

IN THE MATTER OF THE BANKRUPTCY OF

BLZ ENERGY LTD.
OF THE CITY OF CALGARY,
IN THE PROVINCE OF ALBERTA

REPORT ON THE TRUSTEE'S
PRELIMINARY ADMINISTRATION

ESTATE NO. 25-2282903

On August 16, 2017 (the "Assignment Date"), BLZ Energy Ltd. ("BLZ" or the "Company") filed an assignment into bankruptcy pursuant to the *Bankruptcy and Insolvency Act* ("BIA"). Subject to affirmation by the creditors of BLZ, Ernst & Young Inc. ("EYI") has been appointed by the official receiver as the trustee (the "Trustee") in the bankruptcy of BLZ.

Background

BLZ is a Calgary-based private company which was incorporated in Alberta on February 12, 2007 as Blaze Oil and Gas Ltd. The Company changed its name to BLZ Energy Ltd. on October 1, 2007. The majority shareholder in BLZ is Walton Energy Ltd, a member of a group of trusts, corporations, and partnerships made up of hundreds of entities in Canada, the United States and Germany (the "Walton Group").

BLZ is in the business of acquisition, exploration and development of petroleum and natural gas properties as well as the production of crude oil and natural gas in Western Canada.

As at the Assignment Date, BLZ's was not operating any of its wells, facilities or pipelines. The Trustee understands that all of BLZ's wells, facilities and pipelines in which BLZ is the operator were suspended or abandoned as at the Assignment Date.

BLZ's core oil and gas properties are located in Yoho, British Columbia (the "Yoho Property"). Within the Yoho Property, BLZ has 28 wells, 12 of which are licensed wells (6 wells 100% owned) and 16 of which are operated by BLZ's joint venture partners with ranging working interests from 4% to 25%. The Yoho Property had natural gas production of approximately 180 boe/day during year ended 2016.

BLZ's non-core properties (outside of the Yoho area) include:

- Alberta: 4 wells located in Rainbow and Pingle, all of which were shut-in as at the date of bankruptcy;

- British Columbia: 4 wells located in Sierra & Romeo and Gote, 3 of which were suspended and 1 was shut-in as at the date of bankruptcy; and
- Saskatchewan: 1 well which was abandoned in the fall of 2012.

BLZ's most recent independent reserve assessment and valuation was completed by GLJ Petroleum Consultants with an effective date of December 31, 2015 (the "2015 Reserve Report"). The 2015 Reserve Report assigned a proved plus probable (discounted at 10%) value of \$808,000 to BLZ's oil and gas interest in the Yoho Property and \$73,000 to BLZ's oil and gas interest in the Rainbow Property. The 2015 Reserve Report did not assign value to any of BLZ's other oil and gas properties.

BLZ's primary joint venture partner and operator of its oil and gas interests in the Yoho Property is CQ Canada Energy Resources Partnership ("CQ Energy"). CQ Energy has filed ordinary unsecured claim against BLZ in bankruptcy in the amount of \$1,703,642.30 (the "CQ Energy Claim"). The CQ Energy claim primarily comprises of joint venture amounts due from BLZ to CQ Energy arising from capital expenditures associated with an expansion to a gas processing facility at the Yoho Property.

The Trustee is continuing to evaluate BLZ's oil and gas interests and, as at the date of this report, the Trustee has not taken possession of any of wells, facilities or pipelines. Upon completion of the evaluation, the Trustee expects to issue notice to the applicable provincial oil and gas regulator(s) identifying those wells, facilities and pipelines that the Trustee will not take possession of and will disclaim its interest to those assets (the "Disclaimer Notices"). The Trustee will seek Inspector approval prior to issuing the Disclaimer Notices.

BLZ did not have any employees on the Assignment Date and its operations were being managed by personnel from the Walton Group. These employees have continued to assist the Trustee in its administration of the bankruptcy.

BLZ's head office was located at Suite 2500, 215 - 2nd Street SW, Calgary, Alberta T2P 1M4 (the "Head Office"). The Head Office was shared with an affiliated company, Walton Global Investments Ltd. ("WIGL"). On September 1, 2017, WIGL relocated their Canadian head office location to Suite 2100, 144 - 4th Avenue SW, Calgary, Alberta, T2P 3N4, at which time BLZ's books and records were placed into storage.

