

REPORT OF THE TRUSTEE ON THE PROPOSAL
IN THE MATTER OF THE DIVISION 1 PROPOSAL FOR
EAGLE ENERGY INC.

of the City of Calgary
in the Province of Alberta

June 8, 2020

BACKGROUND

1. On November 19, 2019 (the “**Date of Appointment**”), FTI Consulting Canada Inc. was appointed as receiver and manager (the “**Receiver**”) of all of the assets undertakings and properties (the “**Assets**”) of Eagle Energy Inc. (“**Eagle Energy**”), Eagle Energy Trust (“**Eagle Trust**”), Eagle Energy Holdings Inc. (“**Eagle Holdings**”) and Eagle Hydrocarbons Inc. (“**Eagle US**”) (collectively, the “**Eagle Group**” or the “**Debtors**”) pursuant to an Order of this Honourable Court (the “**Receivership Order**”).
2. Eagle Energy is a public corporation incorporated under the laws of the Province of Alberta with its registered office in Calgary, Alberta.
3. The shares of Eagle Energy Inc. are listed for trading on the Toronto Stock Exchange (the “**TSX**”) under the symbol “EGL”.

4. Eagle Energy is the trustee and sole unitholder of Eagle Trust, an unincorporated open-ended limited purpose trust formed under the laws of the Province of Alberta, which does not carry on business other than to own all of the shares of Eagle Holdings.
5. Eagle Holdings is a corporation incorporated pursuant to the laws of the Province of Alberta with its registered and head office in Calgary, Alberta. Eagle Holdings is a direct wholly owned subsidiary of Eagle Trust. Eagle Holdings does not carry on any business other than to own all of the shares of Eagle US.
6. Eagle US is a company incorporated pursuant to the laws of the State of Delaware, United States, with an office in Houston, Texas. Eagle US is a wholly owned subsidiary of Eagle Holdings.
7. The Eagle Group's principal line of business is the acquisition, exploration, development and production of petroleum and natural gas assets in Alberta, Texas and Oklahoma.
8. The Eagle Group's production is derived from the following regions:
 - a. oil and gas producing properties near Peace River, AB (the "**Dixonville Property**");
 - b. non-operated working interest and royalty production ("**Non-Op Royalty Assets**") from various Alberta properties. The Dixonville Property and the Non-Op Royalty Assets are collectively referred to as the "**Canadian Assets**";
 - c. oil and gas producing properties near Hardeman County, TX (the "**Hardeman Property**"); and

- d. other minor miscellaneous oil and gas producing properties near Jackson, Oklahoma and Palo Pinto, Texas (“**Other US Properties**”). The Hardeman Property and the Other US Properties are collectively referred to as the “**US Property**”).
9. The Debtors’ average daily production of 1,422 boe is substantially oil weighted (83% for the Canadian Property and 86% for the US Property). The Canadian Property produces approximately 960 boe/day or 68% of the Eagle Group’s production, while the US Property produces approximately 462 boe /day.
10. Following a marketing process ran by the Receiver to sell the Canadian Properties of the Debtors (the “**Canadian SSP**”) a sale agreement was reached to complete a corporate transaction for Eagle Energy by way of a corporate arrangement (the “**Arrangement Agreement**”) to EEI Holdco, LLC (the “**Purchaser**”) as designee of White Oak Global Advisors, LLC (“**White Oak**”).
11. For further clarity, Eagle Energy is the only entity that is being sold through the Arrangement Agreement and as such is the only entity making a proposal to its creditors at this time.
12. A full summary of the Receivership proceedings, including a detailed summary of the Canadian SSP can be found at the Receiver’s website: cfcanada.fticonsulting.com/eagleenergy.
13. As part of the Arrangement Agreement, on May 29, 2020, Eagle Energy filed a Division 1 Proposal pursuant to the provisions of Part III Division 1 of the Bankruptcy and insolvency Act, RSC 1985, c-B-3 as amended (the “**Division 1 Proposal**”), with FTI Consulting Canada Inc. acting as proposal trustee (the “**Proposal Trustee**”).

