

COURT FILE NUMBER 2201-12828
COURT COURT OF KING'S BENCH OF ALBERTA
JUDICIAL CENTRE CALGARY
APPLICANT EXPORT-IMPORT BANK OF CHINA
RESPONDENT **CHANGHUA ENERGY CANADA LTD.**
DOCUMENT **FIRST REPORT OF FTI CONSULTING
CANADA INC., IN ITS CAPACITY AS
INTERIM RECEIVER OF CHANGHUA
ENERGY CANADA LTD.**

December 6, 2022

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
PARTY FILING THIS
DOCUMENT

INTERIM RECEIVER

FTI Consulting Canada Inc.
Suite 1610, 520 Fifth Avenue S.W.
Calgary, AB T2P 3R7
Deryck Helkaa / Brett Wilson
Telephone: (403) 454-6031 / (403) 454-6033
Fax: (403) 232-6116
E-mail: deryck.helkaa@fticonsulting.com
brett.wilson@fticonsulting.com

TABLE OF CONTENTS

Introduction..... 3

Terms of Reference..... 4

Background..... 5

Activities of the Interim Receiver..... 5

INTRODUCTION

1. On November 23, 2022 (the “**Date of Appointment**”), FTI Consulting Canada Inc. was appointed as interim receiver (the “**Interim Receiver**”), without security, of all the assets, undertakings and properties (the “**Property**”) of Changhua Energy Canada Ltd. (“**Changhua**”) pursuant to an Order of the Honourable Justice G.S. Dunlop (the “**Interim Order**”) of the Court of King’s Bench of Alberta (the “**Court**”).

2. The Interim Receivership Order authorized the Interim Receiver to, among other things:
 - (a) to report to, meet with and discuss with such affected Persons as the Interim Receiver deems appropriate all matters relating to the Interim Receiver’s powers and duties under the Interim Receivership Order, and to share information, subject to such terms as to confidentiality as the Interim Receiver deems advisable;

 - (b) to take any steps reasonable incidental to exercise of the powers and duties set out therein.

3. The purpose of this report (“**First Report**”) is to inform the Court of the following:
 - (a) status of Changhua’s operations and current cash balances; and

 - (b) the activities of the Interim Receiver since the Date of Appointment.

TERMS OF REFERENCE

4. In preparing this First Report, the Interim Receiver has relied upon unaudited financial information prepared by Changhua's management, other information available to the Receiver and, where appropriate, Changhua's books and records and discussions with various parties (collectively, the "**Information**").
5. Except as described in this First Report:
 - (a) the Interim Receiver has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Generally Accepted Assurance Standards pursuant to the *Canadian Institute of Chartered Accountants Handbook* and, accordingly, the Receiver expresses no opinion or other form of assurance in respect of the Information; and
 - (b) the Interim Receiver has not examined or reviewed financial forecasts and projections referred to in this First Report in a manner that would comply with the procedures described in the *Canadian Institute of Chartered Accountants Handbook*.
6. Future oriented financial information reported or relied on in preparing this First Report is based on assumptions regarding future events. Actual results may vary from forecasts and such variations may be material.
7. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

BACKGROUND

8. Changhua is a private entity incorporated pursuant to the laws of the Province of Alberta. The principal place of business is Calgary, Alberta.
9. Changhua's principal line of business is the acquisition, exploration, development and production of oil and natural gas reserves within the Province of Alberta (the "**Oil and Gas Assets**").
10. The Oil and Gas Assets include oil and gas reserves located in Central Alberta. We understand there are currently eight wells on the lands, with two wells currently producing approximately 50 barrels of oil equivalent per day. The remaining six wells are currently shut-in.
11. As more fully described in the Affidavit of Chen Lei sworn October 31, 2022 in these proceedings (the "**Lei Affidavit**"), Changhua entered into: (i) a loan agreement, dated November 28, 2011, between Shandong Changhua Industrial Development Co., Ltd. ("**Changhua China**"), as borrower, and Export-Import Bank of China (the "**Lender**"), as lender, and (ii) a loan agreement, dated February 26, 2013 (collectively, the "**Loan Agreements**"), between Changhua China, as borrower, and the Lender, as lender. The total principal amount advanced by the Lender to Changhua China under the Loan Agreements was USD\$53,000,000.

ACTIVITIES OF THE INTERIM RECEIVER

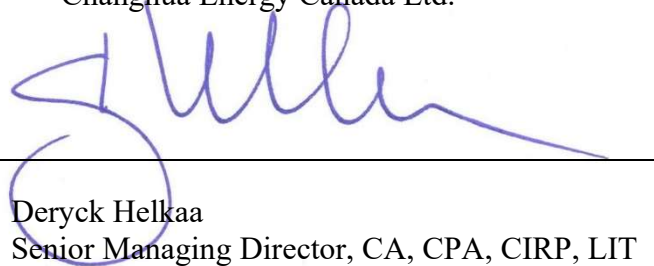
12. On November 24, 2022, the Interim Receiver was provided with contact information for a representative of Changhua from its legal counsel. The Interim Receiver contacted the representative via telephone and email to setup an introductory call.

13. On November 25, 2022, the Interim Receiver spoke with a representative of Changhua to advise of its role as Interim Receiver and request information relating to the Oil and Gas Assets and certain financial information. The information request included: (i) bank statements and outstanding cheques, (ii) financial statements and lease operating statements and (iii) contact information for various representatives of Changhua.
14. We understand most of the Changhua's management and board of directors are primarily located in China. However, Changhua has various consultants that maintain carriage of the assets in Calgary, including a third party company that contract operates the Oil and Gas Assets.
15. The Company has been cooperative and provided the Interim Receiver with most of the information it requested in its initial meeting. To date the Company has provided the following information:
 - (a) Bank account information;
 - (b) Lease operating statements;
 - (c) Listing of payments made by the Company for the month of September (no cheques were issued in October); and
 - (d) A listing of payments to be issued in November.
16. Changhua has three bank accounts with HSBC Bank Canada. The balance in the accounts as at November 30, 2022 is \$745,104.49 in its CAD bank accounts and US\$2,925.72 in its USD bank account.
17. Since the granting of the Interim Order, the Interim Receiver notes that the monthly revenues from the sale of oil and gas of approximately \$110,000 was deposited to the Company's bank account on November 28, 2022.

18. The Interim Receiver reviewed the listing of recent payments made by the Company and those payment to be made in November and noted only one payment that was greater than \$25,000 which related to the contract operator (the third-party operating the Oil and Gas Assets). The payment related to monthly contract operating fees for the Oil and Gas Assets along with amounts that the contract operator had paid on behalf of Changhua (for various supplies and services).
19. Total payments expected to be made in November 2022 totaled approximately \$60,500 comprising payments to the contract operator, general operating expenses and office/administration expenses. All of the payments reviewed by the Interim Receiver appeared to be in the normal course operations based on the nature of the supplier name and payment description.

All of which is respectfully submitted this 6th day of December 2022.

FTI Consulting Canada Inc.,
in its capacity as Interim Receiver of
Changhua Energy Canada Ltd.



Deryck Helkaa
Senior Managing Director, CA, CPA, CIRP, LIT