

COURT FILE NUMBER 1401-08528

COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

PLAINTIFF NATIONAL BANK OF CANADA

DEFENDANT EAGLE RANCH RESOURCES LTD.

DOCUMENT **FIRST REPORT OF THE RECEIVER**

JANUARY 23, 2015

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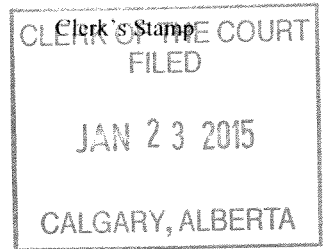


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INTRODUCTION

1. On August 15, 2014 (the “Receivership Date”), pursuant to an order of the Honourable Justice P.R. Jeffry (the “Receivership Order”), Alvarez & Marsal Canada Inc. (“A&M”) was appointed as receiver (the “Receiver”) in respect of the books and records (not the property) of Eagle Ranch Resources Ltd. (“Eagle Ranch” or the “Company”), pursuant to section 243(1) of the Bankruptcy and Insolvency Act, R.S.C. 1985, c. B-3, as amended., (the “BIA”) in the within action (the “Receivership Proceedings”). By virtue of the Receivership Order, A&M became the Receiver, without security, of all of Eagle Ranch’s books, documents, securities, contracts, orders, corporate and accounting records, and any other papers, records and information of any kind related to the business or affairs of Eagle Ranch and any computer programs, computer tapes, computer disks, or other data storage media containing any such information (the foregoing, collectively, the “Records”).
2. The Receivership Order empowers and authorizes, but does not obligate, the Receiver to take possession of and exercise control over the Records, to receive, preserve and protect the Records, or any part or parts thereof, including, the copying, transfer and/or relocating of Records to safeguard them; to report to, meet with and discuss with such affected persons as the Receiver deems appropriate all matters relating to the Records and the receivership; and to take any steps reasonably incidental to the exercise of these powers or the performance of any statutory obligations.
3. The purpose of this first report of the Receiver (the “First Report”) is to provide this Honourable Court with information in respect of the following:
 - a) an overview of Eagle Ranch;
 - b) the initial activities of the Receiver since the Receivership Date;

- c) the National Bank of Canada's ("NBC") request of this Honourable Court to grant an order amending the Receivership Order dated August 15, 2014 (the "Amended and Restated Order"), as discussed further below;
 - d) the estimated cash flow forecast requirement of Eagle Ranch;
 - e) the Receiver's future course of action; and
 - f) the Receiver's recommendations
4. Capitalized words or terms not defined or ascribed a meaning in the First Report are as defined or ascribed a meaning in the First Report and the Receivership Order.
5. All references to dollars are in Canadian currency unless otherwise noted.

TERMS OF REFERENCE

6. In preparing this First Report, the Receiver has relied primarily upon unaudited financial information of Eagle Ranch and discussions with Eagle Ranch's previous management and its joint venture partner, Elkwater. The Receiver has not performed an audit, review or other verification of such information. An examination of the financial forecast has not been performed. Future oriented financial information relied upon in this memorandum is based on the Receiver's assumptions regarding future events and actual results achieved may vary from this information and the variations may be material.

BACKGROUND

7. Eagle Ranch is a private, non-operated oil and gas company and was incorporated by a Certificate of Incorporation pursuant to the provisions of the Business Corporations Act (Alberta) on April 27, 2005. The principal business activities include the evaluation, acquisition, exploration and development of oil and gas properties in Western Canada. Eagle Ranch has no subsidiaries or affiliates and

does not operate any of its working interests. Eagle Ranch carries on its operations through joint venture and joint operating arrangements with Elkwater Resources Ltd. (“Elkwater”) and Elkwater is the current operator of Eagle Ranch’s various working interests.

8. Further background to Eagle Ranch and its operations are contained in the materials filed in these receivership proceedings that have been posted by the Receiver on its website at: www.alvarezmarsal.com/eagleranch (the “Receiver’s Website”).

OVERVIEW OF EAGLE RANCH

Location of Assets and Books and Records

9. Eagle Ranch’s oil and gas interests are located in Alberta. The books and records of Eagle Ranch were previously located in the shared office of Elkwater located at 2000, 840-7th Avenue SW, Calgary, Alberta. Eagle Ranch no longer has an office location and the books and records are currently located at the Receiver’s office.

