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COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE

CALGARY

IN THE MATTER OF THE *BANKRUPTCY AND
INSOLVENCY ACT*, RSC 1985, c B-3, AS AMENDED

COM
Aug 10 2022

AND IN THE MATTER OF THE NOTICE OF
INTENTION TO MAKE A PROPOSAL OF
PETROLAMA ENERGY CANADA INC.

DOCUMENT

**FIRST REPORT OF ALVAREZ & MARSAL
CANADA INC. IN ITS CAPACITY AS TRUSTEE
UNDER THE
NOTICE OF INTENTION TO MAKE A PROPOSAL**

August 4, 2022

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
PARTY FILING THIS
DOCUMENT

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INTRODUCTION

1. On July 27, 2022 (“**Filing Date**”), Petrolama Energy Canada Inc. (“**Petrolama**” or the “**Company**”), filed a Notice of Intention to Make a Proposal (the “**NOI**”) pursuant to subsection 50.4(1) of the *Bankruptcy and Insolvency Act*, RSC 1985, c B-3, as amended (the “**BIA**”). Alvarez & Marsal Canada Inc. consented to act as Trustee under the NOI (“**A&M**” or the “**Proposal Trustee**”).
2. Pursuant to section 50.4(8) of the BIA, the initial stay period under these BIA Proceedings is from July 27, 2022 to August 26, 2022 (the “**Initial Stay Period**”).
3. A copy of the Certificate of Filing of the NOI issued by the Office of the Superintendent of Bankruptcy is attached as Appendix “**A**”.

Application by the Company – August 10, 2022

4. On August 2, 2022, the Company filed an application with this Honourable Court to seek among other things:
 - a) authorization for a sales and investment solicitation process (the “**SISP**”), including the SISP's deeming of the stalking horse proposal to creditors (the “**Stalking Horse Proposal**”) of 884304 Alberta Ltd. (the “**Stalking Horse Bidder**”) as a Qualified Bid there under, and authorization for the Company to implement and perform the SISP;
 - b) granting a charge, not to exceed \$150,000 (the “**Administration Charge**”), as security for the fees and costs of the Proposal Trustee, its independent legal counsel, and the legal counsel to the Company;
 - c) granting a charge in favour of the Company’s directors and officers, securing the Company’s indemnification obligations to them not to exceed \$65,000 (the “**Directors’ and Officers’ Charge**”);
 - d) authorizing the Company to borrow up to \$300,000 under a debtor-in-possession non-revolving loan facility (the “**Interim Facility**”) to allow the Company to satisfy its expenses in connection with these BIA Proceedings

and granting a charge (the “**Interim Lending Charge**”) to secure the obligations under the Interim Facility; and

- e) extending the time for filing a proposal pursuant to section 50.4(9) of the BIA up to and including October 10, 2022.

PURPOSE

- 5. The purpose of this First Report of the Proposal Trustee (the “**First Report**” or this “**Report**”) is to provide this Honourable Court and the Company’s stakeholders with information and the Proposal Trustee’s comments in respect of the following:

- a) the Company’s background;
- b) the activities of the Company and the Proposal Trustee prior to and since the filing of the NOI;
- c) the proposed SISP;
- d) the Stalking Horse Proposal;
- e) the Company’s cash flow projection;
- f) the Company’s application for the approval of the Interim Facility;
- g) the Company’s application for the approval of the proposed Administration Charge, Interim Lending Charge and Directors’ and Officers’ Charge;
- h) the Company’s request for an extension of the Initial Stay Period up to and including October 10, 2022; and
- i) the Proposal Trustee’s overall recommendations.

TERMS OF REFERENCE

- 6. In preparing this First Report, the Proposal Trustee has relied upon unaudited financial information and other information provided by the Company and other third parties. The Proposal Trustee has not performed an audit, review or other verification of such

information. An examination of the financial forecast as outlined in the *Chartered Professional Accountants of Canada Handbook* has not been performed.

7. Future oriented financial information relied upon in this Report is based on the Company's assumptions regarding future events and actual results achieved will vary from this information and the variations may be material.
8. Capitalized terms or terms not otherwise defined in this Report are as defined in the SISP or the Stalking Horse Proposal.
9. All references to dollars are in Canadian currency unless otherwise noted.

LIMITATION IN SCOPE OF REVIEW

10. This First Report has been prepared by the Proposal Trustee pursuant to the rules and regulations set out in the BIA. The BIA provides that the Proposal Trustee shall incur no liability for any act or omission pursuant to its appointment or fulfillment of its duties, save and except for gross negligence or wilful misconduct on its part.
11. This First Report is not and should not be construed or interpreted as an endorsement, comment or recommendation to any creditor, prospective investor, or any persons to advance credit and/or goods and services or to continue to provide credit and/or goods and services or to lend monies to the Company during these BIA Proceedings and/or at any other time.
12. The Proposal Trustee has not audited or reviewed the assets of the Company, and with respect to such assets, has relied to a significant degree upon information provided by the Company.
13. The Proposal Trustee is specifically not directed or empowered to take possession of the assets of the Company or to manage any of the business and affairs of the Company.

