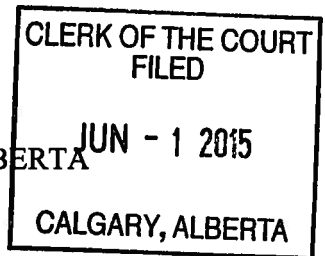


COURT FILE NUMBER 1401-02489  
COURT COURT OF QUEEN'S BENCH OF ALBERTA  
JUDICIAL CENTRE CALGARY  
PLAINTIFF NATIONAL BANK OF CANADA  
DEFENDANTS COAST RESOURCES LTD., 101033165  
SASKATCHEWAN LTD., VIEWFIELD OIL &  
GAS LTD. and COAST SERVICES INC.



IN THE MATTER OF THE RECEIVERSHIP OF  
COAST RESOURCES LTD., 101033165  
SASKATCHEWAN LTD., VIEWFIELD OIL &  
GAS LTD. and COAST SERVICES INC.

DOCUMENT SECOND REPORT OF FTI CONSULTING  
CANADA INC., IN ITS CAPACITY AS COURT  
APPOINTED RECEIVER AND MANAGER OF  
COAST RESOURCES LTD., 101033165  
SASKATCHEWAN LTD., VIEWFIELD OIL &  
GAS LTD. and COAST SERVICES INC.

**May 27, 2015**

ADDRESS FOR SERVICE AND  
CONTACT INFORMATION OF  
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DOCUMENT

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## INTRODUCTION

1. On March 6, 2014 (the “**Date of Appointment**”), FTI Consulting Canada Inc. was appointed as receiver and manager (the “**Receiver**”) of all the assets, undertakings and properties (the “**Property**”) of Coast Resources Ltd. (“**Coast Resources**”), 101033165 Saskatchewan Ltd. (“**1010**”), Viewfield Oil & Gas Ltd. (“**Viewfield**”) and Coast Services Inc. (“**Coast Services**”) (sometimes collectively referred to as the “**Companies**”) pursuant to an order of this Honourable Court (the “**Receivership Order**”).
2. The Receivership Order authorized the Receiver, among other things, to carry on the business of the Companies, to market and solicit offers to purchase the Assets (as defined below) of the Companies, and to make such arrangements or agreements as deemed necessary by the Receiver.
3. The Receiver’s reports and other information in respect of these proceedings (the “**Receivership Proceedings**”) are posted on the Receiver’s website at <http://cfcanada.fticonsulting.com/coastresources/>.
4. The Receiver filed its First Report in respect of these proceedings on December 18, 2014. All capitalized terms not otherwise defined herein shall have the meaning given to them in the First Report.
5. On January 8, 2015 the Honourable Mr. Justice Blair Nixon granted, *inter alia*, the following Orders:
  - (a) An Order authorizing and directing the Receiver to complete the Crescent Point APS (the “**Crescent Point Approval and Vesting Order**”). The Receiver subsequently closed the Crescent Point APS on January 15, 2015, and collected the net proceeds;

- (b) An Order authorizing and directing the Receiver to complete the NBRI APS (the “**NBRI Approval and Vesting Order**”). The Receiver subsequently closed the NBRI APS on January 15, 2015, and collected the net proceeds; and
  - (c) An Order approving the Interim Distributions as set out in the First Report (the “**Interim Distribution Order**”). The Receiver completed the Interim Distributions, as more fully set out below, on or about April 6, 2015.
6. The purpose of this report, which is the Receiver’s second report (this “**Second Report**”), is to provide an update and inform the Court on the following:
- (a) The status of various aspects of the Receivership Proceedings;
  - (b) The Receiver’s receipts and disbursements from the Date of Appointment to May 12, 2015;
  - (c) The Receiver’s summary and comments with respect to the Remaining Liens;
  - (d) The Receiver’s proposed distribution; and
  - (e) The Receiver’s recommendations.
7. The Receiver is requesting the following relief from this Honourable Court:
- (a) Approval of the activities of the Receiver since the Date of Appointment, including its receipts and disbursements; and
  - (b) Approval to make an additional distribution (the “**Second Distribution**”) as recommended herein.