14. FTI Consulting Canada Inc. will be referred to as both Receiver and Proposal Trustee is acting independently in both roles and has referred to its actions in its roles separately at different points in this Report.

FINANCIAL POSITION AND CAUSES OF DIFFICULTIES

15. Prior to the Date of Appointment, the Eagle Group was experiencing financial difficulties due to the substantial and extended decline in commodity prices. The Eagle Group was unsuccessful in generating sufficient proceeds from previous asset divestitures to repay the loan provided by White Oak Global Advisors, LLC, as administrative agent under certain loan and security agreement dated March 13, 2017, as amended.

- a. On November 18, 2019, White Oak made a demanded payment in respect of their outstanding indebtedness to the Debtors.
- b. The Debtors waived their notice period and consented to immediate enforcement and an application for consent Receivership Order was heard and granted on November 19, 2019.

16. The Debtors are still subject to the Receivership Order granted on November 19, 2019 and the Receiver continues to manage the operations of the Debtors.

17. The Proposal Trustee has presented a summary of Eagle Energy's balance sheet as at April 30, 2020. This summary is presented below:

	As at April 30, 2020
ASSETS	
Current assets	
Cash	2,427,878
Trade and other receivables	757,685
Prepaid expenses	531,452
	<u>3,717,015</u>
Non-current assets	
Oil & gas properties	57,790,935
Property, plant and equipment	1,124,027
	<u>58,914,962</u>
Total Assets	<u>\$62,631,977</u>
LIABILITIES	
Current liabilities	
Secured Debt - White Oak	36,493,500
Unsecured Debt White Oak	8,780,890
Trade and other payables - Post Receivership	3,193,055
Trade and other payables - Pre-Receivership	3,122,638
	<u>51,590,083</u>
Non-current liabilities	
Lease liability	1,199,085
Decommissioning liability	21,397,700
Demand promisory note	23,624,574
	<u>46,221,359</u>
Total Liabilities	<u>\$97,811,442</u>

18. The Proposal Trustee notes that these are internal and should not be relied upon for any other reason than for the purpose of this report. The above represents book values of Eagle Energy's assets and liabilities and does not provide an accurate representation of the market value of assets or what would be expected to be realized in the event of a sale. As discussed further below, the Receiver has run a court approved sale process which illustrates the current market value of the underlying assets and operations.

19. A cash flow forecast has been developed by the Receiver and represents the probable and hypothetical assumptions that reflect the planned course of account for the period of June 1 to July 31, 2020 (the “**Cash Flow Forecast**”).

20. A copy of the Cash Flow Forecast is presented below:

<i>(CAD)</i>	Jun-20	Jul-20	Total
	<i>Forecast</i>	<i>Forecast</i>	<i>Forecast</i>
Royalty & WI Revenue	64,513	69,603	134,116
Operating Expense	<u>(150,592)</u>	<u>(143,092)</u>	<u>(293,684)</u>
Field Netback	(86,079)	(73,489)	(159,568)
G&A	<u>(107,236)</u>	<u>(74,811)</u>	<u>(182,046)</u>
Operating Cash Flow	(193,315)	(148,300)	(341,615)
Proposal Trustee	(20,000)	(20,000)	(40,000)
Receivership Professional Costs	<u>(275,000)</u>	<u>(200,000)</u>	<u>(475,000)</u>
Total Change in Cash	(488,315)	(368,300)	(381,615)
Opening Cash Balance	1,965,080	1,476,766	1,965,080
Change in Cash	<u>(488,315)</u>	<u>(368,300)</u>	<u>(856,615)</u>
Closing Cash Balance	1,476,766	1,108,466	1,108,466

21. The main assumptions which are the basis for the Cash Flow Forecast are:

- a. Royalty & working interest revenue relates to proceeds from Eagle Energy's royalty and non-operated working interest oil & gas production. Production forecast based on current production adjusted for natural production decline. The forecast sales price is based on strip pricing factoring in the companies' typical quality discount to benchmark prices.

