STAY OF PROCEEDINGS SOUGHT BY THE PARTNERSHIP

40. As set out earlier in this Pre-Filing Report, while the Partnership is not an applicant to the Proceedings, the Applicants will be requesting that this Honourable Court also grant a stay of proceedings with respect to the Partnership.
41. In light of the inter-relationship of the Companies and the importance of the Partnership continuing business in an uninterrupted fashion should the Initial Order be granted, the Proposed Monitor supports the extension of a stay of proceedings to the Partnership.

All of which is respectfully submitted this 8th day of February, 2021.

BDO Canada Limited,
in its capacity as the Proposed Monitor of Calgary Oil & Gas Syndicate Group Ltd.,
Calgary Oil & Gas Intercontinental Group Ltd., Calgary Oil and Syndicate Partners Ltd.,
Petroworld Energy Ltd. and T5 SC Oil and Gas Limited Partnership
and not in its personal or corporate capacity



Per: Marc Kelly
Senior Vice President

APPENDIX “A”

Calgary Oil and Gas Intercontinental Group Ltd.
Notes to the Cash Flow Statement
For the period of February 1st to April 30th

Note 1- Production revenue: relates to revenues associated with the sale of natural gas and natural gas liquids. Calgary Oil and Gas has done a recent maintenance operation with new tubing on four wells and an additional compressor and anticipates increased production rates and higher revenues moving forward. Sproule engineering reports were used for production estimates and Peter's & Co. price decks were used for pricing estimates.

Note 2- Royalties: Crown, freehold and GORR royalties are a function of production prices, volumes and mix.

Note 3- Production royalty expense: This relates to a production payment being paid to Crown Capital Partners on production revenue currently averaging about 4% of revenues. This payment is a result of the master loan agreement.

Note 4- Operating expense: Expected operating expenses over the forecast period total \$483,715 for the 13 weeks ending April 30, 2021. These disbursements consist of vendor payments (and prepayments) for hauling and transportation, parts, consumables (glycol, methanol and lubricants), chemicals, repairs, regulatory costs and licenses, and rentals. Includes potential arrears payments to four key suppliers in order to ensure continuity of operations and avoid production downtime.

Note 5- Transportation expense: This relates to firm service unabsorbed demand charges on the TC\Nova pipeline system. These costs are based a contractual arrangement with the pipeline company and are the maximum based on current forecasted production levels.

Note 6- General & administrative: Consists of rent, contractor fees and accounting system fees. Rent is currently being negotiated with the landlord and could be reduced and contractor and accounting system fees are fixed.

Note 7- Gas processing: Consists of gas processing costs to Keyera via their Strachan gas plant. These costs are set under a master processing agreement and are variable based on throughput plant volumes.

Note 8- Professional fees: Estimated legal and monitor fees throughout the restructuring period.

Note 9- Finance leases: Relates to rentals on 3 compressor units, 1 gen set unit, 1 4.5mmbtu line heater and 2 separator units. This equipment is required to keep production flowing on a daily basis.

Note 10- Interest expense: Relates to interest payable to Crown Capital Partners on the \$27.0 mil loan agreement. They have a fixed floating charge over all present and after acquired assets of the entity and any subsidiaries of joint venture, providing a first lien on all assets.

Note 11- Opening cash: Opening cash is the cash remaining in the company's bank accounts after all issued cheques have cleared as it is assumed that all issued cheques will be honoured. Opening cash does not include funds totalling \$866,977 which is held in term deposits as Letters of Credit for Nova and Keyera or funds in the Lockbox account controlled by Crown Capital, as such funds are not accessible by the Company.



PETROWORLD

TRIPLE FIVE ENERGY GROUP COMPANY

BDO Canada Limited
110, 5800 – 2nd Street SW

Calgary, AB T2H 0H2

Attention: Mr. Marc Kelly

February 5, 2021

Dear: Mr. Kelly

Re: Proceedings under the Companies' Creditors Arrangements Act ("CCAA")

In connection with the application by the Elcano Group for the commencement of proceedings under the CCAA, the management ("Management") of Calgary Oil & Gas Syndicate Group Ltd., Calgary Oil & Gas Intercontinental Group Ltd., Calgary Oil and Syndicate Partners Ltd., Petroworld Energy Ltd. and T5 SC Oil and Gas Limited Partnership (collectively referred to as the "Companies") has prepared the attached Cash Flow Forecast (the "Forecast") and underlying assumptions upon which the Forecast is based.

Management confirms that:

- The Forecast and underlying assumptions are the responsibility of the Companies;
- All material information relevant to the Forecast and the underlying assumptions have been made available to BDO Canada Limited in its capacity as the proposed Monitor; and
- Management has taken all actions that it considers necessary to ensure that:
 - The individual assumptions underlying the Forecast are appropriate in the circumstances;
 - That the underlying assumptions, taken as a whole, are appropriate in the circumstances; and
 - All relevant assumptions have been properly presented in the notes to the Forecast.

Management understands and agrees that the determination of what constitutes a material adverse change from the Forecast, or with the financial circumstances of the Companies, is ultimately at the discretion of the Monitor notwithstanding that Management may disagree with such determination.

Yours very truly,

Per: _____