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**1901 - 07098**

**COURT OF QUEEN'S BENCH OF ALBERTA**

**CALGARY**

**PLAINTIFF**

**SAFEWAY HOLDINGS (ALBERTA) LTD.**

**DEFENDANTS**

**PETROCAPITA OIL AND GAS L.P.,  
PETROCAPITA G.P. I LTD., PETROCAPITA  
PROCESSING L.P. AND PETROCAPITA G.P. II  
LTD.**

**DOCUMENT**

**THIRD REPORT OF THE COURT APPOINTED  
RECEIVER AND MANAGER OF PETROCAPITA  
OIL AND GAS L.P. , PETROCAPITA G.P. I LTD.,  
PETROCAPITA PROCESSING L.P. AND  
PETROCAPITA G.P. II LTD.**

**DATED AUGUST 4, 2020**

**PREPARED BY HUDSON & COMPANY  
INSOLVENCY TRUSTEES INC.**

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CONTACT INFORMATION OF  
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## INTRODUCTION AND BACKGROUND

### Introduction

1. Pursuant to an Order (the “**Receivership Order**”) granted by the Court of Queen’s Bench of Alberta (the “**Court**”) on June 11, 2019 (the “**Date of Receivership**”), Hudson & Company Insolvency Trustees Inc. (“**Hudson**”) was appointed as receiver and manager (the “**Receiver**”) of Petrocapita Oil and Gas L.P. and Petrocapita G.P. I Ltd. (together, “**Petrocapita Oil and Gas**”). Following an application by the Receiver, by order dated August 20, 2019 the Court granted an **Amended Receivership Order**, which resulted in Petrocapita Processing L.P. and Petrocapita G.P. II Ltd. being added as part of the companies collectively referred to above as Petrocapita Oil and Gas.
2. The Receivership Order dated June 11, 2019 was granted as a result of an application by Safeway Holdings (Alberta) Ltd. (“**Safeway**”), which holds registered security over all of Petrocapita Oil and Gas’s present and after acquired property pursuant to a general security agreement.
3. The Receiver retained Dentons Canada LLP (“**Dentons**”) as its independent legal counsel.

### Notice to Reader

4. In preparing this report, the Receiver has relied on unaudited financial statements, Petrocapita Oil and Gas’s books and records and discussions with former management, interested parties and other stakeholders. The Receiver has not performed an independent audit or review of the information provided, or otherwise made any attempt to verify the accuracy or completeness of the information in a manner that would comply with Generally Accepted Assurance Standards pursuant to the Canadian Institute of Chartered Accountants Handbook. The Receiver assumes no responsibility or liability for any loss or damage occasioned by any party

as a result of the use of this Report, or the reproduction, publication or circulation thereof.

## **Background**

5. Petrocapita Oil and Gas is an operating oil and gas company with a focus on acquisition and development of heavy oil production and midstream assets. Petrocapita Oil and Gas holds licenses for approximately 450 operating and shut-in wells in Eastern Alberta and Western Saskatchewan.
6. The Receiver filed its First Report dated August 12, 2019 in support of an application to expand the receivership order to include Petrocapita Processing L.P. and Petrocapita G.P. II Ltd. (the **“First Report”**).
7. The Receiver filed an interim report (the **“First Interim Report”**) dated December 10, 2019 pursuant to Subsection 246(2) of the *Bankruptcy and Insolvency Act*.
8. The Receiver filed its second report (the **“Second Report”**) dated April 24, 2020.
9. This report (the **“Third Report”**) outlines the activities of the Receiver since the date of the Second Report.
10. The Receiver further respectfully seeks approval of the Receiver’s reported actions, fees and costs, and those of its legal counsel, to date in respect of administering these receivership proceedings.

## **ACTIVITIES SINCE THE SECOND REPORT**

### **Operations**

11. Oil production has continued at 4 to 5 wells since the date of the Second Report. The Receiver entered into a sale contract for June 2020 production and was expecting to collect approximately \$60,000 in proceeds on July 25, 2020 from Husky Oil Operations Ltd. These funds have not yet been received but the Receiver is working with its marketing contractor to ensure these funds are collected.

12. While the Receiver did not enter into a production sale contract for July 2020, production continued throughout the month and spot sale proceeds of approximately \$60,000 are expected to be collected from Husky Oil Operations Ltd. on August 25, 2020.
13. In addition to these amounts, a portion of the oil produced during July 2020 has not been sold or delivered for sale, and this volume estimated at 195m<sup>3</sup>, sits in tanks and a battery located on Petrocapita leases. It is expected that after cleaning and transportation costs, net revenues to the Receiver would be approximately \$45,000.
14. The Receiver has continued to receive invoices from contractors, as well as other operational costs, and paid these invoices, where appropriate, as they have been received.