Relationship with Elkwater

10. Elkwater is the current operator and working interest partner of all of Eagle Ranch’s oil and gas properties. Eagle Ranch’s working interest on these various oil and gas assets is 65% and Elkwater has the remaining 35% interest.
11. All of the Company’s operating and accounting functions were previously conducted by Elkwater until September 1, 2014 and Elkwater advised it would not continue with the same relationship it previously had with Eagle Ranch.
12. Elkwater and Eagle Ranch were previously considered “related parties” by virtue of common management and director; however, the Receiver was advised this “related party” status change in early 2014 when the common director of Eagle Ranch and Elkwater resigned.

Oil and Gas properties

13. Eagle Ranch has a working interest in 23 wells with Elkwater, where:
- a) 3 wells are producing (9-33-25-5W4, 10-4-27-6W4 and 7-28-21-02W4 wells),
 - b) 1 well shut-in is it has a high water cut and appears to be marginally economic to produce due to water trucking and disposal costs;
 - c) 14 wells are suspended or standing. Of these wells, GLJ Petroleum Consultants ("GLJ") has assigned reserves values to some of these wells, which require additional capital spending (such as pipeline and surface equipment) to bring them up to producing wells; and
 - d) 5 are abandoned and the Consultant was advised they still require surface lease reclamation and are listed in the Alberta Energy Regulator ("AER") Licensee Liability Rating ("LLR") listing, but not on the Company's property report as the P&NG rights are no longer held.
14. The AER LLR for Elkwater includes all above-mentioned 23 well licenses, which Eagle Ranch has a 65% working interest in as a non-operator. The AER LLR listing shows the required abandonment and/or surface reclamation costs (deemed liabilities) relative to the deemed asset value of the well license. The AER is in a 3-year process of updating the abandonment liability costs, with the final increases scheduled for May 1, 2015. Based on the Receiver's discussion with former management of Eagle Ranch and review of the AER LLR listing on the 23 well licenses, the total deemed assets for Elkwater are \$2,397,045 and the deemed liabilities are \$885,410. This creates a positive Liability Management Rating ("LMR") balance of approximately \$1.5 million, which indicates that there is no requirement of Elkwater (nor Eagle Ranch) to post a deposit with the AER as the deemed assets outweigh the deemed liabilities at this time.

15. Elkwater, as operator, provides a joint venture statement of capital and operations each month to Eagle Ranch, which show the net amount payable to Eagle Ranch from Elkwater. Over the past several months, Elkwater has been utilizing all of Eagle Ranch's net proceeds from production to offset amounts owed to them by Eagle Ranch, as discussed further below.

Related Party Account

16. The records disclose an account payable to a "related party" in the amount of approximately \$784,000, due to Eagle Ranch's working interest partner, Elkwater. The Receiver has reviewed the various joint venture billings issued by Elkwater to Eagle Ranch and various transactions recorded to the related party account. The related party account is made up of multiple transactions between Elkwater and Eagle Ranch over the past several years (balance sheet item) and this account balance fluctuates month to month. The related party account consists of operating and capital expenditures incurred by Elkwater (as operator) on Eagle Ranch's behalf, and also includes various G&A costs such as shared expenses on rent, administrative costs, etc. The Receiver has not performed an "audit" on this related party account; however, the Receiver does understand that Eagle Ranch had a "review engagement" completed by MNP LLP on its year-end December 31, 2013 financial statements and the account balance at this time was \$774,976.

Insurance coverage

17. Elkwater has a comprehensive corporate insurance policy ("Corporate Insurance Policy") in place with Energy Insurance Group ("EIG") that covers the jointly owned properties of Eagle Ranch and Elkwater. The insurance policy expires on August 12, 2015. The name of the insured on this policy is Elkwater; however, the certificate of insurance confirms that Eagle Ranch are added as "additional insured" on the comprehensive general liability ("CGL") policy but only as their interest may appear with respect to the operations of Elkwater.

18. The CGL policy covers \$5 million on any one loss and/or series of losses arising out of any one event or occurrence, which include: products and completed operations liability, tenant's legal liability, cross liability, severability and interest clause and blanket contractual liability. The Receiver will be contacting EIG with respect to having the Receiver added on as the loss payee and beneficiary to the policy as it relates to Eagle Ranch's interest in the jointly owned properties.

