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APPLICANTS	IN THE MATTER OF THE PROPOSAL OF GLENOGLE ENERGY INC. AND GLENOGLE ENERGY LP	
DOCUMENT	**THIRD REPORT OF THE PROPOSAL TRUSTEE** **September 4, 2020**	
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	<u>**PROPOSAL TRUSTEE**</u>	

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INTRODUCTION

1. On May 14, 2020 (the "**Date of Filing**"), Glenogle Energy Inc. and Glenogle Energy Limited Partnership (collectively "**Glenogle**", the "**Company**" or the "**Applicants**") obtained protection from their creditors through the filing of a Notice of Intention to Make a Proposal (the "**NOI**") under Section 50.4(1) of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c.B-3, as amended (the "**BIA**").

2. Ernst & Young Inc. (the "**Proposal Trustee**") was named as Proposal Trustee under the NOI.

3. The purpose of this Third Report of the Proposal Trustee under the NOI (the "**Third Report**") is to provide this Honourable Court with an update in respect of the following:

   a) The activities of the Proposal Trustee subsequent to the Second Report of the Proposal Trustee dated July 16, 2020 (the "**Second Report**");

   b) The Proposal Trustee's report on the comparison of forecast to actual cash flow results for the period of July 13 to August 23, 2020;

   c) The Proposal Trustee's independent legal opinion on the validity and enforceability of the first lien security interests of HSBC Bank Canada ("**HSBC**"); and

   d) Details concerning the Applicants' upcoming application on September 8, 2020, to convert the proceeding, and seek protection under, the *Companies' Creditors Arrangement Act*, R.S.C., 1985 c. C-36, as amended (the "**CCAA**").

BACKGROUND

4. On June 12, 2020, This Honourable Court granted an Order approving:

   a) The Company's request for a stay extension to July 27, 2020;

   b) The Woodrush Trust Account Agreement;

   c) The Interim Loan in the amount of $2.3 million pursuant to the New Facility Letter;

   d) The Interim Lender's Charge;

   e) The retention of Stifel Nicolaus Canada Inc. as Glenogle's Selling Agent and the corresponding Selling Agent Agreement; and

f) The proposed KERP and the related KERP Charge.

5. On July 23, 2020, a further stay extension was granted for 45 days to September 10, 2020 for Glenogle to file a proposal to its creditors.

6. Additional background information concerning the Company and these proceedings is available on the Proposal Trustee's website at www.ey.com/ca/glenogleenergy.

TERMS OF REFERENCE AND DISCLAIMER

7. In preparing this Third Report, the Proposal Trustee has been provided with, and has relied upon, unaudited financial information, the Company's books and records, financial information prepared by Glenogle and discussions with its management ("**Management**") (collectively, the "**Information**"). Except as described herein, in the Company's cash flows:

   a) The Proposal Trustee has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided; however, it has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information and, accordingly, the Proposal Trustee expresses no opinion or other form of assurance in respect of such Information contained in this Third Report; and

   b) Some of the information referred to in this Third Report consists of forecasts and projections. An examination or review of the financial forecast and projections, as outlined in the Chartered Professional Accountants Canada Handbook, has not been performed.

8. Future oriented information referred to in this Third Report was prepared based on Management's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable; the actual results will vary from the projections and the variances could be significant.

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

10. Capitalized terms not defined herein are as defined in the Stay Extension, Interim Financing and Miscellaneous Relief Order, or the Affidavit of Jamie Blair, sworn August 31, 2020.

ACTIVITIES SINCE THE FILING OF THE SECOND REPORT OF THE PROPOSAL TRUSTEE

11. The Proposal Trustee has undertaken the following activities since filing the Second Report:

    a) Monitored the cash flows and operating activities of the Company, including preparing weekly actual to forecast cash flow comparatives;

    b) Corresponded with trade vendors and creditors;

    c) Assisted the Company in preparing its cash flow forecast to be used in the application on September 8, 2020;

    d) Participated in operating updates by the Company to HSBC;

    e) Attended calls with the Alberta Energy Regulator to provide general updates;

    f) Worked with the Company to determine the funding requirements over the NOI and anticipated CCAA proceedings;

    g) Worked with HSBC and the Company to evaluate restructuring options available post-NOI; and

    h) Obtained a legal opinion that the security held by HSBC is valid and enforceable.

