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COURT FILE NUMBER	1801-09424
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 THE COMPROMISE OR ARRANGEMENT OF RANCH ENERGY CORPORATION, OPSMOBIL INC., 1734163 ALBERTA INC., 1859821 ALBERTA INC., OPSMOBIL GROUP INC., OPSMOBIL CONSTRUCTION INC., OPSMOBIL ENERGY SERVICES INC., AIR DALLAIRE LTD. AND K.L. CAPITAL CORP.
DOCUMENT	FIRST REPORT OF THE MONITOR MATERIAL ADVERSE CHANGE REPORT JULY 18, 2018
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INTRODUCTION

1. On July 4, 2018, the Court of Queen's Bench of Alberta (the "Court") granted an Order (the "Interim Stay Order") approving, amongst other things, an interim stay of proceedings up to July 10, 2018 (the "Interim Stay Period") with respect to the Applicants, namely Ranch Energy Corporation ("Ranch"), OpsMobil Inc. ("OpsMobil"), 1734163 Alberta Inc. ("1734 AB"), 1859821 Alberta Inc. ("1859 AB"), OpsMobil Group Inc. ("Ops Group"), OpsMobil Construction Inc. ("Ops Construction"), OpsMobil Energy Services Inc. ("Ops Services"), Air Dallaire Ltd. ("Air Dallaire") and K.L. Capital Corp. ("KLCC") (collectively the "Applicants"). Ops Group, Ops Construction, Ops Services, Air Dallaire and KLCC are collectively referred to as "OpsMobil".

2. The Interim Stay Order further approved interim financing up to the amount of $856,000 (the "Interim Borrowings") to be advanced from Third Eye Capital Corporation ("TEC") to fund critical payables during the Interim Stay Period. The Interim Borrowings are secured by a first ranking charge on the property of the Applicants approved by the Interim Stay Order.

3. On July 10, 2018 (the "Filing Date"), the Applicants sought and obtained protection pursuant to the *Companies' Creditors Arrangement Act, R.S.C. 1985, C-36*, as amended (the "CCAA") pursuant to an Order of this Honourable Court (the "Initial Order").

4. Pursuant to the Initial Order:

   a) Ernst & Young Inc. was appointed as Monitor ("EY" or the "Monitor") of the Applicants;

   b) A stay of proceedings was granted as against the Applicants and the Monitor up to and including July 20, 2018 (the "Initial Stay Period");

   c) The Applicants were authorized to borrow interim financing of $1,356,000 (the "Interim Loan") from TEC pursuant to the interim lending credit facility. The Interim Loan is the aggregate of the Interim Borrowings approved by the Interim Stay Order and authorized borrowings of an additional $500,000 to fund the Applicants during the Initial Stay Period; and

   d) The Interim Loan is secured by a first ranking charge (the "Interim Lender's Charge") over the property of the Applicants.

BACKGROUND

5. The Applicants' businesses are segregated between natural gas production & processing and oilfield services, as follows:

   a) Ranch is the operator or has a working interest in approximately 1,600 oil and gas wells in northeast British Columbia and owns and operates a gas processing plant in the Wildboy district of British Columbia (collectively, the "PNG Assets"). All of Ranch's oil and gas properties were acquired from Predator Oil BC Ltd. ("Predator") on July 10, 2017. The permits associated with the PNG Assets continue to be held by Predator pursuant to a trust agreement as Ranch was not qualified to hold the permits under British Columbia Oil and Gas Commission ("BCOGC") regulations; and

   b) OpsMobil are a group of oilfield service companies that provided construction, aviation and energy services in the oil and gas sector. As at the Filing Date, OpsMobil had 45 employees which were providing operating and oilfield services to Ranch and OpsMobil had no other active material business ongoing.

6. The Applicants' business was negatively impacted by the depressed economic climate in the oil and gas industry as a result of low oil & gas commodity prices.