## TERMS OF REFERENCE

8. In preparing this Second Report, the Receiver has relied upon unaudited financial information, other information available to the Receiver and, where appropriate, the Companies' books and records and discussions with various parties (collectively, the "**Information**").
9. Except as described in this Second Report:
  - (a) The 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
  - (b) The Receiver has not examined or reviewed financial forecasts and projections referred to in this Second Report in a manner that would comply with the procedures described in the Canadian Institute of Chartered Accountants Handbook.
10. Future oriented financial information reported or relied on in preparing this Second Report is based on assumptions regarding future events; actual results may vary from forecasts and such variations may be material.
11. The Receiver has prepared this Second Report in connection with the motion described in the Receiver's Application. This Second Report should not be relied on for other purposes.
12. Information and advice described in this Second Report has been provided to the Receiver by its counsel, McDougall Gauley LLP (the "**Receiver's Counsel**"), and has been provided to the Receiver to assist it in considering its course of action and is not intended as legal or other advice to, and may not be relied upon by, any other stakeholder.

13. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

## **BACKGROUND**

14. Each of the Companies is a private entity incorporated under the laws of the Province of Saskatchewan and was established to invest in and operate oil and gas properties in Saskatchewan. The operations of the Companies included the following three core oil and gas exploration and production areas (collectively, the “**Assets**”), which are described as follows:
- (a) Coast Resources, Viewfield, and Coast Services held various working interests in petroleum and natural gas leases on an operated and non-operated heavy oil property located near Luseland, Saskatchewan (the “**Luseland Property**”);
  - (b) 1010 held various working interests in petroleum and natural gas leases on an operated heavy oil property in southeastern Saskatchewan (the “**Glen Ewen Property**”); and
  - (c) Coast Resources, Viewfield, and Coast Services hold various working interests in petroleum and natural gas leases in an undeveloped property located in eastern Saskatchewan (the “**Hoosier Property**”).

## **ASSET SALES**

15. In accordance with the Crescent Point Approval and Vesting Order and the NBRI Approval and Vesting Order, the Receiver completed the Transactions and collected the net proceeds.

16. The Transactions included the sale of the majority of the Companies' Assets and all of their producing properties. All that remains is the Hoosier Property which has no significant liabilities associated with it, as described in the First Report.

## SUMMARY OF RECEIPTS AND DISBURSEMENT

17. Receipts and Disbursements from the Date of Appointment to May 12, 2015, are summarized as follows:

Schedule of Receipts and Disbursements		Notes
<b>Receipts</b>		
Proceeds from the Sale of the Assets	5,445,583	a
Oil and Gas Revenue	2,535,969	b
Receiver Certificate	250,000	c
GST / PST Collected	173,081	
Other Receipts	44,678	d
Bank Account Transfer	33,204	e
<b>Total - Receipts</b>	<b>8,482,515</b>	
<b>Disbursements</b>		
Payment to Secured Creditor	3,150,000	f
Operating Expenses	2,018,293	g
Royalty and Lease Payments	574,348	h
Interim Distributions	499,318	i
Employee Costs	336,734	j
Legal Fees and Disbursements	267,021	
Receiver's Fees and Costs	219,692	
GST/PST Paid	153,782	
Bank Charges	132,608	k
Property Tax	120,957	l
Other Disbursements	38,345	m
Rent and Utilities	27,863	
Other Professional Fees	24,977	n
GST Remitted	23,440	
Deemed Trust Claim	15,003	
Insurance	12,884	
<b>Total - Disbursements</b>	<b>7,615,266</b>	
<b>Net Cash on Hand</b>	<b>867,248</b>	