BACKGROUND

14. The Company was incorporated pursuant to the laws of Alberta in January of 2011 and operated a crude oil and natural gas liquids marketing and trading business. Utilizing a \$70,000,000 USD credit facility, by 2013 the Company constructed and operated a crude

- oil blending terminal in Alida, Saskatchewan, and increased its staffing to over 10 personnel. At its peak, the Company, in 2014, achieved annual revenues of over \$900,000,000.
15. In July of 2016, the Company sold the majority of its commercial assets to Secure Energy Services Inc. where most of its employees continued as part of that transaction. Thereafter, the Company focused on marketing its Canadian crude oil and propane largely to the United States, including establishing storage facilities contracts with certain mid-stream companies.
 16. A number of factors led to the Company's insolvency. These factors include but are not limited to: (i) the loss of bank financing, (ii) the delay in completion of certain facilities, (iii) a regulatory rejection of a material project, (iv) the high cost of crude oil storage under long term contracts, and (v) the 2020 market crash of the price of crude oil and its subsequent volatility.
 17. At present, the Company currently employs one employee, namely, Mr. Paul Farley Joslyn who is the Chief Financial Officer, to manage the day-to-day administration, accounting, and marketing. The Company no longer has any oil and gas interests in Canada and is currently party to certain "out of money" contracts and leases relating to crude oil storage tanks and a dock access agreement. The Company is currently determining its approach to these leases in the BIA Proceedings. The only asset that may have value is a project to extract residue waste material from a long-standing pool or lagoon in Texistepec, Mexico, that has been remaining on this site from prior years of significant mining (the "**Mexico Project**") and contracts associated with it. The Mexico Project is the key basis for the Stalking Horse Proposal discussed below.
 18. The affidavit of Mr. Joslyn (the "**Joslyn Affidavit**"), the Company's sole employee and officer, sworn August 2, 2022, has been filed in support of the Company's application and provides details and background of the Company's operations, financial position, the reasons for the commencement of these BIA Proceedings, and the relief sought in the August 10, 2022 application.
 19. The materials filed in support of the application, including the Joslyn Affidavit, along with other information regarding the NOI, have been posted on the Proposal Trustee's website at www.alvarezandmarsal.com/petrolama (the "**Website**").

ACTIVITIES OF THE COMPANY AND THE PROPOSAL TRUSTEE

20. Prior to and since the Filing Date, the Proposal Trustee and the Company's management ("**Management**") have engaged in the following activities:
- a) the Proposal Trustee prepared the initial notice to all known creditors to notify them of the NOI and commencement of the BIA Proceedings pursuant to section 50.4 (6) of the BIA (the "**Notice to Creditors**"). The Notice to Creditors, including a list of creditors, was mailed to all known creditors on August 3, 2022, and posted on the Website. A copy of the Notice to Creditors is attached as Appendix "**B**";
 - b) Management, with the assistance of the Proposal Trustee, prepared a cash flow statement for the 13-week period from July 23, 2022 to October 21, 2022 (the "**Cash Flow Forecast**"). The Cash Flow Forecast was filed with the Office of Superintendent of Bankruptcy on August 3, 2022 in accordance with section 50.4(2) of the BIA. A copy of the Cash Flow Forecast, along with the Management notes and assumptions to the Cash Flow Forecast, are attached as Appendix "**C**";
 - c) the Proposal Trustee engaged the services of Blake, Cassels, & Graydon LLP to act as its independent legal counsel;
 - d) there have been numerous communications between the Proposal Trustee, its legal counsel, the Company, the Company's legal counsel, Management, and the Stalking Horse Bidder relating to matters relevant in the BIA Proceedings, including reviewing and providing comments to the Company respecting the proposed Stalking Horse Proposal, the SISP and the various other relief being sought by the Company in its application; and
 - e) attending to the ongoing monitoring of the Company's financial affairs and activities by the Proposal Trustee and Management.

SALE AND INVESTMENT SOLICITATION PROCESS

Overview

21. The Company has determined that it is in the best interests of its creditors and other stakeholders to undertake a restructuring process. The central component of the restructuring process is the Stalking Horse Proposal, where it is expected that the Stalking Horse Bidder, if selected as the Successful Bidder in the SISP, will be:
 - a) issued new equity in the Company in exchange for providing the Interim Financing, and all existing equity in the Company will be cancelled and extinguished; and
 - b) the Affected Creditors will receive distributions respecting proven claims in the BIA Proceedings from any future collections of the Company under the Mexico Project, up to a maximum threshold, as further discussed in the Joslyn Affidavit.
22. The Company, with assistance and oversight by the Proposal Trustee, will conduct a sales and investment solicitation process pursuant to the proposed SISP.
23. The proposed SISP will allow the Company to go to market with an established floor price as outlined in the Stalking Horse Proposal, to determine if there are higher and/or better offers than the Stalking Horse Proposal available.
24. Petrolama, with the support of the Proposal Trustee, believes that the proposed SISP provides for the greatest flexibility in soliciting and selecting bids from interested parties for the sale of the business or assets of Petrolama, or a refinancing, reorganization, recapitalization, restructuring, joint-venture, merger or other business transaction involving the Company, or some combination thereof. Petrolama and the Proposal Trustee believe the SISP will provide the greatest chance for the Company to complete a restructuring of their operational and financial affairs.
25. The owner and principal of 884304 Alberta Ltd., the Stalking Horse Bidder, is Mr. Scott Holmes (the “Principal” or “Mr. Holmes”). Mr. Holmes was previously the president and one of the directors of the Company but has since resigned as director, officer and

employee of the Company. The Company has one remaining employee/officer, Mr. Joslyn, and two remaining directors.