PURPOSE

7. The purpose of this first report of the Monitor (the "First Report") is to provide the Court with the Monitor's comments on:

   a) The notices issued by the Monitor to the creditors of the Applicants in accordance with the Initial Order and other activities undertaken by the Monitor;

   b) The Applicant's failure to secure additional Interim Financing which constitutes a material adverse change within these CCAA Proceedings as the Applicants do not have sufficient liquidity to operate beyond July 20, 2018 as evidenced by the Applicants' cash flow forecast (the "Cash Flow Projection") for the period of July 21, 2018 to August 4, 2018 (the "Forecast Period");

   c) The impact of the current circumstances on the Applicants including the Applicants' inability, without further financing, to either continue to operate or conduct a safe shut-in of its active oil and gas operations in north eastern British Columbia; and

   d) The Monitor's recommendation to terminate these CCAA proceedings.

TERMS OF REFERENCE AND DISCLAIMER

8. In preparing this First Report, the Monitor has been provided with, and has relied upon, unaudited financial information, the Applicants' books and records, financial information prepared by the Applicants and discussions with Applicants' management ("Management") (collectively the "Information").

9. Capitalized terms not defined in this report or the Appendices hereto are as defined in the Initial Order or the Affidavits of Mr. Ryan Tobber dated July 3 and 8, 2018.

10. All references to dollars are in Canadian currency unless otherwise noted.

NOTICE TO CREDITORS

11. Pursuant to the terms of the Initial Order and in accordance with the CCAA, on July 16 and 17, 2018, the Monitor mailed a notice (the "Initial Filing Notice") to approximately 684 parties comprising every creditor known to the Applicants to have a claim of more than $1,000 against the Applicants, notifying the creditors of the issuance of the Initial Order and advising that a copy of the Initial Order is available on the Monitor's website.

12. The Initial Filing Notice also advised that if a creditor was unable to obtain a copy of the Initial Order from the Monitor's website, it could request a copy to be delivered to it.

13. The Monitor published notice of the Initial Order in accordance with the CCAA in the *Calgary Herald* and *Daily Oil Bulletin* on July 17, 2018 and has arranged to publish notice again on July 24, 2018.

USE OF INTERIM FINANCING UNDER APPROVED UNDER INITIAL ORDER

14. In accordance with the Initial Order, the Monitor has opened separate trust accounts (the "Trust Accounts") for Ranch and OpsMobil to hold all revenue and funds received by the Applicants and permit payment from such account to pay amounts contemplated by the Cash Flow Statements, provided that payment of such amounts are approved in advance by the Monitor.

15. The amount of $500,000, as approved pursuant to the Initial Order, was advanced by TEC on July 16, 2018 and deposited into the Trust Accounts. In order to maintain operations, the Applicants, with the approval of the Monitor, have directed payments to be issued from the Trust Deposits for deposits and expenses arising subsequent to the Filing Date.

16. The major categories of expenses that have been committed to be paid by the Applicants with

the Interim Financing, and approved by the Monitor, are as follows:

a) Payroll due on July 20, 2018 of approximately $200,000;

b) Premiums associated with renewing the Applicant's general commercial and property insurance of $125,000;

c) A helicopter charter of $53,000 to access remote well-sites for a two week period;

d) Office rent of $25,000; and

e) A charter flight to change the shift crew at the Wildboy Plant of $12,000.

17. Additional field expenses (camp expenses, fuel, chemicals, etc.) are expected to exhaust the remaining funds available from the Interim Financing during the week ended July 20, 2018.

18. The Applicants, with the assistance of the Monitor, have issued notices to debtors with receivables owed to the Applicants as at the Filing Date directing that payments to the Applicants be directed to the Monitor to be deposited in the Trust Accounts pursuant to the Initial Order.

19. The Applicants are not forecast to collect additional receipts until oil and gas production for June 2018 is collected on July 25, 2018.