INITIAL ACTIVITIES OF THE RECEIVER

Custody, Control and Securing the Property

19. Since the Receivership Date, the Receiver's initial activities have included the following:
- a) attending the head office location of Eagle Ranch to take possession and control of the Records;
 - b) meetings with former management of Eagle Ranch and management of Elkwater to explain the powers and duties of the Receiver, its role as an Officer of the Court and the documents required to take possession;
 - c) communication with Eagle Ranch's legal advisors to seek and obtain any of the Records held and located at the law firm;
 - d) various emails and phone calls with Pandell Technology Corp. ("Pandell") in separating out the electronic, Eagle Ranch, accounting records from that of Elkwater;
 - e) the Receiver was not able to obtain any computer programs, computer tapes, computer disks, or other data storage media containing any such information because Elkwater and Eagle Ranch shared one "server" with Pandell to store the financial and accounting data. Pandell was also used to maintain the electronic accounting records of

both companies. The Receiver continues to work with Elkwater's management to achieve separation of the accounting information. Once it is confirmed that the separation is complete the receiver will be able to obtain and store the electronic records of Eagle Ranch;

- f) the receiver believes it would be necessary to continue using Pandell to have access to the stored the financial data of Eagle Ranch and to perform certain accounting functions, as necessary. The cost of this service is estimated to be approximately \$1,500 per month and would likely be maintained for a period of 2 to 3 months;
- g) various communications with NBC and its legal counsel with respect to Eagle Ranch and the Receivership Proceedings;
- h) understanding Eagle Ranch's insurance policy; and
- i) meetings and discussions with Eagle's unsecured creditors (or their representatives) and secured creditor (NBC) and interested parties regarding the receivership, generally.

Employees and Directors

20. The Receiver held various discussions with the former director and employee of Eagle Ranch, Mr. Don Brown (and current 20% shareholder), in regards to the financial position, operating arrangements, asset listings, and various other matters of Eagle Ranch. During these discussions, the Receiver was advised by Mr. Brown that he was no longer employed nor was a director of Eagle Ranch and there were no employees of Eagle Ranch. Despite advising he was no longer an employee or director of Eagle Ranch, Mr. Brown agreed to assist (on a limited basis) the Receiver and provide some, but not all, financial and tax information, asset listings, most recent reserve reports and other financial and operating data requested by the Receiver.

Employee Priority Claims

21. Upon review of the books and records of Eagle Ranch, the Receiver understands that there were no salaries and/or wages owing to employees of Eagle Ranch that would qualify for a claim under the Wage Earner Protection Program or a priority claim pursuant to section 81.4(1) of the BIA.

Canada Revenue Agency

GST and Source Deductions

22. The Receiver is not aware of any outstanding pre-receivership GST or source deductions owing to the Canada Revenue Agency ("CRA"). The Receiver is requesting an audit to be conducted by CRA on Eagle Ranch's GST and source deductions accounts.

Corporate income tax and tax pools

23. Eagle Ranch last filed a tax return in respect of the fiscal year-ending December 31, 2013. On July 7, 2014, the CRA sent Eagle Ranch a "corporation notice of assessment" and this assessment indicated a \$NIL balance outstanding with CRA.

Statutory Mailing by Receiver

24. The Receiver mailed the notices required by sections 245 and 246 of the Bankruptcy and Insolvency Act ("BIA") to the Eagle Ranch creditors and the Office of the Superintendent of Bankruptcy on August 25, 2014. A copy of the Receiver's Notice can be found on the Receiver's Website.

Security interest against Eagle Ranch and other creditors

25. The Receiver has not engaged independent legal counsel and a legal opinion confirming the validity and enforceability of NBC's security in relation Eagle Ranch's assets has not been yet conducted.

26. The Receiver obtained an updated search from the Alberta Personal Property Registry dated January 21, 2015 and the search confirmed there are no other parties (other than NBC) that have registered a security interest against Eagle Ranch.
27. The Receiver is aware of two (2) potential unsecured creditors of Eagle Ranch who may have a combined total claim against the Company of approximately \$12,500. These potential unsecured claims are in addition to Eagle Ranch's indebtedness to its joint venture partner, Elkwater, of approximately \$784,000.