26. In an attempt to avoid any conflict of interest (perceived or otherwise), Mr. Holmes believed it was necessary to resign as a director and employee of the Company. The Company intends to engage Mr. Holmes as an independent contractor on an “as needed” basis in these BIA Proceedings, including to provide assistance to the Proposal Trustee and Mr. Joslyn in their oversight of the Mexico Project.
27. Given Mr. Holmes’ extensive knowledge of the Mexico Project and relationships with the participants of the Mexico Project, Mr. Holmes may be required to assist the Company, including as part of any negotiations to continue to move project matters forward. Should there be any changes to the various contracts or make-up of the Mexico Project, the Company, through its representative, Mr. Joslyn (not Mr. Holmes), will be the person exclusively authorized to make those changes. Any such proposed changes will be provided to the Proposal Trustee in advance for its concurrence. Further, any amendments to the Mexico Project contracts will be included in the Data Room (defined below) and be made available to all participants in the proposed SISP on a timely basis.
28. To the extent the Proposal Trustee and/or Mr. Joslyn believe it is important to involve Mr. Holmes in the carrying out of the proposed SISP, any such involvement would be limited to addressing specific technical aspects pertaining to the Mexico Project. The information and/or questions provided to Mr. Holmes will be administered through the Proposal Trustee to ensure an appropriate “wall” has been established between the Company and Mr. Holmes. There would be no sharing of any confidential information pertaining to the proposed SISP, such as the existence or non-existence of Potential Bidders.

Summary of the SISP

29. A copy of the SISP is attached as Exhibit “3” to the Joslyn Affidavit. The Proposal Trustee has summarized below certain key points of the proposed SISP. All Potential Bidders are advised to review the SISP for further detail.
30. All qualified interested parties will be provided with an opportunity to participate in the SISP. The SISP is intended to find the highest and best offer for a restructuring or

- refinancing of the Company, a sale of the Company on a going concern basis, or a combination thereof.
31. Any transaction involving Petrolama, the shares of Petrolama, or the assets of the Company will be on an “*as is, where is*” basis and without surviving representations, warranties, covenants or indemnities of any kind, nature, or description by the Company, the Proposal Trustee or any of their respective agents, estates, advisors, professionals or otherwise, except to the extent set forth in a written agreement with the person who is a counterparty to such a transaction.
32. The key components of the SISP are as follows:
- a) the Proposal Trustee shall publish a notice of the SISP in major publications, including *The Globe and Mail* (National Edition), *Calgary Herald*, the *Daily Oil Bulletin*, and *Insolvency Insider* and any other publications or newswires as determined by the Proposal Trustee;
 - b) the Proposal Trustee, in consultation with the Company, shall prepare marketing materials that will provide additional information about the opportunity and set up a virtual data room (“**Data Room**”) containing due diligence materials;
 - c) the Proposal Trustee, in consultation with the Company, shall provide notice of the SISP to potential strategic and financial bidders and invite them to execute an NDA. A Potential Bidder that has executed an NDA and provided the required documentation, including the Participation Letter, as outlined in the SISP may be deemed a “Qualified Bidder” and will be provided access to the Data Room;
 - d) the Proposal Trustee will solicit irrevocable bids from Qualified Bidders, in the form of a transaction as the Qualified Bidder may choose (each a “**Bid**”);
 - e) the Proposal Trustee, in consultation with the Company, will review and assess each Bid to determine whether such Bid is a Qualified Bid;

- f) the SISP procedures indicate that a “Superior Offer” is defined as a credible, reasonably certain and financially viable offer made by a Qualified Bidder that (i) provides for consideration at least \$10,000 in excess of the aggregate value of the Stalking Horse Proposal, (ii) the Proposal Trustee, in consultation with the Company, considers to be better than the Stalking Horse Proposal, and (iii) provides for the indefeasible payment, in full and in cash, of any amounts owing in respect of those Obligations secured by the BIA Charges;
- g) a Qualified Bidder that wishes to make a Bid must deliver their Bid to the Proposal Trustee, with a copy to the Company, so as to be actually received by the Proposal Trustee by a time not later than 5:00pm (Calgary Time) on September 23, 2022 (the “**Bid Deadline**”);
- h) the Company, in consultation with the Proposal Trustee, will review and assess each Bid to determine whether such Bid is a Qualified Bid, as laid out in the SISP;
- i) the Proposal Trustee, in consultation with the Company, may reject any Bid (other than the Stalking Horse Proposal) that is (i) inadequate or insufficient; (ii) not in conformity with the requirements pursuant to these SISP Procedures; (iii) contrary to the best interest of the Company; or (iv) not a Qualified Bid;
- j) in the event that no Qualified Bid other than the Stalking Horse Proposal is received by the Bid Deadline, then (a) the Stalking Horse Proposal will be deemed to be the Successful Bid; (b) the Stalking Horse Bidder shall be deemed to be the Successful Bidder, and (c) the Company, the Stalking Horse Bidder, and the Proposal Trustee shall take the next steps necessary complete the Stalking Horse Proposal and the transactions provided for therein, including filing the Stalking Horse Proposal and holding a creditor meeting to vote on the Stalking Horse Proposal;
- k) in the event that the Proposal Trustee determines that one or more Qualified Bids constitutes a Superior Offer, the Proposal Trustee may, but is not required to, approach all Qualified Bidders to submit a highest and best offer;