Secured Claim

At the Assignment Date, the BLZ's primary secured lender was WIGL. The following is an overview of the indebtedness outstanding from BLZ to WIGL as at the Assignment Date.

In the matter of the bankruptcy of BLZ Indebtness to Walton Global Investments Ltd. ("WGIL") in CAD\$			Table 1.0
Creditor	Secured / Unsecured	Balance of Loan at Aug-16-17	Description
WGIL	Secured	7,832,630	WGIL's loan is secured by a charge over certain oil and gas property interests, accounts receivable and office equipment. This loan was transferred from Ojai Energy Ltd. to WGIL on February 1, 2017. The loan was made to BLZ in connection with a restructuring of BLZ's bank debt in 2012.
WGIL	Unsecured	4,743,829	The loans were provided to BLZ as a result of declining natural gas and oil prices during 2014/2015 in order to fund ongoing operations.
Total		12,576,459	

The Trustee retained independent legal counsel prior to BLZ's first meeting of creditors ("FMO") for the purpose of reviewing the validity and enforceability of the WGIL Secured Loan. As at the date of this report, the security review of the WGIL Secured Loan has not been completed.

Preliminary Evaluation of Property, Assets and Undertakings

BLZ's assets as at the Assignment Date comprised of the following:

In the matter of the bankruptcy of BLZ		Table 2.0
Property of BLZ as at the Assignment Date		
Asset	Estimated Value ¹	
Cash	-	
Accounts receivable	187,177	
Oil and gas properties	To be determined	

¹Accounts receivable based upon BLZ's books and records as at the Assignment Date.

Conservatory & Protective Measures

The Trustee has undertaken the following conservatory and protective measure with respect to the property of BLZ:

1. The Trustee has notified BLZ's financial institutions of the bankruptcy and had BLZ's bank account frozen with the exception of receiving deposits from customers;
2. The Trustee is reconciling BLZ's accounts receivable balances and will notify all parties that owed monies to BLZ as at Assignment Date to remit payment to the Trustee; and
3. BLZ's corporate insurance in affect as at the Assignment Date expired on August 27, 2017. The Trustee has obtained a new insurance policy and the insurance will remain in effect as long as the Trustee has an interest in BLZ's oil and gas interests. An overview of coverage under BLZ's insurance policy is as follows:
 - a. General Liability - \$10.0 million per occurrence;
 - b. Operators Extra Expense (Well out of Control, Care, Custody & Control) - \$15.0 million; and
 - c. Property and Business Interruption - \$2.0 million.

Books and records

The books and records of BLZ are presently in storage and the Trustee has full access to these records. The Trustee is making an inventory of the books and records.

Provable Claims and Secured Claims

The BLZ liabilities are listed in the Statement of Affairs.

The Statement of Affairs identified the CQ Energy Claim as an ordinary unsecured claim of \$270,060.62. This amount was determined per BLZ's books and records as at the Assignment Date.

The Trustee notes that the CQ Energy Claim filed in the bankruptcy of BLZ is in the amount of \$1,703,642.30.

The Trustee has accepted the CQ Energy Claim as filed for the purposes of voting at the first meeting of creditors; however, the Trustee will be required to further reconcile the balance owed to per the CQ Energy Claim as filed to BLZ's books and records before the claim is accepted in the bankruptcy for distribution purposes.

The Trustee has not identified any further material differences between the liabilities per the Statement of Affairs and the Proof of Claims filed as at the date of this report.

Legal Proceedings

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

Possible Conflict of Interest

On April 28, 2017, Walton International Group Inc., together with 32 entities from the Walton Group, (collectively, the "CCAA Applicants") sought and obtained protection pursuant to the *Companies' Creditors Arrangement Act, R.S.C. 1985, C-36*, as amended pursuant to an Order of the Court of Queen's Bench of Alberta (the "Initial Order").

EYI was appointed as Monitor of the Applicants pursuant to the terms of the Initial Order. In addition to EYI's role as Monitor of the CCAA Applicants, EYI is also providing tax and advisory services to the Walton Group of Companies.

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

Dated as of this 5th day of September, 2017

ERNST & YOUNG INC.
In its capacity as Trustee in the bankruptcy
of BLZ Energy Ltd. and not its
personal capacity



Peter Chisholm, CA, CPA, CIRP, LIT
Vice President