

IN THE MATTER OF THE BANKRUPTCY OF

PREMIER PETROLEUM CORP.

**OF THE CITY OF CALGARY,
IN THE PROVINCE OF ALBERTA**

**REPORT ON THE TRUSTEE'S
PRELIMINARY ADMINISTRATION**

ESTATE NO. 25-1993828

Background

On May 13, 2015, Premier Petroleum Corp. (“Premier” or the “Company”) filed a voluntary assignment into bankruptcy pursuant to the provisions of the *Bankruptcy and Insolvency Act* (“BIA”) and Alvarez & Marsal Canada Inc. was appointed as trustee in bankruptcy (“A&M” or “Trustee”) by the official receiver, subject to affirmation by the creditors of the trustee’s appointment or substitution of another trustee by the creditors.

Premier was incorporated on December 16, 2009 in the Province of Alberta. Premier is a private junior oil and gas producer that has its asset focus in Pembina, Alberta and carries on its operations in Calgary, Alberta at a leased premise with office furniture and fixtures. Premier owns a 50% non-operated working interest in four wells located in the Pembina region (the “Pembina Assets”) as well as certain minor lease interests in Ninton, Alberta (the “Minor Assets”). Premier has no parent or subsidiary affiliates associated with it. At the date of bankruptcy, the Company had no operations and no employees. The President, Mr. Charles Dove, was not an employee of Premier but contracted his services to Premier for his role as President. Mr. Dove has not been paid his fees by Premier for several months.

Premier began to experience financial difficulty in 2012, when its operator and working interest partner (the “Initial Operator”) of the Pembina Assets encountered higher than anticipated operating costs and less productivity, which these costs were proportionately billed back to Premier. The Initial Operator, through a change of board and management, made a decision to discontinue its operations and liquidate its Canadian assets. As a result, the Initial Operator sold its interest to another junior oil & gas producer (the “Current Operator”). The Current Operator continued to operate the Pembina Assets for a period of time but as additional work overs were required to be completed, Premier did not have sufficient resources/funds available to pay for its share of the work overs and eventually the wells were shut in.

Premier has made various efforts to raise funds in order to complete the required work overs on its Pembina Assets and to keep its operations alive, but as a result of: i) the recent decline in oil prices; and ii) the negative cash flow burn being experience from the Pembina wells, Premier found itself without liquidity and an inability to satisfy its outstanding obligations when they came due. As a result, the Company determined that it was insolvent and assigned itself into bankruptcy.

Conservatory & Protective Measures and Preliminary Evaluation of Assets

Since the Bankruptcy Date, the Trustee has secured all material assets, which include cash on hand, office furniture, IT equipment and other assets (the “Other Assets”). The Pembina Assets are currently shut-in. The Trustee informed the landlord of Premier’s office space of the Bankruptcy and that it will likely not continue utilizing the space for its purposes as discussed below.

The Trustee has taken measures to ensure that the bank accounts of Premier have been frozen for “deposit only” and any balances in its accounts are to be transferred to the Trustee’s trust account. The Trustee understands that approximately \$13,000 was in the Company’s bank account at the Bankruptcy Date. The Trustee has requested copies of Premier’s bank statements held at the Bank of Montreal (“BMO”) and has yet to receive them,

The Company has indicated on their Statement of Affairs (“SOA”) that they are currently due approximately \$82,000 in accounts receivables (the “Receivables”) from various parties. These Receivables have been outstanding for an extended period of time and Premier believes that they are uncollectable. The Trustee has not investigated the nature of these Receivables and determined if they are in fact uncollectable.

Premier also owns office furniture and fixtures at its leased premise located at 2200, 635 8th Ave (the “Furniture”). The Trustee has taken an inventory of the Furniture and it is currently secured at Premier’s office location. The Trustee intends to market the Furniture to interested parties after the first meeting of creditors. The Furniture consists of older desks, filing cabinets, chairs, computer equipment, etc. and does not appear to have any significant value to the estate.