- b. Operating costs are based on Eagle Energy's annual operating cost budget and relate to the costs to operate Eagle Energy's wells and facilities. Eagle Energy's working interest production is currently shut in, so these costs are the fixed costs associated with maintaining the properties;
 - c. G&A includes employee costs, rent, insurance, software required to run the business and other miscellaneous general and administrative expenses;
 - d. Professional fees include fee estimated for the Proposal Trustee additional professional fees expected to be incurred for the Receivership proceedings; and
 - e. Opening Cash balance is the cash on hand held by the Receiver at May 28, 2020
22. The Proposal Trustee is of the opinion that the assumptions are reasonable and consistent with the purpose of the Cash Flow Forecast and that as presented it demonstrates sufficient financial capacity to complete the Division 1 Proposal and fund the Unsecured Creditor's Fund.

SUMMARY OF PROPOSAL

Purpose

23. The purpose of the Division 1 Proposal is to affect a compromise of the unsecured indebtedness of Eagle Energy.

Funding

24. A fund ("**Unsecured Creditors' Fund**") in the amount of \$200,000 has been established from the cash on hand currently held by the Receiver. The Unsecured Creditors' Fund will be utilized to fund dividends to unsecured creditors who file valid proofs of claim ("**Proven Claims**").

25. A convenience class will be established whereby all unsecured creditors will receive the lesser of \$500 or the full amount of their unsecured claim ("**Convenience Payment**"). Unsecured creditors with claims of \$500 or less ("**Convenience Claim Creditors**") will receive a full recovery (less levy) and all unsecured creditors with Proven Claims greater than \$500 will receive a dividend of at least \$500 (less levy). The Convenience Payment will be paid from the Unsecured Creditors' Fund. The remaining Unsecured Creditors' Fund after the Convenience Payment will be distributed pro-rata to the remaining unsecured creditors with Proven Claims.

Illustrative Unsecured Claims Pool

26. Convenience Claim Creditors will not be required to submit a proof of claim and will be deemed to have Proven Claims unless such creditor disputes the amount deemed to be owing to such creditor in the creditor listing.

27. Unsecured creditors with claims greater than \$500 will be required to file a valid proof of claim with the Receiver and have it finally determined in accordance with the BIA in order to have a Proven Claim eligible for voting and distribution.

28. All contracts outlined in Schedule A of the Division 1 Proposal are to be repudiated. The repudiated contracts include:

- a. Office lease;
- b. Vehicle leases;
- c. Photo copier leases;
- d. Marketing agreements;
- e. Employment contracts;

- f. Consulting agreements; and
 - g. Royalty agreement.
29. The parties who have their contracts repudiated will be required to file a proof of claim in respect of the loss suffered resulting from the repudiation of the contract in accordance with the Division 1 Proposal.
30. Based on review of Eagle Energy's books and records, the Receiver estimates the following composition of unsecured creditors (including projected claims following the disclaimer of contracts). The Receiver is presenting these amounts for illustrative purposes and cautions that actual amounts may vary significantly once claims are proven.

Estimated Claims	Creditors		Unsecured Claims	
	# Creditors	%	Amount	%
Convenience Claims under \$500	39	33.1%	\$ 7,000	0.1%
Other Unsecured Creditors	78	66.1%	3,115,638	26.2%
White Oak unsecured claim	1	0.8%	8,780,890	73.8%
Total	118	100%	\$ 11,903,528	100.0%

Voting and Distribution

31. The Division 1 Proposal includes the following voting structure:
- a. Only unsecured creditors with Proven Claims will be eligible to vote on and share in distributions under the Division 1 Proposal;
 - b. Convenience Claim Creditors are deemed to have voted in favour of the Division 1 Proposal; and

- c. White Oak will be entitled to vote with their White Oak Unsecured Claim, which is estimated to represent approximately 73.8% of the total value of the total unsecured claims. However, White Oak will forgo the dividend they would otherwise be entitled to receive and allow it to be distributed to the remaining creditors with Proven Claims pro-rata.