- (a) Proceeds from the Sale of the Assets – net proceeds from the Crescent Point APS and NBRI APS;
- (b) Oil and Gas Revenue – revenue collected by the Receiver in respect of the sale of oil and gas from the Assets;
- (c) Receiver Certificate – amounts borrowed from National Bank of Canada (“**National Bank**”) under terms of the Receivership Order;
- (d) Other Receipts – receipts from joint venture partners, GST refunds and other miscellaneous collections;
- (e) Bank Account Transfer – funds transferred from Coast Resources’ and 1010’s bank accounts to the Receiver’s bank account in accordance with the Receivership Order;
- (f) Payment to Secured Creditor – distribution to National Bank based on its security and amounts borrowed under the terms of the Receivership Order and as approved under the Interim Distribution Order;
- (g) Operating expenses – operating expenses relating to the Assets;
- (h) Royalty and Lease Payments – amounts disbursed in respect of the Companies’ petroleum and natural gas leases;
- (i) Interim Distributions – amounts disbursed under the terms of the Interim Distribution Order to creditors whose claims ranked in priority to National Bank;
- (j) Employee Costs – amounts disbursed by the Receiver relating to payroll and employee deductions and consultants;

- (k) Bank Charges – amounts disbursed in respect of interest on amounts borrowed under the Receiver Certificate, wire payment fees, overdraft and interest in respect of the Companies’ pre-receivership accounts and other miscellaneous charges;
- (l) Property Tax – amounts paid for 2013 and 2014 property taxes in accordance with the Interim Distribution Order;
- (m) Other Miscellaneous Expenses – amounts disbursed including the deposit to SME as described in the First Report, filing fees paid to the Official Receiver, off-site storage and employee benefits; and
- (n) Other Professional Fees – pre-receivership fees and disbursements relating to advisory services pursuant to National Bank’s credit agreement.

18. As at May 12, 2015, the Receiver held \$867,248 in cash on hand. The Receiver is seeking authorization from this Honourable Court to distribute some of the cash on hand as set out below.

## **HOOSIER**

19. Sayer continues to market the Hoosier Property; however, the Receiver does not currently have an offer on this particular property. The Receiver advises that the asset value is not material.

## **REMAINING BUILDERS’ LIENS**

20. As set out in the Receiver’s First Report, the Receiver reserved certain funds from the proceeds of the closing of the Crescent Point APS and NBRI APS as more fully described in the Interim Distribution Order.



21. The Receiver and the Receiver's Counsel have analyzed the Remaining Liens following the payments under the Initial Distribution. After the Interim Distribution, the remaining secured claim of National Bank totaled approximately \$2,400,070.
22. A summary of the Remaining Liens, by lien holder and on a location-by-location basis, is presented in the table below:

Legal Description	Surface Location	Trican	Cru Well	Rounded Energy	Cal-Gas	Baker Hughes	KNC	Total
SE Sec 21 TWP 35 Rge 25 W3	101/01-21-035-25	-	20,117	1,680	396	11,746	61,994	95,933
	101/02-21-035-25	-	71,209	-	3,400	-	16,539	91,148
	111/07-21-035-25	-	80,399	10,277	10,377	21,948	7,216	130,216
	141/08-21-035-25	-	-	-	1,253	-	19,332	20,585
	<b>Total - Section</b>	-	<b>171,725</b>	<b>11,957</b>	<b>15,425</b>	<b>33,694</b>	<b>105,081</b>	<b>337,883</b>
NE Sec 21 Twp 35 Rge 25 W3	121/09-21-035-25	-	20,363	1,890	3,267	-	12,388	37,908
	112/10-21-035-25	-	-	-	3,140	-	26,055	29,195
	1XX/11-21-035-25	-	-	-	-	-	-	-
	<b>Total - Section</b>	-	<b>20,363</b>	<b>1,890</b>	<b>6,407</b>	-	<b>38,444</b>	<b>67,104</b>
Sec 22 Twp 35 Rge 25 W3	141/12-22-035-25	8,613	10,761	1,890	3,042	-	14,176	38,482
	1XX/13-22-035-25	-	-	-	-	-	-	-
	<b>Total - Section</b>	<b>8,613</b>	<b>10,761</b>	<b>1,890</b>	<b>3,042</b>	-	<b>14,176</b>	<b>38,482</b>
SW Sec 03 Twp 36 Rge 25 W3	131/04-03-036-25	-	21,866	-	21,177	-	2,355	45,398
	<b>Total - All Sections</b>	<b>8,613</b>	<b>224,715</b>	<b>15,737</b>	<b>46,052</b>	<b>33,694</b>	<b>160,056</b>	<b>488,867</b>