MATERIAL ADVERSE CHANGE

20. The Applicants, with the assistance of the Monitor, have been preparing revised cash flow forecasts (the "Revised Cash Flow Projections") to evaluate the borrowings required to finance the operations of the Applicants during a proposed sale and investment solicitation process ("SISP") under these CCAA Proceedings. Under the proposed SISP, the Applicants would solicit offers to acquire all or some of the property and/or invest in the business of the Applicants.

21. The Revised Cash Flow Projections evidence that the borrowings required to complete a SISP through these CCAA proceedings would be materially higher than identified in the Applicants' 13-week cash flow forecast attached at appendix 'B' and 'C' to the Pre-filing Report of the then proposed monitor, Alvarez & Marsal Canada Inc., dated July 3, 2018.

22. As TEC is the primary secured lender to the Applicants and provided the Interim Financing pursuant to the Interim Stay Order and Initial Order, the Applicants, with the assistance of the Monitor, have been in discussions with TEC concerning the Revised Cash Flow Projections and

TEC additional Interim Financing to permit the Applicants to complete the proposed SISP.

23. On July 18, 2018, TEC presented proposed terms of an interim financing credit agreement (the "Proposed Interim Financing") to the Applicants. The Applicants requested certain amendments to the Proposed Interim Financing. In response TEC advised the Applicants later on July 18, 2018 that the Proposed Interim Financing was withdrawn and that TEC would be seeking an Order terminating the CCAA proceedings of the Applicants and appointing Ernst & Young Inc. as the receiver and manager of the Applicants.

24. The Monitor understands that TEC will commit sufficient borrowings to a Receiver to continue to operate the business of the Applicants under a proposed SISP to be undertaken by a Receiver.

25. As at the Filing Date, Management of the Applicants advised the Monitor that they had also initiated discussions with two specialty lenders known to provide interim financing to companies in CCAA proceedings.

26. The Monitor understands that term sheets presented by the alternative lenders are subject to further due diligence and therefore, the Monitor is of the opinion that sufficient borrowings will not available to the Applicants by July 20, 2018, the date that the Applicants are forecast to exhaust their cash.

IMPACT OF CURRENT CIRCUMSTANCES

27. Based on the above-noted changes to the Applicants' operations, the Applicants have prepared the Cash Flow Projection which has been attached hereto as Appendix "A".

28. The Cash Flow Projection indicates that the Applicants will be cash flow negative over the Forecast Period by a total of approximately $1.4 million, as follows:

Applicants — Exhibit 1.0
Summary of cash flow statements from July 21, 2018 to August 4, 2018
$000's, CAD

Applicant	Appendix	Opening Cash	Receipts	Disbursements	Interim Financing	Ending Cash
Applicants[1]	*A*	-	886	(2,244)	1,400	42

[1] Consolidated cash flow forecast of: Ranch Energy Corporation, OpsMobil Group Inc., OpsMobil Inc., OpsMobil Construction Inc., OpsMobil Energy Services Inc., K.L. Capital Corp., Air Dallaire Ltd., 1734163 Alberta Inc. and 1859821 Alberta Inc.

29. As identified by the Revised Cash Flow Projections, the Applicants do not have the Interim Financing required to operate beyond the Initial Stay Period of July 20, 2018.

Safe Shut-in of PNG Assets

30. Without interim financing, the Applicants will not be able to maintain its operations and will be required to cease operating its active PNG Assets which include, but are not limited to, the following:

a) 374 wells in the Wildboy District of British Columbia operated by the Applicants;

b) 554 wells in the Fort St. John District of British Columbia operated by the Applicants;

c) 58 operated facility and stations at various locations;

d) A gas processing plant located at tl-75-A/094-P-10 in Helmet, British Columbia; and

e) Over 900 km of pipeline in northeast British Columbia.

31. The Applicants' PNG Assets are regulated by the BCOGC, among other regulatory bodies. BCOGC regulations cover virtually all aspects of the Applicants' operations, including in the event that operations are temporarily or permanently halted.