- l) the Proposal Trustee shall then select the highest or best Qualified Bid (the “Successful Bid”);
 - m) the Company and the Proposal Trustee shall take all necessary steps to implement the transaction contemplated by the Successful Bid and either the Company or the Proposal Trustee, as applicable, shall bring the Bid Approval Application for an order approving the Successful Bid and authorizing the Company to enter into any and all necessary agreements with respect to the Successful Bid and to undertake such other actions as may be necessary or appropriate to implement and give effect to the Successful Bid; and
 - n) the Company and the Successful Bidder shall take all reasonable steps to complete the transaction contemplated by the Successful Bid as soon as possible after the Successful Bid is approved by the Court.
33. The Proposal Trustee may, at any time during the SISP, apply to Court for advice and directions with respect to the discharge of its obligations and duties thereunder.

The Proposal Trustee’s comments on the SISP

34. The Proposal Trustee is of the view that the implementation of the proposed SISP by the Proposal Trustee, in consultation with the Company, is appropriate under the circumstances. The Proposal Trustee recommends that the SISP be approved by this Honourable Court for the following reasons:
- a) the SISP provides a fair and transparent process which will be conducted in such a manner as to give Potential Bidders equal access to express their interest in making an offer on the Company’s business and/or assets;
 - b) the SISP provides for a six-week marketing process to sufficiently expose the Company and its assets to the market;
 - c) the SISP provides certainty of a Successful Bid through either the Stalking Horse Proposal or another Successful Bid;
 - d) no stakeholder appears to be prejudiced by the process;

- e) the Stalking Horse Bidder has established a floor price; and
 - f) the Proposal Trustee has sufficient experience in marketing distressed companies in these types of circumstances.
35. The Proposal Trustee also believes that any use of Mr. Holmes, as a consultant in the BIA Proceedings, will be limited to answering very specific questions on the Mexico Project that the Proposal Trustee and/or other Potential Bidders may have. The Principal will have no direct knowledge of, or interaction with the Potential Bidders in the Proposal Trustee's carrying out of the SISP Procedures. The Proposal Trustee believes there will be effective “walls” set up to ensure the integrity of the proposed SISP.
36. The Proposal Trustee is also of the view that the SISP balances a thorough and appropriate marketing of Petrolama while acknowledging time is of the essence to allow the restructuring of the business to occur.

STALKING HORSE PROPOSAL

Overview

37. In advance of the SISP, Petrolama entered into discussions with the Stalking Horse Bidder to explore the possibility of participating as a stalking horse bidder for the Company, which would be, in the Proposal Trustee’s opinion, an effective method to maximize the value of the Company.
38. The Stalking Horse Bidder, also the proposed Interim Lender (defined below), has agreed to participate in such capacity in the SISP. Petrolama has negotiated the Stalking Horse Proposal, subject to creditor and Court approval. The Proposal Trustee was involved in the negotiations and drafting of the Stalking Horse Proposal.
39. A copy of the Stalking Horse Proposal is Schedule B to the Arrangement Agreement attached as Exhibit “2” to the Joslyn Affidavit. The Proposal Trustee has summarized certain key points of the Stalking Horse Proposal below. All interested parties are advised to review the Stalking Horse Proposal document in detail. Capitalized words or terms not defined in this section of this Report are as defined in the Stalking Horse Proposal.

Summary of Stalking Horse Proposal

40. If the Stalking Horse Proposal is selected as the Successful Bid and approved by the Affected Creditors and the Court, the Stalking Horse Bidder will receive 10,000 New Shares in consideration for the full and final satisfaction of the Interim Financing Obligations.
41. All Claims of Existing Shareholders in respect of or arising from their Existing Shares will be fully, finally, irrevocably, and forever compromised, released, discharged, cancelled, and barred effective on Proposal Implementation.
42. The purpose and effect of the Stalking Horse Proposal is as follows:
 - a) to enable the Company to continue conducting a portion of its business which is economically viable as a going concern from and after the Proposal Implementation Date;
 - b) to retract and terminate all Existing Shares with no consideration to be given to Existing Shareholders;
 - c) to amend and restate the Articles to cancel and terminate all classes of Existing Shares, and to create the New Shares and Redeemable Shares and set out the rights of such New Shares and Redeemable Shares;
 - d) to assign to each Affected Creditor and pay to the Proposal Trustee for distribution, their pro rata share of the Net Creditor Recovery Amounts in full and final satisfaction of their respective Affected Claims from the Mexico Project; and
 - e) to effect a full, final, and irrevocable compromise, release, discharge, cancellation and bar of all Claims other than Unaffected Claims.