## SALES PROCESS

15. Since the date of the Second Report, the Receiver has continued to work with Revitalize Energy Inc. (“**Revitalize**”), which was formerly identified as Prospect 1 in the Second Report, in an attempt to move towards documented purchase and sale terms.
16. Following the submission of the Second Report, on April 27, 2020 the Receiver attended to court pursuant to the application brought by the secured lender, Safeway, seeking the discharge of the Receiver. Attending at this application were counsel for the Alberta Energy Regulator (the “**AER**”), the Saskatchewan Ministry of Energy and Resources (the “**SMER**”) (collectively, the “**Regulators**”) and the Alberta Orphan Well Association (the “**OWA**”).
17. During the April 27, 2020 hearing, each of these three respective parties argued that the receivership should continue, in order for the Receiver to further consider the expression of interest from Revitalize. The Receiver expressed that, while other offers had been received, no other party was willing to make an *en bloc* offer for the Assets (as defined in the Second Report). The Receiver reported to the Court on all of the pending offers, but ultimately took no position on whether a discharge should be granted in response to Safeway’s application.
18. Safeway’s application was adjourned and the Receiver engaged in discussions with Safeway,

Revitalize, the Regulators and OWA for an extended period, ultimately negotiating an arrangement acceptable to all parties such that Safeway's discharge application was withdrawn.

19. The Receiver then continued to negotiate purchase and sale terms with Revitalize pursuant to its expression of interest in the Assets. On or about July 10, 2020, the Receiver and Revitalize executed a term sheet (the "**Term Sheet**"), the material terms of which included:

- a. the Receiver and Revitalize would diligently pursue a proposed "whitemap" sale transaction, concerning substantially all of the assets of Petrocapita Oil and Gas;
- b. a period of exclusivity was given to Revitalize to review and provide definitive purchase and sale documentation for the assets;
- c. in consideration, Revitalize provided to the Receiver an indemnity supported by a cash deposit, set aside to back the Receiver's fees and costs in order to continue to operate the estate and assure payment of its professional fees and disbursements;
- d. the proposed transaction would require the Receiver to incorporate and transfer the assets to a subsidiary of Petrocapita Oil and Gas ("**Buyco**") and sell the shares of Buyco to Revitalize (and/or its nominee);
- e. the ascribed value of the security deposits held by the Regulators would be divided equally among the Receiver and the purchaser, to be reflected by way of purchase price adjustment based on whether the deposits would be returned to the estate or continue to be held by the Regulators to the account of the purchased assets;
- f. the effective date of the acquisition would be the first of the month in which the sale is completed, if completed within the first three weeks of the said month;
- g. the timeline for negotiations and closing would be very tight, with due diligence to be completed by the purchaser on or before July 15, 2020;
- h. the assets and shares of Buyco would be conveyed to the purchaser free and clear of claims and encumbrances, including rights of first refusal, royalty interests, secured claims, and so on, but subject to "permitted encumbrances", including

Crown claims, freehold lessors and usual permitted encumbrances;

- i. the transaction would be contingent upon Revitalize completing a concurrent transaction with Safeway and/or parties related to Safeway, for acquisition of certain wells;
- j. the transaction would be contingent upon regulatory approval in Alberta and Saskatchewan; and
- k. the transaction would be contingent upon Court approval.

20. Following the execution of the Term Sheet, the Receiver understands that Revitalize submitted discretionary requests to both the AER and the SMER, outlining their plans for the Assets and seeking their respective approvals of the license transfers if the sale was acceptable to the Receiver and approved by the Court.

21. Since that time, the Receiver and Revitalize, through their respective counsel, have been working to finalize a purchase and sale agreement (“PSA”) for the Assets. On August 4, 2020, the Receiver, Revitalize and 2271127 Alberta Ltd. (the “Parties”) executed the PSA, a copy of which is attached hereto, along with the Term Sheet, as Confidential Appendix 1.

22. Although the Receiver has executed the PSA, the Receiver’s endorsement is presently being held in trust by its legal counsel on the condition that it not be released until Court approval for the PSA is obtained. Among other things, the Receiver requires the Court’s approval of the Receiver’s power to incorporate a subsidiary in order to complete the transaction as structured under the PSA; absent that authority, the Receiver would not be in a position to execute the PSA as presented.

23. As noted in the PSA, the effective date of the sale is anticipated to be August 1, 2020 (the “Effective Date”), with any production and sales, and associated costs, prior to the Effective Date being for the account of the Receiver, and any production and sales, and associated costs, after the Effective Date, being to the account of the purchaser.

24. As noted above, both the AER and SMER are holding deposits paid by Petrocapita, which were

available for end of life liability costs in the event that such reclamation work was not performed by Petrocapita. With the PSA contemplating an en-bloc purchase and sale of the Assets, such deposits, which total approximately \$360,000, would normally be repaid as a credit to the receivership estate. The Receiver understands that a portion of these deposits may not be released by the AER and SMER back to the Receiver, but will remain on deposit with each respective regulator to the credit of the purchasers, on account of the Assets. The Receiver is accordingly of the view that 50% of the value of those deposits will form an adjustment upon closing to the credit of the receivership estate.