23. The Receiver has reconciled the Remaining Liens to the Companies' records and all Remaining Liens have been proven or adjusted (nominally) to reflect the Companies' records, with the agreement of the holders of the Remaining Liens.
24. The Receiver and the Receiver's Counsel reviewed the Remaining Liens in order to confirm the amount of such claims and the likely priority of such claims (vis-à-vis the security of National Bank). The applicable analysis is summarized below.

### ANALYSIS OF REMAINING LIENS

25. *The Builders' Lien Act* (Saskatchewan) (the "BLA"), as amended, requires a lien claimant to, amongst other things, register the lien in the prescribed form at the Saskatchewan Land Titles Registry, or in the cases of Crown leases, at SME.

26. Based on information reviewed by the Receiver and the Receiver's Counsel, the registrations of the Remaining Liens comply with the requirements set out in the BLA and the claimants hold valid and subsisting builders' liens.
27. National Bank registered its mortgage interest as against the Companies' oil and gas interests in each of the mineral properties that were sold (where one or more builders' liens are also registered). National Bank also registered its security interest against the Companies' assets at the Saskatchewan Personal Property Registry (the "PPR") prior to any builders' liens being registered.
28. Any distributions to the holders of the Remaining Liens could potentially result only from the following recoveries relating to the specific property against which the lien was registered:
- (a) Recoveries relating to the net proceeds of the recovered minerals on hand at the date of the Receivership (the "**Oil Inventory**"), as set out in s. 22(2)(e) of the BLA, which provides that where services or materials are provided preparatory to, in connection with or for an abandonment operation in connection with the recovery of a mineral (a "**Mineral Lien**"), then the lien is also a lien on:
- ...the mineral when severed and recovered from the land while it is in the hands of the owner, and to the proceeds of the mineral and to the amounts to be paid in lieu of the proceeds of the mineral to the owner by a person that operates the mine, oil well or gas well.
- (b) The value of certain equipment (the "**Machinery**") as set out in s. 22(2)(f) of the BLA, which provides that where the lien is a Mineral Lien, the lien is also a lien on:

...the interest of the owner in the fixtures, machinery, tools, appliances and other property in or on the mines, mining claim or land, oil or gas well and the appurtenances thereto; and

- (c) The value of the FHI Working Interests.

### **OIL INVENTORY**

29. The Receiver determined the estimated net value of the Oil Inventory that the Companies had produced at the Date of Appointment, but had not yet sold.
30. The Receiver estimates that the value of the net Oil Inventory to be nominal and likely negative after considering the operating expenses, royalties, administrative and other general and associated receivership costs paid by the Receiver. Accordingly, the Receiver advises that there is no distribution to be made with respect to the Remaining Liens, relating to the Oil Inventory.

### **MACHINERY**

31. The Receiver understands that National Bank has priority to the amounts derived from the sale and/or value of the Machinery included in the Crescent Point APS and NBRI APS as National Bank registered its security interest at the PPR in advance of the registration of the builders' liens. Accordingly, the Receiver's view is that National Bank's security ranks in priority to the Remaining Liens.

### **FHI WORKING INTERESTS**

32. As described in the Receiver's First Report, at the Date of Appointment FHI was indebted to one or more of the Companies in the amount of approximately \$1.2 million as a result of joint venture billings from the Companies related to drilling and operating expenses (the "FHI Indebtedness").