12. There have been no material or adverse changes to the Company's operations since the filing of the Second Report.

13. To date, the Proposal Trustee has obtained the full cooperation and assistance of the Company.

CASH FLOW STATEMENT #3 TO ACTUAL CASH FLOW RESULTS

14. The forecast to actual comparison presented below provides the actual cash receipts and disbursements during the period of July 13, 2020 to August 23, 2020 (the "**Reporting Period**") as compared to CFS#3:

Glenogle Energy Inc. and Glenogle Energy LP Cash Flow Statement #3 to Actual Cash Flow Results *July 13, 2020 - August 23, 2020*				Table 1
$000's		Forecast	Actual	Variance
Operating receipts				
Production receipts		880	903	23
Crown royalties		(99)	(95)	5
GST receipts		-	85	85
Net operating receipts		**780**	**893**	**113**
Operating disbursements				
Capital expenditures		(110)	(183)	(73)
Operating expenses		(540)	(527)	13
Gas processing		(175)	(160)	15
Property taxes		(213)	(213)	0
General & administrative		(193)	(245)	(52)
HSBC interest		(19)	(7)	11
Selling Agent fees		(25)	(26)	(1)
Restructuring fees		(174)	(18)	156
Total operating disbursements		**(1,448)**	**(1,379)**	**69**
Net change in cash from operations		**(668)**	**(486)**	**182**
Credit Facility Financing				
Total Credit Facility			52,000	
Less: Outstanding Letters of Credit			(80)	
Total Credit Facility, net of outstanding LOCs			**51,920**	
Less: Credit Facility Draws				
Credit Facility drawings, opening			(51,449)	
Net change in cash flow from operations, allocated			(471)	A
Total Credit Facility Draws			(51,919)	
Credit Facility capacity, closing			**0**	
Interim Loan Financing				
Total Interim Loan			**2,300**	
Less: Interim Loan Draws				
Interim Loan drawings, opening			(1,659)	
Net change in cash flow from operations, allocated			(15)	B
Total Interim Loan Draws			(1,674)	
Interim Loan capacity, closing			**626**	
Total Financing				
Total Financing			**54,300**	
Less: Outstanding Letters of Credit, opening			(551)	
Cumulative draws, opening			(53,107)	C
Total available financing, opening			**642**	
Add: Credit Facility increase - released LOCs			471	
Less: LOC cash collateralization			(280)	D
Net change in cash from operations		A + B	(486)	E
Total available financing, closing			**346**	
Cumulative draws, ending		C + D + E	**(53,873)**	

15. As summarized above, the Company realized net cash receipts of $893,000 over the Reporting Period. These receipts were offset by operating disbursements of $1.4 million, resulting in a net decrease in cash of $486,000 over the Reporting Period, before the cash collateralization of one of their letters of credit ("**LOC**s"), discussed below. At August 23, 2020, Glenogle was fully drawn on its HSBC Credit Facility (net of the remaining outstanding Letter of Credit for $80,156), with available liquidity of $346,000 from its $2.3 million Interim Loan.

