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COURT COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE CALGARY
APPLICANT ACMO S.À R.L.
RESPONDENTS **US OIL SANDS INC. and US OIL SANDS (UTAH) INC.**
DOCUMENT **SECOND REPORT OF FTI CONSULTING CANADA INC., IN ITS CAPACITY AS COURT APPOINTED RECEIVER AND MANAGER OF US OIL SANDS INC. and US OIL SANDS (UTAH) INC.**

April 20, 2018

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT

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INTRODUCTION

1. On September 14, 2017 (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 US Oil Sands Inc. and US Oil Sands (Utah) Inc. (collectively, “**US Oil Sands**” or the “**Company**”) pursuant to an Order of the Honourable Mr. Justice J.T. Eamon (the “**Receivership Order**”).
2. The Receivership Order authorized the Receiver, among other things, to manage, operate and carry on the business of the Company, to market any, or all, of the Assets including advertising and soliciting offers to purchase the Assets, and to make such arrangements or agreements as deemed necessary by the Receiver.
3. On February 16, 2018, an order (the “**Sales Process Order**”) was granted approving the Receiver’s proposed sales solicitation process (“**SSP**”), which was attached as Appendix A to the first report of the Receiver dated February 1, 2018 (“**First Report**”). The Sales Process Order also authorized the Receiver to engage FTI Capital Advisors- Canada ULC (“**Selling Agent**”) as selling agent to assist with the marketing of the assets and properties of US Oil Sands in accordance with the terms of the SSP.
4. The Sales Process Order also approved an Amended and Restated Asset Purchase and Sale Agreement between USO (UTAH) LLC (“**USO Utah**”) as purchaser and the Receiver as seller, dated January 22, 2018 (“**Stalking Horse APA**”). The Stalking Horse APA was utilized as a stalking horse bid within the SSP.
5. The Receiver’s reports and other publicly available information in respect of these proceedings (the “**Receivership Proceedings**”) are posted on the Receiver’s website at <http://cfcanada.fticonsulting.com/usoilsands> (the “**Receiver’s Website**”).

6. The purpose of this report (“**Second Report**”) is to inform the Court of the following:
 - (a) the activities of the Receiver since the First Report;
 - (b) the Receiver’s receipts and disbursements from the Date of Appointment to April 13, 2018;
 - (c) the Receiver’s summary of its and the Selling Agent's administration of the SSP and the results thereof; and
 - (d) the Receiver's comments and recommendations with respect to the approval and vesting order sought with respect to the Stalking Horse APA.

7. All capitalized terms that are used but not defined herein are intended to bear their meanings as defined in the Receivership Order, the Stalking Horse APA or the SSP.

8. The Receiver is requesting the following relief from this Honourable Court:
 - (a) approval of the actions, activities and conduct of the Receiver since the First Report, as reported in this Second Report; and
 - (b) approving and authorizing the sale of the assets undertakings, and properties of US Oil Sands (the "**Purchased Assets**") pursuant to the Stalking Horse APA and vesting in USO Utah all of US Oil Sands' interests in and to the Purchased Assets.

TERMS OF REFERENCE

9. In preparing this Second Report, the Receiver has relied upon unaudited financial information, other information available to the Receiver and, where appropriate, the Company's books and records and discussions with various parties (collectively, the "**Information**").
10. 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.
11. 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.
12. The Receiver has prepared this Second Report in connection with the Receiver's Application dated April 20, 2018. This Second Report should not be relied on for other purposes.
13. Information and advice described in this Second Report that has been provided to the Receiver by its legal counsel, Bennett Jones LLP (the "**Receiver's Counsel**"), was provided to assist the Receiver in considering its course of action, is not intended as legal or other advice to, and may not be relied upon by, any other person.

14. Unless otherwise stated, all monetary amounts contained herein are expressed in United States Dollars.

RECEIVER'S ACTIVITIES

15. Since the date of the Receiver's First Report, the Receiver has continued with the following initiatives:
 - (a) Continued to safeguard the assets of US Oil Sands with no material adverse issues;
 - (b) Worked in consultation with US Oil Sands' employees, the Receiver's Counsel and the Selling Agent to execute the sales and marketing process pursuant to the terms of the Court-approved SSP; and
 - (c) Corresponded with creditors, regulatory agencies and ongoing suppliers on a regular basis.

