IN THE MATTER OF THE BANKRUPTCY OF

SPYGLASS RESOURCES CORP.
OF THE CITY OF CALGARY,
IN THE PROVINCE OF ALBERTA

REPORT ON THE TRUSTEE'S PRELIMINARY ADMINISTRATION

ESTATE NO. 25-2316209

On November 14, 2017 (the "**Bankruptcy Date**"), Spyglass Resources Corp. ("**Spyglass**" or the "**Company**") was adjudged bankrupt pursuant to a Bankruptcy Order issued by the Honourable Justice C.M. Jones of the Alberta Court of Queen's Bench (the "**Court**"). Ernst & Young Inc. ("**EYI**") has been appointed as the trustee (the "**Trustee**") in the bankruptcy of Spyglass.

Background

Spyglass was a public oil and gas exploration and production company that was headquartered in Calgary, Alberta and was listed on the TSX under the symbol 'SGL'. The Company was incorporated under the *Business Corporations Act* (Alberta) in 2004. Spyglass conducted its operations in the Western Canadian Sedimentary Basin and was engaged in the acquisition, enhancement and exploration of conventional oil and gas projects in Alberta. Spyglass had an interest in approximately 2,500 producing oil wells in Alberta. Spyglass' operations produced approximately 9,000 barrels of oil equivalent per day.

Spyglass was incorporated as Midnight Oil & Gas Ltd. ("**Midnight**") on September 10, 2004 under the *Business Corporations Act* (Alberta). On June 29, 2010, Midnight filed Articles of Amalgamation to change its name to Pace Oil & Gas Ltd ("**Pace**"). On March 28, 2013, Pace, Charger Energy Corp. ("**Charger**") and AvenEx Energy Corp ("**AvenEx**") completed a Plan of Arrangement whereby Spyglass Resources Corp. was formed through the amalgamation of Pace, Charger and AvenEx. Pace was then renamed to Spyglass Resources Corp.

EYI was appointed as Receiver (the "**Receiver**") of the property, assets and undertakings (the "**Property**") of Spyglass, 1196823 Alberta Ltd., 1288916 Alberta Ltd., 1398850 Alberta Ltd., 1583662 Alberta Ltd., 1636527 Alberta Ltd., AvenEx Energy Partnership, AvenEx Real Estate Acquisition Corp., Westbrook Marketing Limited Partnership (formerly Elbow River Marketing Limited Partnership), 1159002 Alberta Ltd. (formerly Elbow River Marketing Corp.), Meota 2000 Partnership, Pace Oil & Gas Partnership, Pace Oil Resources Ltd. and Seaview Energy

Partnership (collectively, the "**Debtors**"), pursuant to an Order of the Court (the "**Receivership Order**") dated November 26, 2015 (the "**Receivership Date**").

The Debtors' had borrowed approximately $172 million from a syndicate of financial institutions (the "**Syndicate**"). The Syndicate is the first secured creditor of the Debtors.

Court filings, court orders and related information with respect to the receivership, including reports of the Receiver, can be found at www.ey.com/ca/SpyglassResources.

Prior to the Receivership Date, Spyglass was experiencing financial difficulties due primarily to the extended depressed market prices for crude oil, natural gas and other petroleum products. Spyglass attempted to alleviate their financial difficulties by engaging in a broad disposition process for core and non-core assets. Due to insufficient liquidity, Spyglass was unable to continue this disposition process and unable to close a transaction, prompting the Syndicate to successfully petition the Debtors into receivership on November 26, 2015.

As at the Receivership Date, Spyglass operated oil and natural gas properties in Alberta and British Columbia. Spyglass employed 169 individuals (88 employees and 81 contractors) at the date of Receivership.

Pursuant to an Order of the Court pronounced on January 25, 2016, the Receiver implemented a sales and investment solicitation process (the "**SISP**") to realize on the assets of the Debtors.

The Receiver realized on all of the Debtors' valuable assets through four separate transactions, one of which originated from the SISP and three of which originated outside of the ordinary course of the SISP. All of the transactions were approved by the Court through Sale Approval and Vesting Orders pronounced on February 1, 2016, March 7, 2016 and May 11, 2016, respectively.

The three transactions that originated outside of the ordinary course of the SISP were as follows:

a) On January 22, 2016, the Company, the Receiver and their counsel worked to finalize and execute a definitive asset purchase and sale agreement (the "**Journey Transaction**") with Journey Energy Partnership (the "**Journey**"), for a number of properties including the Herronton property, an oil and gas property located in Southern Alberta (the "**Herronton Property**") resulting in the conditional sale of the Herronton Property. The material terms of the Journey Transaction were Journey paid a purchase price subject to adjustments based upon an effective date of January 1, 2016, for the Herronton Property and the total purchase price was $625,000 for the Herronton Property;

b) On January 25, 2016, the Company, the Receiver and their counsel worked to finalize and execute a definitive asset purchase and sale agreement (the "**New North**

Transaction"), with New North Resources Ltd. ("**New North**"), for a number of properties including the Herronton property, an oil and gas property located north of Edmonton (the "**Deer Mountain Property**"), resulting in the conditional sale of the Deer Mountain Property to New North. The material terms of the New North Transaction were New North paid a purchase price subject to adjustments based upon an Effective Date of November 1, 2015, for the Deer Mountain Property and The total purchase price is $1 million for the Deer Mountain Property; and

c) On February 24, 2016, the Company, the Receiver and their counsel worked to finalize and execute a definitive asset purchase and sale agreement (the "**CNRL Transaction**"), with Canadian Natural Resources Limited ("**CNRL**") for oil and gas properties located in southern Alberta, which included the Princess property (the "**Princess Property**"). The material terms of the CNRL Transaction were CNRL paid a purchase price subject to adjustments based upon an effective date of January 1, 2016, for the Princess Property and the total purchase price is $1.00 for the Princess Property.