16. Variances in forecast to actual results over the Reporting Period are primarily due to the following:

a) Production receipts related to revenues associated with the sale of oil, gas and natural gas liquids, reported net of freehold royalties. The $23,000 favorable variance relates to nominal differences between forecast volumes and pricing. Crown royalties were consistent with forecast disbursements in CFS#3 and GST recoveries, which had not been captured in the original forecast, were collected totaling $85,000. Overall, net operating receipts were $113,000 higher than forecast;

b) Glenogle has reclassified their third-party processing cost recoveries from miscellaneous receipts per CFS#3 to operating expenses as an offset. Third party processing recoveries over the Historical Period were $75,000 compared to the $23,000 in the forecast due to the receipt of March, April, and May fees whereas the forecast contemplated receiving a single month's amount;

c) Additional capital expenditures over the Historical Period resulting in an $73,000 over forecast cost related to a fourth workover project at the Doe East 5-32 well to replace the tubing string, plus other nominal other variances on the three original workover projects captured in CFS#3;

d) Actual operating expenses in the Historical Period were consistent with CFS#3, coming in slightly less than the forecast amount of $540,000;

e) CFS#2 contemplated gas processing payments of $175,000 in the week ending August 9, 2020, however gas volumes for the month were lower than anticipated, resulting in actual processing costs of $160,000 over the Historical Period;

f) General and Administrative disbursements were approximately $52,000 higher than originally forecast primarily due to Glenogle having made arrangements with their insurance provider to pay its $198,000 annual premium, originally forecast as being paid subsequent to the Historical Period in the week ending August 30, 2020, in monthly installments. As part of this arrangement, Glenogle issued an upfront payment of $48,298, which was issued in week ending August 16, 2020; the remaining balance is payable in nine equal monthly amounts until full pay-down;

g) HSBC interest on the Interim Loan forecast at $18,600 was calculated based on proforma draws from initiation of the NOI. The actual HSBC interest paid reflects July interest of $7,000 calculated from the date of actual drawdown, which was disbursed in the week ending August 23, 2020;

h) The favorable restructuring variance of $156,000 is a timing difference as the restructuring professionals involved in the NOI proceedings have been issuing their invoices at longer intervals than originally forecast. Projected payments have been moved into Glenogle's updated forecast, discussed in our Preliminary Report of the Proposed Monitor; and

i) Over the Reporting Period, the Letter of Credit with NorthRiver Midstream was called, and Glenogle cash collateralized $280,200 in the week ending July 19. Additionally, the Province of British Columbia's seasonal road ban LOC for $190,800 was released in the week ending August 16, 2020, thereby increasing available total financing to Glenogle. In turn, additional capacity was made available on their HSBC Credit Facility, for a net financing impact of $190,800.

LEGAL OPINION OF HSBC SECURITY

17. The Proposal Trustee has obtained an independent legal opinion on the validity and enforceability of the first lien security interests of HSBC, confirming that the security of HSBC is valid and enforceable against the assets of the Company.

APPLICATION FOR PROTECTION UNDER CCAA

18. Glenogle has filed an application to continue these NOI Proceedings under the CCAA to be heard September 8, 2020.

19. In consultation with the Proposal Trustee and HSBC, Glenogle has evaluated its restructuring options and has determined that it is in the best interest of the Company and its stakeholders to pursue continued court protection under the CCAA which will allow it to continue restructuring its affairs and pursue a sales and investment solicitation process ("**SISP**"). The limitations of the NOI proceedings, specifically the timelines for pursuing a proposal, make it necessary to initiate

the CCAA Proceedings now to avoid disrupting a sales process. Further details on the SISP are provided in the Preliminary Report of the Proposed Monitor, dated September 2, 2020.

20. The Proposal Trustee believes that the Company is acting in good faith and with due diligence. Glenogle has cooperated with both the Proposal Trustee and HSBC over the NOI Proceedings. The Company has worked to improve liquidity through increased production and undertaking well optimization work and essential repairs which are anticipated to improve the marketability of its assets.

RECOMMENDATION

21. The Proposal Trustee recommends that the Court approve the continuance of these proceedings under the CCAA.

Dated at Calgary, this 4th day of September 2020.

ERNST & YOUNG INC.
in its capacity as the
Proposal Trustee of Glenogle Energy Inc. and
Glenogle Energy LP

Neil Narfason, CPA, CA, CIRP, LIT, CBV
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