33. The FHI Working Interests were included (by the proposed purchasers) in various offers to purchase the Luseland Property and the Hoosier Property. Therefore, the Receiver required the FHI Working Interests in order to accept the offers. FHI agreed to sell and assign the FHI Working Interests to the Receiver for the amount of the FHI Indebtedness (and in satisfaction of the FHI Indebtedness). The Receiver and FHI entered into an assignment agreement effective October 21, 2014 (the “**Assignment Agreement**”).
34. Pursuant to the Assignment Agreement, the FHI Working Interests were assigned to the Companies. The FHI Working Interests were in existence at the time the fixed charges were granted to National Bank. Prior to the FHI Working Interests being assigned to the Companies pursuant to the Assignment Agreement the builders' liens had attached to the FHI Working Interests as a result of section 22 of the BLA.
35. The Receiver’s counsel has reviewed the competing priority claims of National Bank and the Builders' Lien claimants, respectively, in respect of the FHI Working Interests, and has advised the Receiver that the law is not settled and is evolving. Accordingly, the Receiver has completed the analysis below to estimate the value of the FHI Working Interests and recommends holding these proceeds in order for National Bank and the holders of the other applicable Remaining Liens to advance their respective positions.
36. The Receiver has valued the FHI Working Interests based on the following:
- (a) The net present value of reserves discounted at 10% before taxes, based on the Companies’ 2013 Luseland Property reserve report completed by Sproule Associates Ltd. The FHI Working Interest only related to the land and proceeds included in the NBRI APS.
  - (b) A summary of the reserves used to value the FHI Working Interests is presented below:

- (i) Proved developed producing reserves (“PDP”);
- (ii) Proved developed non-producing reserves (“PNP”);
- (iii) Proved reserves (“Proved”);
- (iv) Probable developed producing reserves (“PADP”);
- (v) Probable non-producing reserves (“PANP”);
- (vi) Probable undeveloped reserves (“PAUD”); and
- (vii) Proved plus probable reserves (“2P Reserves”).

- (c) The allocation of the purchase price to the petroleum and natural gas rights as contemplated in the NBRI APS (\$1,568,000) (the “PNG Purchase Price”).

37. A summary of the Companies’ reserve value by location is presented in that table below:

amounts in thousands (000s)		NPV 10%						
Legal Description	Surface Location	PDP	PDNP	Proved	PADP	PANP	PAUD	2P
SE Sec 21 Twp 35 Rge 25 W3	101/01-21-035-25	250	-	250	133	-	-	383
	101/02-21-035-25	507	-	507	198	-	-	705
	111/07-21-035-25	72	-	72	56	-	-	128
	141/08-21-035-25	847	-	847	205	-	-	1,052
	<b>Total - Section</b>	<b>1,676</b>	<b>-</b>	<b>1,676</b>	<b>592</b>	<b>-</b>	<b>-</b>	<b>2,268</b>
NE Sec 21 Twp 35 Rge 25 W3	121/09-21-035-25	885	-	885	190	-	-	1,075
	112/10-21-035-25	1,327	-	1,327	305	-	-	1,632
	1XX/11-21-035-25	-	-	-	-	-	70	70
	<b>Total - Section</b>	<b>2,212</b>	<b>-</b>	<b>2,212</b>	<b>495</b>	<b>-</b>	<b>70</b>	<b>2,777</b>
Sec 22 Twp 35 Rge 25 W3	141/12-22-035-25	1,381	-	1,381	330	-	-	1,711
	1XX/13-22-035-25	-	-	-	-	-	2,647	2,647
	<b>Total - Section</b>	<b>1,381</b>	<b>-</b>	<b>1,381</b>	<b>330</b>	<b>-</b>	<b>2,647</b>	<b>4,358</b>
SW Sec 03 Twp 36 Rge 25 W3	131/04-03-036-25	-	1,296	1,296	-	433	-	1,729
	<b>Total - All Sections</b>	<b>5,269</b>	<b>1,296</b>	<b>6,565</b>	<b>1,417</b>	<b>433</b>	<b>2,717</b>	<b>11,132</b>