32. The Receiver estimates that White Oak forgoing a dividend will result in a 6.2% recovery to unsecured creditors (not including creditors in the convenience class) as set out below:

Estimated Recovery	Distribution of Unsecured Creditors' Fund			Claim Amount	% Recovery
	Convenience	Pro-rata	Total		
Convenience Claims under \$500	\$ 7,000	\$ -	\$ 7,000	\$ 7,000	100.0%
Other Unsecured Creditors	39,000	154,000	193,000	3,115,638	6.2%
White Oak unsecured claim	-	-	-	8,780,890	0.0%
Total	\$ 46,000	\$ 154,000	\$ 200,000	\$ 11,903,528	1.7%

Creditor Meeting

33. The Proposal Trustee has called a creditor's meeting on June 10, 2020 at 10 AM by way of conference call, for affected creditors to vote on the Division 1 Proposal at a meeting of unsecured creditors of Eagle Energy (the "**Unsecured Creditor's Meeting**").

- a. A creditor can attend the Unsecured Creditor's Meeting using the following conference call instructions:
- i. **Meeting Dial in Number:** 1-888-619-1583 or 403-407-1583
 - ii. **Guest Passcode:** 172 136 0861#

34. In order to be accepted by the creditors, the Division 1 Proposal must be accepted by the majority of creditors who vote in number and 2/3 of the creditors in value. If accepted, by the creditors the Proposal will seek approval and sanctioning of the Division 1 Proposal by the Court of the Queen's Bench of Alberta on June 26, 2020.

Claims Bar Process

35. The Division 1 Proposal includes a customary claims bar provision whereby the Proposal Trustee will send notice ("**Claims Bar Notice**") pursuant to section 149 of the BIA after the Court grants an approval order sanctioning the Division 1 Proposal. The Claims Bar Notice will be sent to all known creditors giving 30 days notice to file a proof of claim. If no claim is filed within said 30 days, the creditor will be barred from making a claim in the Division 1 Proposal and sharing in any dividend therefrom.

IDENTIFICATION AND EVALUATION OF ASSETS

36. The Proposal Trustee is of the opinion that the Canadian SSP which was ran by the Receiver represents the most accurate estimate of the value of the assets of Eagle Energy. The following is a summary of the Canadian SSP:

- a. The Canadian SSP was approved by the Court of the Queen's Bench of Alberta prior to being commenced and contemplated a two phase process to be run over approximately 2 months.
- b. The results of the Canadian SSP was a total of 23 bids being received including:
 - i. A credit bid from White Oak to purchase Eagle Energy for \$21 million by way of corporate arrangement;
 - ii. 10 en bloc offers to purchase all of Eagle Energy; and 12 offers to purchase various individual package of Eagle Energy's assets.

- c. A summary of the offers received during the Canadian SSP is presented below. Due to the commercial sensitive nates of the information, the names of the bidders have been removed.

Bidder	Offer (CAD)	Transaction Structure	Offer Consideration
All Canadian Assets			
White Oak	\$ 21,000,000	Corporate Arrangement	- Credit Bid
Canadian Bidder 2	\$ 31,500,000	Asset Purchase	- No cash consideration - Assignment of \$31.5 million of debt - No debt re-payment for 5 years
Canadian Bidder 3	\$ 21,000,000	Asset Purchase	- No cash consideration - Assignment of \$21 million of debt
Canadian Bidder 4	\$ 15,650,000	Asset Purchase	- Cash consideration of \$650,000 - Assignment of \$15 million of debt
Canadian Bidder 5	\$ 9,100,000	Asset Purchase	- All cash consideration
Canadian Bidder 6	\$ 5,000,000	Corporate Arrangement	- All cash consideration
Canadian Bidder 7	\$ 2,200,000	Asset Purchase	- All cash consideration
Canadian Bidder 8	\$ 2,100,000	Asset Purchase	- All cash consideration
Canadian Bidder 9	\$ 1,428,571	Asset Purchase	- All cash consideration
Canadian Bidder 10	\$ 1,300,000	Asset Purchase	- All cash consideration
Canadian Bidder 11	\$ 100,000	Asset Purchase	- All cash consideration
Dixonville Only			
Canadian Bidder 12	\$ 15,550,000	Asset Purchase	- Cash consideration of \$550,000 - Assignment of \$15 million of debt
Canadian Bidder 13	\$ 850,000	Asset Purchase	- All cash consideration
Canadian Bidder 14	\$ 2,000,000	Asset Purchase	- No cash consideration - Payment in shares in O&G company
Royalty Interest and Minor WI			
Canadian Bidder 15	\$ -	Asset Purchase	-No cash consideration - Payment by way of 1.67mm Shares in O&G company (Undetermined Value)
Canadian Bidder 16	\$ 1,200,000	Asset Purchase	- All cash consideration
Canadian Bidder 17	\$ 625,010	Asset Purchase	- All cash consideration
Canadian Bidder 18	\$ 510,000	Asset Purchase	- All cash consideration
Canadian Bidder 19	\$ 360,000	Asset Purchase	- All cash consideration
Canadian Bidder 20	\$ 250,000	Asset Purchase	- All cash consideration
Canadian Bidder 21	\$ 165,000	Asset Purchase	- All cash consideration
Canadian Bidder 22	\$ 70,000	Asset Purchase	- All cash consideration
Canadian Bidder 23	\$ 55,000	Asset Purchase	- All cash consideration