SUMMARY OF RECEIPTS AND DISBURSEMENT

16. Receipts and Disbursements from the Date of Appointment to April 13, 2018 are summarized as follows (in USD):

Schedule of Receipts and Disbursements	
As of April 13, 2018	<i>(000's USD)</i>
Receipts	
Initial Cash on Hand	715,636
Receiver's Borrowings	1,250,000
Other Receipts	53,699
Net Bank Interest/ (Charges)	608
Total - Receipts	2,019,943
Disbursements	
Employee Costs	529,791
Operating Expenses	207,808
Rent and Utilities	112,842
Insurance	95,256
Net Taxes	14,511
Patent Expenses	21,337
Outside Consulting	6,960
Property Taxes	4,013
Legal Fees	195,359
Receiver's Fees	176,561
FX Gain/ (Loss)	(6,390)
Total - Disbursements	1,358,049
Net Cash on Hand	661,894

- (a) Initial cash on hand – represents the Company’s cash on hand on the Date of Appointment;
- (b) Receiver’s Borrowings – amounts borrowed to date under terms of the Receivership Order;

- (c) Other Receipts – miscellaneous credits on account returned by vendors;
- (d) Net Bank Interest (Charges) – interest accrued and fees charged on amounts held in estate bank accounts;
- (e) Employee Costs – amounts disbursed by the Receiver relating to payroll and employee deductions and consultants;
- (f) Operating Expenses – amounts disbursed in respect of the Company’s operations in Grand Prairie and Utah;
- (g) Rent and Utilities – amounts disbursed relating to occupation rent and operational site utilities;
- (h) Insurance – insurance costs including operator’s insurance and general liability;
- (i) Net Taxes – net GST amounts paid and received through operational transactions;
- (j) Patent Expenses – amounts paid with respect of the Company’s patent filings and renewals;
- (k) Outside Consulting – amounts paid to outside consultants for services provided;
- (l) Property Taxes – yearly tax amounts paid with respect to the Company’s oil and gas properties in Utah;
- (m) Legal Fees – Receiver’s Canadian and US Counsel’s fees and disbursements in respect of the Receivership Proceedings

- (n) Receiver's Fees – Receiver's fees and disbursements in respect of the Receivership Proceedings; and
 - (o) FX Gain/ (Loss) – change in cash due to changes in USD and CAD exchange rate.
17. Cash on Hand – at April 13, 2018, the Receiver currently holds \$661,894 in funds.

SALES SOLICITATION PROCESS

Summary of marketing efforts

18. As described above, the Sales Process Order authorized the Receiver to conduct a sales and marketing process in accordance with the terms of the Court-approved SSP.
19. On February 20, 2018¹ the Selling Agent and the Receiver launched the SSP. A summary of the Selling Agent's and the Receiver's marketing efforts include the following:
- (a) Drafting a marketing teaser information memorandum (“**Teaser**”) summarizing the opportunity, the SSP and where interested parties could obtain additional information;
 - (b) Posting Teaser and non-disclosure agreement (“**NDA**”) marketing materials on the Receiver's and FTICA's websites on February 20, 2018 and posting the SSP and Sales Process Order on February 21, 2018;

¹ The SSP was launched on February 20, 2018, as February 19, 2018 was a statutory holiday in Alberta.

- (c) On February 20, 2018 the Teaser was e-mailed to a list of potential financial, strategic and foreign buyers as well as the 7 largest shareholders of US Oil Sands (collectively “**Potential Purchasers**”) compiled by the Selling Agent. The Teaser was sent to a total of 573 Potential Purchasers;
 - (d) Posting advertisements in the Daily Oil Bulletin on February 26, 2018, The Globe and Mail (National Edition) on February 27, 2018 and the Salt Lake Tribune on February 28, 2018;
 - (e) initiating targeted phone calls on February 20, 2018;
 - (f) issuing a press release that indicated the opportunity; and
 - (g) establishing and making available on February 19, 2018 a confidential virtual data room (“**VDR**”). The VDR included a detailed information memorandum prepared by FTICA in consultation with employees of US Oil Sands as well as detailed information with respect to the opportunity required for due diligence. The VDR was made available by FTICA to prospective purchasers that executed a non-disclosure agreement with the Receiver. The VDR also included a copy of the Stalking Horse APA which could be used by Potential Purchasers as a template to mark-up when submitting bids as required by the Sales Process Order.
20. In the Receiver’s view, the marketing efforts fully exposed the Company’s assets and operations to the marketplace. The marketing efforts described above resulted in the following interest:
- (a) a total of 16 parties signed NDA’s;
 - (b) a total of 16 parties who signed NDA’s were determined to be qualified bidders (“**Qualified Bidders**”) pursuant to the terms of the SSP and were accordingly granted access to the VDR; and

- (c) the Receiver, the Selling Agents and the remaining management of US Oil Sands completed 5 in-person presentations and site visits for Qualified Bidders.