Premier currently subleases space within its office to several subtenants. The Trustee has done a preliminary review of the potential value of the Company’s lease and determined that the lease has no value. As discussed above, it is the Trustee’s intention to terminate Premier’s lease with authorization from the estate creditors or inspectors.

The Trustee has informed its current working interest partner (operator) of the bankruptcy proceedings. Premier is not the operator of the Pembina Assets.

The Trustee has contacted Premier’s insurance broker to ensure the policy held by Premier is still in place. It appears that the current insurance coverage has sufficient coverage over the Asset of Premier and the Trustee has been added as a loss payee and beneficiary on the insurance policy.

The Company’s last evaluation of oil and gas reserves with respect to the Pembina Assets was completed for December 31, 2012 (the “2012 Reserve Report”). The Trustee is currently reviewing the 2012 Reserve Report; however, it understands that these reserve values may not be indicative of its realization values. The Trustee’s preliminary review indicates that the realization value of the Pembina Assets may be significantly lower than its book value. The Trustee is exploring options whether it will require to update the 2012 Reserve Report.

The Company has advised that there are no secured creditors of Premier. The Trustee has reviewed a personal property report of Premier as of May 13, 2015 and has determined that there is no secured creditor which has security over the Assets of the Company.

Based on the information available to the Trustee as discussed above, the Trustee initial belief is that there may be little to no equity from the Assets to be distributed to unsecured creditors in this estate.

Books and Records

The Trustee has taken possession of the books and records of Premier and has made arrangements with Premier's former IT consultant to arrange a backup of the electronic data. In the meantime, the servers have been disabled and no remote access is available. The records of the Company are currently being held at the Trustee's office located in Calgary, Alberta.

Provable Claims and Secured Claims

The Trustee is aware of approximately \$1.7 million of indebtedness owed to various creditors of Premier.

The Trustee has currently received 21 claims to date from the creditors of Premier totaling approximately \$520,000. The Trustee has reviewed these claims and determined that they are properly filed and subsequently has been admitted to the estate. The Trustee suspects it will receive additional proofs of claims from creditors as it continues its administration.

The Trustee has not received any proof of claims or other notices to indicate there are any material differences in the claims listed on Premier's statement of affairs.

The Trustee has discussed any potential deemed trust claims with Premier and there appears to be no potential deemed trust claims for unremitted source deductions.

Legal Proceedings

No legal proceedings have been instituted by the Trustee to date.

The Trustee is not aware of any outstanding law suits initiated by or against Premier.

Reviewable Transactions and Preference Payments

Based on the Trustee's initial review of the books and records, the Trustee has not identified any transaction that would constitute a Preference or Transfer at Undervalue pursuant to s.95 and s.96 of the Bankruptcy and Insolvency Act (BIA).

Trustee's Intention to Act

A&M has not acted for any secured creditors, as set out in subsection 13.4(1.1) of the BIA.

A&M has accepted this engagement to act as Trustee, subject to affirmation by the creditors of the trustee's appointment or substitution of another trustee by the creditors. In its normal course, the Trustee is compensated based on its standard hourly rates times by the hours actually spent during the administration of the estate. A&M will be seeking approval from the creditors that its fees and costs will be paid on this basis.

Possible Conflict of Interest

A&M has no potential conflicts of interest with acting in this administration.

Anticipated Realization and Projected Distribution

Based on the information received by the Trustee, it appears that Premiers Assets are unencumbered. The estimated realizable value disclosed on Premiers SOA indicates that the creditors of Premier may potentially see a recovery of amounts due to them as at the date of bankruptcy, but this appears unlikely.

The Trustee has yet to begin a marketing process for the Assets and is uncertain at this time whether this process will retrieve any amounts for the Assets over and above the costs of administering the Estate.

Consequently, the Trustee it is uncertain of any range of recovery the creditors can expect after associated costs of its administration.

ALVAREZ & MARSAL CANADA INC.

*In its capacity as the Trustee in Bankruptcy of
Premier Petroleum Corporation
and not in its personal capacity*



Orest Konowalchuk, CA, CIRP
Vice-President