37. Based on the results of the Canadian SSP, the Proposal Trustee believes that if the Proposal is not accepted, and the Arrangement Agreement terminated, the value of Eagle Energy would be significantly less than the secured debt.

CONDUCT OF THE DEBTOR

38. The Proposal Trustee has reviewed the Receivership bank accounts for the purpose of identifying any payments that may be considered preference payments under the *Bankruptcy and Insolvency Act*.

39. At the time of this Report, the Proposal Trustee has not been able to review the Debtors accounts prior to the Receivership Date, however it has no reason to believe or indication of any preference payments being made during or prior to the Receivership date.

CREDITOR'S CLAIMS

40. The Proposal Trustee is only aware of one secured claim which is held by White Oak. The Receiver has obtained an independent security opinion with respect to White Oak's secured claim as part of the Receivership proceedings and determined it to be valid and enforceable. The security opinion was completed by the Receiver's counsel Norton Rose Fulbright Canada LLP.

41. White Oak's secured claim at the date of this report is approximately \$45.3 million.

- a. White Oak's offer to purchase Eagle Energy by way of the Arrangement Agreement was for \$21 million (credit bid);

- b. In the sale process to sell the Debtors US Property, White Oak was determined to have the highest and best offer. This offer was for USD \$11 million (credit bid) with payment by way of forgiveness of its secured debt. This offer was accepted by the Receiver and will reduce White Oak’s secured debt against Eagle Energy by approximately \$15.5 million when converted to CAD;
- c. As discussed above, as part of the Arrangement Agreement, White Oak is converting a portion of its secured debt to an unsecured claim against Eagle Energy. The portion that is being converted is the amount of secured debt that is not being used in the purchase of Eagle Energy or the US Property of the Debtors. A calculation of the portion of White Oak’s secured debt that is being converted to unsecured debt (the “**White Oak Unsecured Debt**”) is provided below:

Treatment	Amount (CAD)
Total Secured Debt at May 28, 2020	\$ 45,274,390
Credit bid consideration for US Asset Sale	(15,493,500)
Credit Bid consideration in Canadian Transaction	<u>(21,000,000)</u>
Converted to unsecured claim against Eagle Energy	\$ 8,780,890

Note: Credit bid of USD \$11mm for US Asset Sale has been converted at an FX Rate of USD/CAD \$1.41

- d. The White Oak Unsecured Debt is included in the unsecured claims being addressed by the Division 1 Proposal.

42. At the date the Proposal was filed, the Proposal Trustee estimates that there are \$11.9 million in unsecured claims against Eagle Energy.

PREVIOUS BUSINESS DEALINGS WITH THE DEBTOR

43. The Proposal Trustee is also acting as the Receiver of Eagle Energy in the Receivership proceedings which commenced on November 19, 2019.

44. The Proposal Trustee does not believe this to be a conflict of interest for the following reasons:

- a. FTI Consulting's role as Receiver is one of an independent officer of the Court to serve the benefit of all creditors of the Debtors; and
- b. FTI Consulting's role as Receiver provides it with valuable background to the operations of Eagle Energy and as such there is no requirement to get up to speed on the operations of Eagle Energy. This limits the fees which are expected to be incurred to complete the Division 1 Proposal.