Qualified Bids

21. The SSP required Qualified Bidders to submit written copies of final binding proposal (“**Final Bid**”) by April 6, 2018 (the “**Final Bid Deadline**”). In order for a Final Bid to be considered a qualified bid (“**Qualified Bid**”) it had to comply with, among other things, the following requirements, that were set out in the SSP:

- (a) it contains:
 - (i) a duly executed purchase and sale agreement; and
 - (ii) a blackline of the executed purchase and sale agreement to the Stalking Horse APA.
- (b) it provides written evidence of a firm, irrevocable financial commitment for all required funding or financing;
- (c) it does not include any request for or entitlement to any break fee, expense reimbursement or similar type of payment;
- (d) it is accompanied by a refundable deposit (“**Deposit**”) in the form of a wire transfer (to a bank account specified by the Receiver and FTICA), or such other form of payment acceptable to the Receiver, payable to the order of the Receiver, in trust, in an amount equal to 10% of the total consideration in the Qualified Bid;

- (e) the aggregate consideration as calculated and determined by the Receiver and FTICA in their sole discretion, to be paid in cash by the Qualified Bidder under the Qualified Bid exceeds the aggregate of the Purchase Price under the Stalking Horse APA plus US\$250,000 (one Minimum Incremental Overbid), upon completion of the transaction contemplated by the Stalking Horse APA;
- (f) it is not conditional upon:
 - (i) additional due diligence; or
 - (ii) obtaining financing;
- (g) it contains evidence of authorization and approval from the Qualified Bidder's board of directors (or comparable governing body); and
- (h) it is received by the Final Bid Deadline.

22. At the Final Bid Deadline, one Qualified Bidder ("**Alternative Bidder**") submitted a Final Bid ("**Alternative Bid**"). The Receiver reviewed the Alternative Bid in consultation with the Receiver's Counsel and the Selling Agent to determine whether the Alternative Bid qualified as a Qualified Bid.

23. After reviewing the Alternative Bid, the Receiver, in consultation with the Receiver's Counsel and the Selling Agent, determined that the Alternative Bid did not meet the requirements of a Qualified Bid for various reasons including but not limited to:

- (a) the Alternative Bid did not include a deposit;
- (b) it did not offer cash consideration and was subject to a financing condition; and

- (c) it included due diligence conditions.
24. Prior to the Final Bid Deadline, when the Alternative Bidder was conducting its due diligence, the Alternative Bidder had expressed concerns over the timelines of the SSP. The Receiver considered these concerns and discussed them with the Alternative Bidder. The Alternative Bidder requested that the timeline to submit its Final Bid be extended to April 18, 2018. The Receiver considered the request and on April 12, 2018, the Receiver formally agreed by letter to provide the Alternative Bidder the requested extension to April 18, 2018 (“**Extended Bid Deadline**”) to re-submit a Final Bid that met the requirements of a Qualified Bid. Between April 12, 2018 and April 18, 2018, the Selling Agent corresponded with the Alternative Bidder providing further clarification on what was required for a bid to constitute a Qualified Bid.
25. Despite the extension of time granted by the Receiver, the Alternative Bidder did not submit a revised bid or a Qualified Bid by the Extended Bid Deadline and has advised the Receiver that it was unable to do so. Given the Final Bid Deadline and the Extended Bid Deadline had passed with no Qualified Bid being received, the Receiver advised USO Utah that pursuant to paragraph 20 of the SSP, the Receiver would be making an application to this Honourable Court seeking approval to close the purchase and sale of the Purchased Assets under the Stalking Horse APA and vest title in the Purchased Assets to USO Utah.

RECOMMENDATIONS

26. The Receiver respectfully requests that this Honourable Court grant the following relief:
- (a) approving the Receiver's actions, activities and conduct, as reported in this Second Report, from the date of the First Report to the date of this Second Report; and

- (b) authorizing the sale of the Purchased Assets pursuant to the Stalking Horse APA and vesting in USO Utah all of US Oil Sands' right, title and interest in and to the Purchased Assets.

All of which is respectfully submitted this 20th day of April 2018.

FTI Consulting Canada Inc.,
in its capacity as receiver and manager
of the assets, undertakings and properties of
US Oil Sands Inc. and US Oil Sands (Utah) Inc.



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