

REPORT OF TRUSTEE'S PRELIMINARY ADMINISTRATION

**IN THE MATTER OF THE BANKRUPTCY OF
PALLISER OIL & GAS CORPORATION**

**of the City of Calgary
in the Province of Alberta**

July 25, 2016

BACKGROUND

Palliser Oil & Gas Corporation (“**Palliser**” or the “**Company**”) is a public entity incorporated under the laws of the Province of Alberta and was formally listed on the Toronto Stock Venture Exchange and its shares traded under the ticker symbol “PXL”. The Company’s principal line of business is the acquisition of, exploration for, and development and production of petroleum and natural gas reserves in Western Canada. The Company’s operations include high working interest and operatorship in multi-zone oil and liquids rich natural gas and associated infrastructure in the Granlea, Lloydminster, Marwayne and Swimming areas of Alberta as well as the Edam, Manitou and Marsden areas of Saskatchewan (collectively, the “**Assets**”).

On February 12, 2015 (the “**Date of Appointment**”), FTI Consulting Canada Inc. was appointed as receiver and manager (the “**Receiver**”) of all the assets, undertakings and properties of Palliser pursuant to an Order of the Honourable Mr. Justice S.J. LoVecchio.

The Receiver has been operating Palliser since the Date of Appointment in an effort to sell the Assets. On June 7, 2016 the Receiver and Petrocapita Oil and Gas LP signed a Purchase and Sale Agreement (“**Sale Agreement**”) for the purchase of the Assets. On July 11, 2016 the Sale Agreement was approved by the Courts and the sale was closed.

CAUSES OF INSOLVENCY

Our review of the Company’s affairs indicate the following factors contributed to its insolvency:

1. Failed Capital Program

- a. Prior to being placed into Receivership Palliser had completed a capital program which was ultimately unsuccessful. The capital program involved significant capital spending on salt water disposal wells (“**SWD Wells**”). The SWD Wells did not provide the expected benefit to the Company, forcing them to begin marketing assets as a means to fund operations.

2. Failed Sales Process

- a. The Company ran a sales process to sell the Assets. This was unsuccessful as timing of the sales process coincided with the decline in global oil and gas prices. The decline in oil and gas prices significantly reduced the value of Palliser’s reserves and assets.

3. Global Decline Oil and Gas Prices

- a. The decline in global oil and gas prices also resulted in a significant reduction in Palliser’s operating income such that it can no longer meet its liabilities as they become due.

APPOINTMENT OF TRUSTEE IN BANKRUPTCY

The Trustee has performed the following duties as required under the BIA:

- Obtained control of the Company’s available books and records;

- Notified the Company's bank and requested the closure of its account; and
- Attended to the various statutory notice requirements.

SECTION A – Summary of Assets

As detailed in the Statement of Affairs, as at July 14, 2016 the Company had no assets.

SECTION B

1. Conservatory and protective measures

There is no property requiring conservatory or protective measures as the Company had no assets at the date of bankruptcy.

2. Carrying on Business

The Company has ceased operations; as such there are no current operations for the Trustee to carry on.

SECTION C: Legal Proceedings

The Trustee is not aware of any legal proceedings.

SECTION D: Provable Claims

As at the date of this report, the Trustee has received eleven (11) claims from unsecured creditors totaling \$167,877.

SECTION E: Secured Creditors

As at the date of this report, the Trustee has not received any claims from secured creditors.

The National Bank of Canada (the "**Bank**") advanced funds post-filing to the Receiver under the Receiver's Certificate ("**Receiver's Certificate**") and advanced amounts to the Palliser prior to the commencement of the Receivership proceedings under the Pre-Filing Credit Facility.

The Receiver borrowed \$0.5 million secured under the Receiver's Certificate and, prior to any distributions of the proceeds of the Sale Agreement being made, at June 21, 2016 the Bank was owed approximately \$44.9 million in relation to the amounts advanced under the Pre-Filing Credit Facility. At the date of bankruptcy the Bank was owed approximately \$40.3M as detailed in the Statement of Affairs.

SECTION F: Security for unpaid wages – Wage Earner Protection Program Act (“WEPPA”) Claims

The Trustee notes there were unpaid wages at the Date of Appointment, however the Receiver completed the WEPPA claims process as part of the receivership. As such there were no outstanding WEPPA claims at the date of bankruptcy.

SECTION G: Anticipated realization and projected distribution

As the Company has no assets there is not likely to be any realization or distribution of funds by the Trustee to creditors.

SECTION H: Preferences and transfers at undervalues

The Trustee has conducted a review of the Company's bank records for the twelve month period prior to the date of bankruptcy for the purposes of identifying any payments that may be considered preference payments under the BIA. The Trustee found no evidence of potential preference and/or transfers at undervalue arising from its limited review.

SECTION I: Third Party Deposits & Guarantees

The Trustee was provided a third party guarantee from FTI Consulting Canada Inc. in its capacity as Receiver of Palliser.

SECTION J: Other Matters

There are no other matters.

Further information relating to the bankruptcy proceeding may be obtained from the Trustee's website at <http://cfcanada.fticonsulting.com/Palliser/>.

All of which is respectfully submitted this 25 day of July, 2016.

Yours truly,

FTI Consulting Canada Inc.

In its capacity as Trustee of
Palliser Oil & Gas Corporation
and not in its personal capacity

Per:


Deryck Helkaa – Sr. Managing Director