INFORMAL MEETINGS WITH MAJOR CREDITORS

45. The Receiver has been in periodic contact with White Oak in its capacity as secured creditor of Eagle Energy as well as other creditors while completing its duties as Receiver. This would be considered normal in the circumstances.

46. The Proposal Trustee has not had any informal meetings with any major creditors.

REMUNERATION OF TRUSTEE

47. The funding for the Division 1 Proposal and the payment of the Proposal Trustee's fees will be paid from the cash on hand held by the Receiver.

48. The Proposal Trustee is estimating that its fees will be \$20,000 to administer the Division 1 Proposal.

OTHER

49. The Proposal Trustee is not aware of any legal proceedings or contract arrangements which would affect the Division 1 Proposal or that creditors should be made aware of in making their voting decision with respect to the Division 1 Proposal.

STATEMENT OF ESTIMATED REALIZATION

50. As noted in the summary of the Proposal, the realization for unsecured creditors will be each Proven Claim’s pro-rata share of the Unsecured Claims Pool which is \$200,000.

51. Based on Eagle Energy’s records at the date the Division 1 Proposal was filed and the assumption that all creditors prove their claims, the Proposal Trustee expects the recoveries to be as follows:

Distribution of Unsecured Creditors' Fund					
Estimated Recovery	Convenience	Pro-rata	Total	Claim Amount	% Recovery
Convenience Claims under \$500	\$ 7,000	\$ -	\$ 7,000	\$ 7,000	100.0%
Other Unsecured Creditors	39,000	154,000	193,000	3,115,638	6.2%
White Oak unsecured claim	-	-	-	8,780,890	0.0%
Total	\$ 46,000	\$ 154,000	\$ 200,000	\$ 11,903,528	1.7%

52. As described in the *Bankruptcy and Insolvency Act* Section (57)(a) if the Division 1 Proposal is not accepted Eagle Energy will be deemed to have made an assignment into bankruptcy. This would result in the liquidation of Eagle Energy by way of an asset sale.

53. The Proposal Trustee believes that a liquidation of the assets of Eagle Energy in bankruptcy would result in similar offers to what were received during the Canadian SSP and that because of the depressed state and uncertainty surrounding the oil and gas industry in Alberta at the time of this Report, it highly unlikely that any future offer would provide comparable recoveries to the creditors of Eagle Energy when compared to the Arrangement Agreement.

54. If the Arrangement Agreement is terminated, White Oak would no longer convert a portion of their secured debt to an unsecured portion and would have a secured claim against Eagle Energy in the amount of approximately \$29.8 million dollars. This balance is the \$45.2 million owed at May 28, 2020 less the portion being used to purchase the US Assets

55. The Proposal Trustee is of the view that in a bankruptcy asset sale, it would be unlikely that any offers are made which would exceed the White Oak secured debt of \$29.8 million and unsecured creditors of Eagle Energy would receive no recovery (highest cash bid for the Canadian assets was \$9.1 million).

RECOMMENDATIONS

56. The Proposal Trustee is of the opinion that the offers received during the Canadian SSP represent the market value of the assets of Eagle Energy and believes that the Arrangement Agreement was superior to all other offers received for the following reasons:

- a. The Arrangement Agreement represents the highest total recoveries for each class of creditor;
- b. The Arrangement Agreement transaction structure would provide recoveries to unsecured creditors of the estate where no other offer submitted contemplated any payments other than to the secured creditor; and
- c. White Oak is financially capable of completing the transaction and as the secured creditor has a vested interest in completing a transaction in a timely manner.

57. Accordingly, the Division 1 Proposal represents a greater benefit to unsecured creditors of Eagle Energy compared to the expected nil return in a bankruptcy asset sale.

All of which is respectfully submitted this 8th day June 2020.

Yours truly,

FTI Consulting Canada Inc.
In its capacity as Proposal Trustee of

Eagle Energy Inc. and not
in its personal capacity

Per:



Deryck Helkaa
Senior Managing Director