38. A summary of the Companies' PNG recovery (the “**Recovery**”) is presented in the table below:

amounts in thousands (000s) Reserve	PNG Purchase Price (a)	Reserve Value (b)	PNG Recovery (c = a/b)
PDP	1,568	5,269	30%
Total Proved	1,568	6,565	24%
2P	1,568	11,132	14%

39. The value of the FHI Working Interests was determined by multiplying the PDP, Proved, and 2P Reserves value by the respective PNG Recovery and the result was then multiplied by the FHI Working Interests for each location.
40. The Receiver’s analysis estimates the range of values of the FHI Working Interests to be between \$90,000 and \$113,000. The Receiver has estimated the holdback amount at the 2P Reserves value to be \$90,000, as summarized below.

amounts in thousands (000s)		PDP x PNG Recovery	Proved x PNG Recovery	2P x PNG Recovery	FHI Working Interest	FHI Working Interest PDP Value	FHI Working Interest Proved Value	FHI Working Interest 2P Value
<b>Legal Description</b>	<b>Surface Location</b>							
SE Sec 21 Twp 35 Rge 25 W3	101/01-21-035-25	74	60	54	20%	15	12	11
	101/02-21-035-25	151	121	99	20%	30	24	20
	111/07-21-035-25	21	17	18	10%	2	2	2
	141/08-21-035-25	252	202	148	3%	8	6	4
	<b>Total - Section</b>	<b>499</b>	<b>400</b>	<b>319</b>		<b>55</b>	<b>44</b>	<b>37</b>
NE Sec 21 Twp 35 Rge 25 W3	121/09-21-035-25	263	211	151	3%	8	6	5
	112/10-21-035-25	395	317	230	10%	39	32	23
	1XX/11-21-035-25	-	-	10	10%	-	-	1
	<b>Total - Section</b>	<b>658</b>	<b>528</b>	<b>391</b>		<b>47</b>	<b>38</b>	<b>29</b>
Sec 22 Twp 35 Rge 25 W3	141/12-22-035-25	411	330	241	0%	-	-	-
	1XX/13-22-035-25	-	-	373	0%	-	-	-
	<b>Total - Section</b>	<b>411</b>	<b>330</b>	<b>614</b>		<b>-</b>	<b>-</b>	<b>-</b>
SW Sec 03 Twp 36 Rge 25 W3	131/04-03-036-25	-	310	244	10%	-	31	24
	<b>Total - All Sections</b>	<b>1,568</b>	<b>1,568</b>	<b>1,568</b>		<b>102</b>	<b>113</b>	<b>90</b>

## SECOND DISTRIBUTION

41. The table below summarizes the Receiver's proposed Second Distribution to National Bank and holdbacks totaling \$207,248.

Proposed Second Distribution	
<b>Funds Available for Distribution</b>	
Net Cash on Hand	867,248
<b>Total - Funds Available for Distribution</b>	<b>867,248</b>
<b>Proposed Holdbacks</b>	
FHI Working Interest (est. Value)	90,000
Professional Fees	50,000
Operating and Administrative Expenses	35,248
GST Payable	32,000
<b>Total - Holdbacks</b>	<b>207,248</b>
<b>Second Distribution</b>	
National Bank	660,000
<b>Total - Proposed Distributions</b>	<b>660,000</b>
<b>Projected Ending Cash</b>	<b>-</b>

## RECEIVER'S RECOMMENDATIONS

42. The Receiver respectfully recommends that this Honorable Court approve the following:
- (a) The activities of the Receiver since the Date of Appointment including its receipts and disbursements; and
  - (b) The Second Distribution to National Bank of \$660,000, and the holdbacks described in paragraph 41 including the holdback of \$90,000 relating to the estimated value of the FHI Working Interests.

All of which is respectfully submitted this 27<sup>th</sup> day of May, 2015.

FTI Consulting Canada Inc.  
in its capacity as Court Appointed Receiver and  
Manager of Coast Resources Ltd., 101033165  
Saskatchewan Ltd., Viewfield Oil & Gas Ltd.  
and Coast Services Inc.



Name: Deryck Helkaa  
Title: Senior Managing Director,  
FTI Consulting Canada Inc.