32. As noted above, if additional Interim Financing is not secured the Applicants will not have access to the necessary funding to continue operations or to cease operating and safely shut down.

REQUEST FOR THE TERMINATION OF THE CCAA PROCEEDINGS

33. Pursuant to the Initial Order, as amended, the Stay Period continues to and including July 20, 2018. The Monitor understands that TEC will seek an Order (the "CCAA Termination Order") of this Honourable Court terminating these CCAA proceedings effective July 19, 2018.

34. The Monitor supports TEC's request for the CCAA Termination Order, and believes that the CCAA Termination Order is necessary given, given, among other things:

a) That the Applicant's Cash Flow Projections demonstrates required interim financing of $1.4 million to operate during the Forecast Period and no interim financier is in place or available to fund the CCAA;

b) The further stay extension sought by the Applicants will not be supported by TEC, the

Applicants' primary secured creditor prior to these proceedings and Interim Lender under the Interim Financing; and

c) The Applicants have insufficient funding to complete a safe shut-in of the PNG Assets and the CCAA Termination Order will permit TEC to appoint a Receiver, under which TEC has committed to provide the Receiver with sufficient borrowings to operate the PNG Assets in accordance with BCOGC Regulations.

RECOMMENDATION

35. The Monitor respectfully recommends that this Honourable Court approve the CCAA Termination Order.

Dated at Calgary, this 18th day of July, 2018.

ERNST & YOUNG INC.
in its capacity as the
Monitor of the Applicants

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

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

APPENDIX A

APPLICANTS' CASH FLOW PROJECTIONS

Applicants | Appendix A

Cash flow forecast for the period of July 21, 2018 to August 4, 2018

$000's, CAD

Week ended	Week 1 28-Jul	Week 2 04-Aug	Total 2 weeks
Oil and gas receipts	541	-	541
Liquids receipts	210	-	210
Joint interest billings	25	-	25
Total Ranch receipts	776	-	776
Field operating costs	-	(40)	(40)
Reactivation, maintenance and regulatory	-	(341)	(341)
Transportation costs	(655)	-	(655)
Royalties, surface and mineral (Crown and freehold)	(45)	-	(45)
Regulatory	-	(50)	(50)
Joint interest billings	-	(60)	(60)
General and administrative expenses	(100)	(15)	(115)
Contract accounting and asset management	-	(63)	(63)
Contingency	(50)	(50)	(100)
Total Ranch disbursements	(850)	(619)	(1,469)
Net change in cash from Ranch operations	(74)	(619)	(693)
Other	110	-	110
Total OpsMobil receipts	110	-	110
Salaries, wages and source deductions	-	(230)	(230)
Field operating costs	(10)	(25)	(35)
General and administrative expenses	-	(55)	(55)
Contingency	(50)	-	(50)
Total OpsMobil disbursements	(60)	(310)	(370)
Net change in cash from OpsMobil operations	50	(310)	(260)
Net change in cash from consolidated operations	(24)	(929)	(953)
Restructuring costs	(310)	(95)	(405)
Total net change in cash	(334)	(1,024)	(1,358)
Opening cash balance	-	1,066	-
Interim Financing borrowing	1,400	-	1,400
Ending cash balance	1,066	42	42

Interim Financing			
Opening borrowing balance	1,356	2,756	1,356
Borrowing	1,400	-	1,400
Ending borrowing balance	2,756	2,756	2,756

The forecast has been prepared solely for the Company's CCAA filing to determine liquidity requirements. Since the projections are based on assumptions regarding future events, actual results will vary from the information presented, and the variations may be material. Consequently, readers are cautioned that it may not be appropriate for other uses.

This represents the consolidated cash flow forecast of the Applicants: Ranch Energy Corporation, OpsMobil Group Inc., OpsMobil Inc., OpsMobil Construction Inc., OpsMobil Energy Services Inc., K.L. Capital Corp., Air Dallaire Ltd., 1734163 Alberta Inc. and 1859821 Alberta Inc.