CASH FLOW FORECAST

43. The Company, with the assistance of the Proposal Trustee, has prepared the Cash Flow Forecast.

44. A summary of the Cash Flow Forecast is as follows:
- a) total projected cash receipts of approximately \$11,000;
 - b) total operating cash disbursements forecast of approximately \$96,850 and non-operating cash disbursements of approximately \$266,900, resulting in a net decrease in cash of approximately \$352,750 during the Cash Flow Forecast; and
 - c) proposed draws on the Interim Facility of approximately \$285,000 will be required to October 21, 2022.
45. The assumptions made by the Company with respect to the Cash Flow Forecast are included in Appendix "C".
46. Based on the assumption that the maximum \$300,000 is available for the Company under the Interim Facility, it is currently estimated that these funds will be sufficient to allow the Company to operate through the period contemplated in the SISP and proposed stay extension period.

INTERIM FACILITY

47. The Cash Flow Forecast indicates that with access to the Interim Facility of \$300,000, the Company will be able to fund operations in the normal course and complete the SISP. However, without the Interim Facility, the Company will not have sufficient funds to operate beyond the week ending August 12, 2022.
48. The Company is seeking to obtain and borrow under the Interim Facility from the Stalking Horse Bidder (in such capacity, the "**Interim Lender**") to finance the Company's working capital requirements and general corporate and capital expenditures, provided that borrowings under such the Interim Facility shall not exceed \$300,000, unless permitted by further order of the Court. The Interim Facility shall be provided on the terms and subject to the conditions set forth in the interim financing terms between the Company and the Interim Lender, which is attached as Exhibit "4" to the Joslyn Affidavit (the "**Interim Financing Terms**").

49. Pursuant to section 50.6(5) of the BIA, the Proposal Trustee has reviewed the Interim Financing Terms and has considered the following factors:
- a) the period during which the Company is expected to be subject to the BIA Proceedings;
 - b) how the Company's business and financial affairs are to be managed during the BIA Proceedings;
 - c) whether Management has the confidence of its major creditors impacted under these BIA Proceedings;
 - d) whether the Interim Facility would enhance the prospects of a viable proposal being made in respect of the Company; and
 - e) the nature and value of the Company's property.
50. In consideration of the foregoing factors, the Proposal Trustee notes the Company currently has limited cash resources and may not be able to complete its restructuring should the Interim Facility not be approved by this Honourable Court. The Company is carefully managing cash on a day-to-day basis with oversight from the Proposal Trustee.
51. The Proposal Trustee is further of the view that the Interim Facility is warranted as without it, it would be difficult for the Company to successfully restructure under the NOI. Further, in any probable realization strategy, a receiver, trustee or other administrator or manager would likely recommend expending a similar amount of funds in order to preserve assets and market the debtor and/or its assets.

PRIORITY CHARGES

Administration Charge

52. The Company is seeking a charge (the "**Administration Charge**") over the property of the Company (the "**Property**"), up to a maximum of \$150,000, to secure payment of the fees and disbursements of the Proposal Trustee, counsel for the Proposal Trustee, and counsel for the Company.

53. Given the tight liquidity constraints that the Company has been operating under, there is a heightened risk to the timely funding of professional fees relating to these proceedings even if funds are ultimately available under the Interim Facility.
54. These BIA Proceedings require the necessary involvement of professionals to guide and complete a successful proposal and as such, it is the Proposal Trustee's respectful view that the Administration Charge is reasonable and appropriate to ensure the continued support of the respective professionals in the Company's efforts to restructure its affairs.
55. Should the services (time and materials) being provided by the professionals in the BIA Proceedings exceed what has been forecast in the Cash Flow Forecast, the Company, with the support of the Proposal Trustee, believes the proposed Administration Charge should provide sufficient additional security, under the circumstances, towards any additional fees and costs that may occur.

Directors' and Officers' Charge

56. The Company is seeking a charge against the Property to a maximum amount of \$65,000 as security for that the Company's obligation to indemnify such directors and officer for obligations and liabilities which they may incur in such capacities after the commencement of these proceedings, except to the extent such obligation or liability was incurred as a result of the directors' or officers' gross negligence or wilful misconduct.
57. The Directors' and Officers' Charge is intended to address potential claims that may be brought against directors and officer, as the Company's insurance policy expired and there is no existing insurance policy in place to cover such claims.
58. Although the Proposal Trustee understands that the Company is current within its obligations respecting outstanding payroll, and with respect to other pre-filing obligations, for which directors may be personally liable, there may be a situation that certain pre-filing obligations may be re-assessed by CRA (such as source deductions and GST payable).
59. The Company requires the services of its directors and its officer to develop a viable proposal. The Company's directors and officer have the technical and intimate knowledge, experience, and relationships necessary to maximize the value of the Company to complete a successful restructuring.