The transaction that originated from the SISP was a transaction with Sinopeak Energy Ltd. for the purchase of substantially all of the Company's remaining assets ("**Sinopeak Transaction**"). A definitive asset purchase agreement with Sinopeak Energy Ltd. ("**Sinopeak**"), or its nominee, which ended up being SanLing Energy Ltd., on May 2, 2016. Terms of the Sinopeak Transaction were a total purchase price subject to adjustments with an effective date of January 1, 2016, of $47.8 million for substantially all of Spyglass's rights, title, estate, and interests, including the lands outlined therein and the leases, leased substances and the contracts and permits pertaining thereto and all associated wellbores, material, facilities, pipelines, equipment, right to earn interest, royalty interest, and contracts as well as ownership of all partial (subject to applicable restrictions) and wholly owned seismic on or within 1 mile of the leases.

The Receiver has realized all of the Debtors' saleable property.

The Receiver obtained an independent security review from Borden Ladner Gervais LLP ("**BLG**"), indicating that the security granted by the Debtors to the Syndicate constitutes a valid and enforceable first charge security over all present and after acquired assets and undertakings of the Debtors.

As of the date of the Receivership Order, the Debtors owed the Syndicate approximately $171.9 million. Additionally, the Receiver borrowed $7.0 million from the Syndicate by way of Receiver's Certificates in order to fund the receivership proceedings.

The Receiver made the following distributions to date to the Syndicate, which total $58,275,000 million to date:

d) On July 6, 2016, the Court approved an interim distribution to the Syndicate in the amount of $50 million;

e) On October 27, 2016, the Court approved a further interim distribution to the Syndicate in the amount of $5 million;

f) On March 21, 2017, the Court approved a further interim distribution to the Syndicate in the amount of $3 million; and

g) On November 14, 2017, the Court approved a final distribution to the Syndicate in the amount of $275,000.

As of Bankruptcy Date, the remaining amount owing to the Syndicate is approximately $120.3 million.

Given the significant outstanding indebtedness owed to the first secured creditor, the Receiver did not conduct a claims process with respect to unsecured claims. The Receiver has however addressed priority claims and also conducted a claims process with respect to lien claimants.

As a result of the numerous lien claims registered against the Debtors' lands and mineral interests, the Receiver determined that a lien claims process would be the most efficient and cost-effective mechanism to ensure that all lien claims were accounted for and proper distributions made.

In order to ensure that the Receiver had received all lien claims that had been registered against the Debtors' mineral interests, the Receiver sought and obtained an Order from the Court, dated July 6, 2016, establish a lien claims process (the "**Lien Claims Process**"). Throughout the fall of 2016, the Receiver duly administered the Lien Claims Process. The Receiver sought and obtained an Order from the Court, dated January 5, 2017, setting aside certain disputed lien claims, approving certain settlement agreements and declaring that the Lien Claims Process was complete. The Order was not appealed. As a result, no further disbursements are anticipated regarding any lien claims against the Debtors.

On November 14, 2017, the Court approved the discharge of EYI in its mandate as Receiver.

Preliminary Evaluation of Property, Assets and Undertakings

The Trustee was authorized and has taken all necessary steps to take possession of Spyglass' remaining deeds, books, records, documents and property. As at the Bankruptcy Date, Spyglass' remaining property within possession of Trustee in the bankruptcy is comprised of the following:

a) Cash on hand of approximately $101,622.00; and

b) Accounts receivable owing from Spyglass' customers of approximately $Nil.

As noted above, the Receiver obtained an independent security review from BLG, indicating that the security granted by Spyglass to the Syndicate constitutes a valid and enforceable first charge security over all present and after acquired assets and undertakings of Spyglass.

Conservatory & Protective Measures

Prior to the Trustee’s appointment, the Receiver had undertaken the customary conservatory and protective measure with respect to the property of Spyglass.

Books & Records

The books and records of Spyglass that are required for the Trustee's review are in the possession of the Receiver and are presently in an offsite storage facility in Calgary, Alberta. The Receiver has made an inventory of the books and records.

Provable Claims and Secured Claims

The only liabilities the Trustee is aware of are the significant deficiency claim owed to the Syndicate and unsecured liabilities as listed on the Statement of Affairs. The Trustee understands the amounts owing as unsecured liabilities may be incorrect, but made its best effort to include the names and addresses of all known potential claimants.

Legal Proceedings

No legal proceedings have been instituted by the Trustee to date.

Possible Conflict of Interest

EYI was the court appointed Receiver of Spyglass’ Property which has all been realized and the Receiver has been discharged.

EYI is not aware of any possible conflicts of interest with respect to it acting as Trustee in the bankruptcy of Spyglass.

ERNST & YOUNG INC.
In its capacity as Trustee in the bankruptcy of Spyglass Resources Corp. and not its personal capacity

Neil Narfason, CPA, CA, CIRP, LIT, CBV
Senior Vice- President