AMENDED AND RESTATED RECEIVERSHIP ORDER

28. NBC is requesting that this Honourable Court grant the Amended and Restated Order.
29. The Receiver has reviewed the proposed Amended and Restated Order, which is attached to the affidavit of Ms. Elizabeth Pineda sworn January 23, 2015 (the "January 23rd Pineda Affidavit"). The proposed Amended and Restated Order would grant, among other things, the following (subject to Court approval):
 - a) enhanced powers and duties to the Receiver and expanding the Receiver's appointment to include all of Eagle Ranch's current and future assets, undertakings and properties, of every nature and whatsoever and wherever including all proceeds thereof (the "Property");
 - b) the increase in the Receiver's borrowing charge from \$25,000 to \$100,000; and
 - c) authorize and direct the Receiver to execute and deliver the Settlement, Priority and Asset Sale Agreement, dated January 27, 2015, between the Eagle Ranch and Elkwater (the "Settlement and Asset Sale Agreement") and to conclude the transactions contemplated by the Settlement and Asset Sale Agreement

(collectively, the “Transactions”), and to take any and all such steps and execute any and all such deeds, documents, and instruments as may reasonably be necessary to consummate the Transactions contemplated therein, including, but not limited to, retaining NRG Divestitures Inc. (“NRG”) to market and complete a sale of any or all of the Property, substantially in accordance with the terms of the Settlement and Asset Sale Agreement.

30. The Settlement and Asset Sale Agreement contemplates the following:

- a) the release of the Eagle Ranch claims;
- b) the subordination of the Elkwater claim, in favour of NBC;
- c) the joint marketing and sale of the Property, including any and all participating interests that Eagle Ranch and Elkwater possess with respect to such Property; and
- d) the distribution of any and all proceeds derived from the sale of the Property to Eagle Ranch and Elkwater:
 - i. first, in an amount equal to Elkwater’s and Eagle Ranch’s respective working interests in the Property;
 - ii. second, to satisfy any and all outstanding claims and charges in accordance with the terms and priorities of any applicable receivership order;
 - iii. third, to satisfy and repay all amounts due and owing to NBC;
 - iv. fourth, to satisfy any amounts due and owing to Elkwater as a result of the Elkwater claim; and
 - v. fifth, any and all remaining proceeds will be paid to, or retained by, Eagle Ranch.

31. The Receiver respectfully supports NBC's application to this Honourable Court to grant the Amended and Restated Order.

ESTIMATED CASH FLOW FORECAST

32. The Receiver anticipates that there will be limited production receipts available from Eagle Ranch's operations to administer the receivership and the Receiver will likely have to rely on the Receiver's borrowings provided pursuant to the Receivership Order (and the proposed Amended and Restated Order) to cover the Receiver's expenses. The Receiver understands that NBC will fund a Receiver's Certificate to cover the receivership costs. A Receiver's Certificate can be issued and will create a priority charge on the Property of Eagle Ranch.
33. The estimated fees and cost of the Receiver to date is approximately \$20,000.

RECEIVER'S FUTURE COURSE OF ACTION

34. The Receiver's next steps include:
- a) executing the Settlement and Asset Sale Agreement with Elkwater and conclude on the Transaction, as contemplated in the proposed Amended and Restated Order, subject to Court approval;
 - b) engaging NRG as its marketing agent to the proposed Transaction, subject to Court approval;
 - c) working with the CRA in supplying them the required information for the start and complete their GST and source deductions audit of Eagle Ranch;
 - d) filing, packaging and storing all other relevant books and records of Eagle Ranch; and
 - e) addressing any and all operational and regulatory matters affecting Eagle Ranch's Property, as may be required.

RECOMMENDATION

35. The Receiver respectfully recommends that this Honourable Court approve the Amended and Restated Order.

All of which is respectfully submitted this 23rd day of January, 2015.

ALVAREZ & MARSAL CANADA INC.

*In its capacity as the Court appointed Receiver
in respect of the books and records of Eagle Ranch Resources Ltd.
and not in its personal capacity*



Tim Reid, CA•CIRP
Senior Vice President



Orest Konowalchuk, CA•CIRP
Vice President