25. The PSA outlines that all of the Petrocapita Assets are being purchased by Revitalize, and a whitemap outlining the assets being purchased is attached as an exhibit to the PSA. The Receiver understands that both the AER and the SMER required an en-bloc sale of all of the Assets, and would have declined to approve any partial sale where cherry-picking of the 'good' assets would have occurred.
26. As outlined in the Second Report, the Receiver received only one other expression of interest from a company looking to acquire all of the Assets. As noted in the Second Report, this offer was being contemplated by the AER, but ultimately in March 2020, Prospect 2 (as defined in the Second Report), advised of their decision to no longer pursue an interest in the Assets.
27. The Receiver recommends that the offer from Revitalize be accepted for the following reasons:
  - a. The Assets have been extensively, professionally marketed, including by Sayer prior to the receivership.
  - b. No other en-bloc offers exist for the Assets.
  - c. The other offers received offer a net realization, to the receivership estate, of less than the offer from Revitalize.
  - d. Revitalize is acquiring all of the Assets by way of whitemap acquisition. Upon transfer of all of the Petrocapita licenses, the end-of-life liabilities of the assets will become the responsibility of Revitalize. This is demonstrably better than any offer



for only select assets, whereupon the end-of-life liability for the remaining licenses would have been relinquished to the OWA and SMER respectively, causing a further burden to those respective organizations (and ultimately taxpayers) for the clean-up costs for those wells.

- e. The AER appears to have conditionally approved the transfer of the respective licenses. Specifically, the Receiver has been provided a copy of a letter dated July 24, 2020 wherein the Alberta Energy Regulator noted they are “*prepared to grant discretion on the condition that the Applicant commits to the following conditions.*”. From discussions with representatives of Revitalize, the Receiver understands the conditions are acceptable.
- f. The SMER appears to have conditionally approved the transfer of the respective licenses. Specifically, the Receiver was sent an email from the SMER Director of Liability Management which noted that “*my understanding is that we are prepared to approve the license transfer.*”

28. If the sale of the Assets to Revitalize is not approved by this Honourable Court, the Receiver intends to relinquish the remaining assets of Petrocapita Oil and Gas to the OWA and SMER and seek its discharge forthwith. Without this sale, it is not financially feasible to continue this receivership.

## STATEMENT OF RECEIPTS AND DISBURSEMENTS

- 29. Attached as Appendix A to this Supplemental Report is the actual receipts and disbursements of the Receiver up to and including July 31, 2020 (the “**Interim SRD**”).
- 30. In addition to the proposed sale of the Assets to Revitalize, the Receiver respectfully seeks approval of the Interim SRD and its actions and activities to date as described herein.

**HUDSON & COMPANY INSOLVENCY TRUSTEES INC.**

In its capacity as Court-Appointed Receiver and Manager of  
Petrocapita Oil and Gas LP, Petrocapita G.P. I Ltd.,  
Petrocapita Processing LP and Petrocapita G.P. II Ltd.  
and not in its personal capacity



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Stefan DuChene, CPA, CA, CIRP  
Senior Vice-President

## Appendix A

**IN THE MATTER OF THE RECEIVERSHIP OF  
PETROCAPITA OIL AND GAS L.P., et al.  
Hudson & Company Insolvency Trustees Inc., Receiver  
Statement of Receipts and Disbursements  
For the period of June 11, 2019 to July 31, 2020**

<b>RECEIPTS</b>	<b>Totals</b>
Operating receipts - sale of oil and related products	\$ 1,534,668.34
Net of joint-interest-billings	<u>55,452.64</u>
Net oil sale receipts	1,479,215.70
Accounts receivable collections	312,118.21
GST collected	92,220.70
Fund on hand at date of receivership	50,602.84
GST refund	49,498.16
<b>TOTAL RECEIPTS</b>	<b><u>\$ 1,983,655.61</u></b>
<b>DISBURSEMENTS</b>	
Outside consulting, including staffing, wellsite operators, etc.	472,245.53
Operating expenses (well maintenance, supplies, etc.)	461,202.69
Other disbursements incl. royalties, GORR's, surface rentals, etc.	282,233.00
Receiver's fees and costs to February 29, 2020	191,829.00
Insurance - paid through December 31, 2020	128,928.00
Legal fees and costs to February 29, 2020	118,393.17
Transport and trucking costs	116,350.74
Occupation rent	49,731.75
GST remitted to CRA	40,028.54
GST paid on disbursements	25,438.10
GST on Receiver's fees and costs	9,591.48
PST paid on disbursements	6,643.64
GST on legal fees and costs	5,913.79
Other administrative costs	3,566.05
<b>TOTAL DISBURSEMENTS</b>	<b><u>\$ 1,912,095.48</u></b>
<b>Excess of Receipts over Disbursements/ Remaining Funds on Hand</b>	<b><u>\$ 71,560.13</u></b>

## **Confidential Appendix 1**