60. The Proposal Trustee has evaluated the Company's request for the quantum proposed for the Directors' and Officers' Charge and the Proposal Trustee believes this amount is reasonable in the circumstances.

Interim Lending Charge

61. The Company is seeking the Interim Lending Charge against the Property to secure obligations incurred on the Interim Facility.
62. The Interim Lending Charge is necessary to ensure the Interim Lender has security for the Interim Facility, and the proposed quantum of the advance under Interim Facility has been determined based upon the projected cash flow needs set out in the Cash Flow Forecast.
63. It is the Proposal Trustee's respectful view that the Interim Lending Charge is reasonable and appropriate to ensure the working capital necessary to complete these proceedings.

Ranking of Priority Claims

64. The priorities of the Administration Charge, the Directors' and Officers' Charge, and the Interim Lending Charge (collectively, the "**Charges**"), as among them, shall be as follows:
- a) First: Administration Charge, up to the maximum amount of \$150,000;
 - b) Second: Directors' and Officers' Charge, up to the maximum amount of \$65,000;
 - c) Third: Interim Lending Charge, up to a maximum principal amount of \$300,000 plus all other Interim Financing Obligations.
65. Each of the Charges shall constitute a charge on the Property and such Charges shall rank in priority to all other security interests, trusts, liens, charges, encumbrances, and claims of secured creditors, statutory or otherwise, in favour of any Person, subject only to the rights of persons holding valid and effective purchase money security interests on any of the Property, and, in the case of the Interim Lending Charge, the Permitted Priority Liens (as defined in the Interim Financing Terms).

APPLICATION TO EXTEND THE TIME TO FILE A PROPOSAL

66. Unless it is extended, the Initial Stay Period will expire on August 26, 2022, and the Company is seeking an extension of the period in which it is required to file a proposal to October 10, 2022, pursuant to section 50.4(9) of the BIA (the “**Stay Extension**”).
67. The Proposal Trustee considered the following factors regarding the Stay Extension:
- a) the Company is acting in good faith and with due diligence;
 - b) the Company is not likely be able to make a viable proposal if the Initial Stay Period is not extended; and
 - c) no creditor in these proceedings will materially prejudiced if the Stay Extension is granted.
68. The Proposal Trustee has considered the request of the Company for the Stay Extension and the circumstances currently present facing the Company. The Proposal Trustee is supportive of a 45 day stay extension from the date of the expiry of the Initial Stay Period, to October 10, 2022. The Stay Extension should serve to provide the Company with the time required to facilitate the completion of the proposed SISP.

PROPOSAL TRUSTEE’S RECOMMENDATIONS

69. As set out above, the Proposal Trustee recommends that this Honourable Court approve:
- a) the SISP;
 - b) the Stalking Horse Proposal as a Qualified Bidder in the SISP;
 - c) the Interim Financing Terms and Interim Facility;
 - d) the Administration Charge;
 - e) the Directors’ and Officers’ Charge;
 - f) the Interim Lending Charge; and
 - g) the Stay Extension.

All of which is respectfully submitted this 4th day of August, 2022

**ALVAREZ & MARSAL CANADA INC.,
in its capacity as Proposal Trustee of
Petrolama Energy Canada Inc. and
not in its personal or corporate capacity**



Orest Konowalchuk, LIT
Senior Vice-President



Cassie Riglin, LIT
Senior Vice-President

Appendix A
Certificate of Filing



Industry Canada
Office of the Superintendent
of Bankruptcy Canada

Industrie Canada
Bureau du surintendant
des faillites Canada

District of Alberta
Division No. 02 - Calgary
Court No. 25-2851343
Estate No. 25-2851343

In the Matter of the Notice of Intention to make a proposal of:

Petrolama Energy Canada Inc.

Insolvent Person

ALVAREZ & MARSAL CANADA INC.

Licensed Insolvency Trustee

Date of the Notice of Intention:

July 27, 2022

CERTIFICATE OF FILING OF A NOTICE OF INTENTION TO MAKE A PROPOSAL
Subsection 50.4 (1)

-- AMENDED --

I, the undersigned, Official Receiver in and for this bankruptcy district, do hereby certify that the aforementioned insolvent person filed a Notice of Intention to Make a Proposal under subsection 50.4 (1) of the Bankruptcy and Insolvency Act;

Pursuant to subsection 69. (1) of the Act, all proceedings against the aforementioned insolvent person are stayed as of the date of filing of the Notice of Intention.

Date: July 28, 2022, 10:40

E-File/Dépôt Electronique

Official Receiver

Harry Hays Building, 220 - 4th Ave SE, Suite 478, Calgary, Alberta, Canada, T2G4X3, (877)376-9902

Canada

Appendix B
Notice to Creditors



August 3, 2022

**In the Matter of the Notice of Intention to Make a Proposal of
Petrolama Energy Canada Inc.**

TO THE CREDITORS OF PETROLAMA ENERGY CANADA INC.:

On July 27, 2022, Petrolama Energy Canada Inc. (the “**Company**” or “**Petrolama**”) filed a Notice of Intention to Make a Proposal (the “**NOI**”) pursuant to Section 50.4(1) of the *Bankruptcy and Insolvency Act* (Canada), R.S.C. 1985, c. B-3 (the “**BIA**”) and Alvarez & Marsal Canada Inc. (“**A&M**”) was appointed as Proposal Trustee of the Company (the “**Proposal Trustee**”). A copy of the NOI, together with the list of creditors, are enclosed herewith. All information pertaining to the NOI will be posted to the Proposal Trustee’s website at: www.alvarezandmarsal.com/petrolama.

Please be advised that the Company is not bankrupt and has availed itself to a procedure whereby an insolvent person, with creditor and Court approval, restructures its financial affairs. The role of the Proposal Trustee in this matter is to monitor the cash flow of the Company during the restructuring process, to assist with the development of the proposal, and to liaise with creditors, who will ultimately make the decision regarding the proposal.

Pursuant to section 69(1) of the BIA, upon the filing of the NOI, that being July 27, 2022, no creditor shall have any remedy against the Company or its property or shall commence or continue any action, execution or other proceedings for the recovery of a claim provable in bankruptcy until the bankruptcy of the Company.

The Company is required to file a Proposal within 30 days from the date of filing of the NOI unless the Company is granted an extension from the Court for a period not exceeding 45 days for any individual extension and not exceeding in the aggregate 5 months after the expiry of the initial 30 day period.

The amounts indicated on the attached list of creditors were estimated by the Company as at the date of filing the NOI, and as such, may not be the correct amount of your claim. However, **you do not need to notify the Proposal Trustee of any discrepancies in the claim amount at this time** and you will be provided an opportunity to do so when a Proof of Claim form and related documentation are sent to you at a later date.

Should you require any further information with respect to this matter, please feel free to contact Stephen Oosterbaan at soosterbaan@alvarezandmarsal.com (403) 538-7527 or visit the Proposal Trustee’s website at: www.alvarezandmarsal.com/petrolama.

Sincerely,
**Alvarez & Marsal Canada Inc.,
in its capacity as Proposal Trustee of
Petrolama Energy Canada Inc., and not in its personal capacity**

Per:

Orest Konowalchuk, LIT
Senior Vice President

Enclosure

District of: Alberta
Division No. 02 - Calgary
Court No.
Estate No.

- FORM 33 -
Notice of Intention To Make a Proposal
(Subsection 50.4(1) of the Act)

Take notice that:

1. I, Petrolama Energy Canada Inc., an insolvent person, state, pursuant to subsection 50.4(1) of the Act, that I intend to make a proposal to my creditors.
2. Alvarez & Marsal Canada Inc. of Bow Valley Square 4, Suite 1110, 250 6th Ave SW, Calgary, AB, T2P 3H7, a licensed trustee, has consented to act as trustee under the proposal. A copy of the consent is attached.
3. A list of the names of the known creditors with claims of \$250 or more and the amounts of their claims is also attached.
4. Pursuant to section 69 of the Act, all proceedings against me are stayed as of the date of filing of this notice with the official receiver in my locality.

Dated at the city of Calgary in the Province of Alberta, this 27th day of July 2022.



Petrolama Energy Canada Inc.
Insolvent Person

To be completed by Official Receiver:

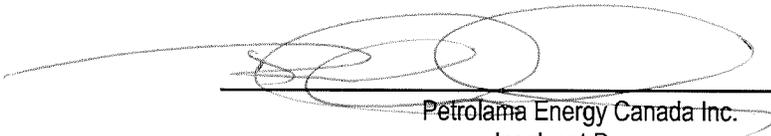
Filing Date

Official Receiver

District of: Alberta
 Division No. 02 - Calgary
 Court No.
 Estate No.

- FORM 33 -
 Notice of Intention To Make a Proposal
 (Subsection 50.4(1) of the Act)

List of Creditors with claims of \$250 or more.			
Creditor	Address	Account#	Claim Amount
BB Energy USA LLC	2229 San Felipe St. Suite 1075 Houston TX 77019 USA		2,016,735.67
Keyera Energy Inc.	The Ampersand, West Tower 200 144 4th Ave SW Calgary AB T2P 3N4		9,215,951.62
Lama Energy Group sro	Na Florenci 2116/15, 110 00 Prague 1 Prague Czech Republic		24,700.00
Navitas Energy Group	#510 715 5th Avenue SW Calgary AB T2P 2X6		65,510.40
Nefrite Investment a.s	Na Florenci 2116/15, 110 00 Prague 1 Prague Czech Republic		3,055,000.00
Phillips 66 Gulf Coast Properties LLC	2331 City West Blvd. Houston TX 77042 USA		250.00
PMI Trading DAC	c/o Holland & Knight 31 West 52nd Street New York NY 10019 USA		618,486.50
US Venture Inc	425 Better Way Appleton WI 54915 USA		250.00
Total			14,996,884.19


 Petrolama Energy Canada Inc.
 Insolvent Person

**CONSENT TO ACT AS TRUSTEE
IN THE MATTER OF THE DIVISION I PROPOSAL OF**

Petrolama Energy Canada Inc.

OF THE CITY OF CALGARY, IN THE PROVINCE OF ALBERTA

We, ALVAREZ & MARSAL CANADA INC., of Bow Valley Square 4, Suite 1110, 250 6th Avenue S.W., Calgary, AB T2P 3H7, CONSENT to our acting as Trustee under the Division I proposal and in respect of the Notice of Intention to Make a Proposal of Petrolama Energy Canada Inc. contemplated herein.

Dated at Calgary, Alberta this 25th day of July, 2022.

Alvarez & Marsal Canada Inc.



Per: _____

Orest Konowalchuk
Licensed Insolvency Trustee

Appendix C
Cash Flow Forecast

In the Matter of the Notice of Intention to Make a Proposal of

Petrolama Energy Canada Inc.

**Notes to the Consolidated Statement of Cash Flow for the 13-week
period ending October 21, 2022**

Purpose and General Assumptions of the Cash Flow Statement

Petrolama Energy Canada Inc. (“**Petrolama**” or the “**Company**”) has prepared this Cash Flow Statement and the accompanying Notes to the Cash Flow Statement (collectively the “**Cash Flow Statement**”) in support of the proposal proceedings that has been filed under the Bankruptcy and Insolvency Act (“**BIA**”) on July 27, 2022.

Alvarez & Marsal Canada Inc. is the Proposal Trustee in this matter (the “**Proposal Trustee**”). The Cash Flow Statement should be read in conjunction with the Report on Cash Flow Statement by the Company (Form 30 under the BIA) and also with the Proposal Trustee’s Report on Cash Flow Statement (Form 29 under the BIA).

The Company has prepared the Cash Flow Statement based on probable and hypothetical assumptions that reflect the Company’s planned course of action for the period from July 27, 2022 to October 21, 2022 (the “**Cash Flow Period**”). Management is of the opinion that, as at the date of filing the Cash Flow Statement, the assumptions used to develop the projection represent the most probable set of economic conditions facing the Company and that the assumptions used proved a reasonable basis for and are consistent with the purpose of the Cash Flow Statement.

The Cash Flow Statement has been developed pursuant to subsection 50 (6) of the BIA and is in support of these BIA proceedings. The information contained in the Cash Flow Statement is subject to changing assumptions and/or receipt of new or additional information; actual results may vary.

This Cash Flow Statement should not be used for any other purpose, and creditors are cautioned that the information provided in the Cash Flow Statement could vary based on changing future circumstances.

The projected cash flow statement is prepared in Canadian dollars.

Hypothetical and Probable Assumptions of the Cash Flow Statement

1. GST refund is the estimated monthly ITC’s claimed on the monthly GST returns.
2. Wages and Salaries represent semi-monthly payroll for one employee during the 13 week cash flow period. ining 12 weeks of the cash flow forecast.
3. Employee costs are the monthly expenses the Company incurs as per the contracts in place with those employees who were previously and currently entitled to health benefits and other employee expenses.
4. Consulting represents a monthly cost estimated for Mr. Scott Holmes (former director) to assist the Company and the Proposal Trustee, on an “as needed basis” respecting the Sales Process.

5. Interest and bank charges are the monthly expenses estimated to be charged by the bank on the chequing accounts. These amounts are forecasted based on historical usage. Monthly DIP interest is estimated based on the advances from the DIP financing.
6. Rent expense is for the lease of the Company's head office and is a monthly payment per the terms of the rental agreement.
7. Utilities expense represents costs utility costs to use of the office space. These costs are not included in the monthly base rent charge to the Company. These amounts are forecasted based on historical usage.
8. A contingency of \$10,000 for the 13-week period has been incorporated into the cashflow to cover unexpected amounts the Company may incur during the NOI.
9. Non-Operating costs include amounts forecast professionals fees of the Company's counsel, the Proposal Trustee and the Proposal Trustee's legal counsel (the "**NOI Professionals**"), in carrying out its duties during the NOI proceedings. In addition, non-operating costs include estimated costs associated in carrying out the proposed Sales Process (i.e. advertisement costs in local and national newspapers and newswires, photocopying).

Each of the NOI Professionals are currently in receipt of a retainer from the Company. Company counsel was provided \$83,000 and the Proposal Trustee and its legal counsel were provided a total of \$48,100. It is assumed that the Company's counsel will apply its retainer as against its monthly forecast fees until the retainer is utilized in full. The Proposal Trustee and its legal counsel anticipates utilizing its retainer in Week 11. Should the retainer funds held by the NOI Professionals not be utilized in full throughout the NOI proceedings, these funds will be returned to either the Company or the DIP Lender.

10. Proposed interim financing required to fund the NOI proceedings, which is subject to Court approval.

UNAUDITED CASH FLOW FORECAST PREPARED BY MANAGEMENT, MUST BE READ IN CONJUNCTION WITH THE NOTES AND ASSUMPTIONS & TRUSTEE'S REPORT ON THE CASH FLOW STATEMENT

Petrolama Energy Canada Inc.

Trustee – Alvarez & Marsal Canada Inc.


Paul Joslyn
Chief Financial Officer



Orest Konowalchuk, LIT
Senior Vice-President

Date: July 30, 2022

Date: July 30, 2022