

COURT FILE NUMBER

2401-09247

COURT

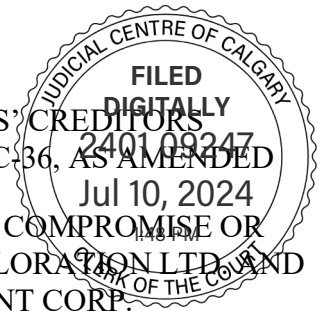
COURT OF KING'S BENCH OF ALBERTA

JUDICIAL CENTRE

CALGARY

IN THE MATTER OF THE COMPANIES' CREDITORS  
ARRANGEMENT ACT, R.S.C. 1985, c. C-36, AS AMENDED

AND IN THE MATTER OF A PLAN OF COMPROMISE OR  
ARRANGEMENT OF LONG RUN EXPLORATION LTD. AND  
CALGARY SINOENERGY INVESTMENT CORP.



DOCUMENT

**FIRST REPORT OF FTI CONSULTING CANADA INC., IN  
ITS CAPACITY AS MONITOR OF LONG RUN  
EXPLORATION LTD. AND CALGARY SINOENERGY  
INVESTMENT CORP.**

**July 9, 2024**

ADDRESS FOR SERVICE AND  
CONTACT INFORMATION OF  
PARTY FILING THIS  
DOCUMENT

**MONITOR**

FTI Consulting Canada Inc.  
Suite 1610, 520 Fifth Avenue S.W.  
Calgary, AB T2P 3R7  
Dustin Olver / Brett Wilson  
Telephone: (403) 454-6032 / (403) 454-6033  
Fax: (403) 232-6116  
E-mail: [dustin.olver@fticonsulting.com](mailto:dustin.olver@fticonsulting.com)  
[brett.wilson@fticonsulting.com](mailto:brett.wilson@fticonsulting.com)

**COUNSEL**

Bennett Jones LLP  
Suite 4500, Bankers Hall East  
855 2nd Street S.W.  
Calgary, AB T2P 4K7  
Kelsey Meyer  
Telephone: (403) 298-3323  
Fax: (403) 265-7219  
E-mail: [meyerk@bennettjones.com](mailto:meyerk@bennettjones.com)

**FIRST REPORT OF THE MONITOR**

**TABLE OF CONTENTS**

**INTRODUCTION**..... 2  
**PURPOSE**..... 3  
**TERMS OF REFERENCE** ..... 4  
**INITIAL ACTIVITIES OF THE MONITOR** ..... 5  
**BACKGROUND INFORMATION** ..... 6  
**CASH FLOW AND BUDGET TO ACTUAL ANALYSIS** ..... 7  
**CASH FLOW STATEMENT**..... 8  
**RELIEF SOUGHT - AMENDED AND RESTATED INITIAL ORDER**..... 10  
**CONCLUSIONS AND RECOMMENDATIONS** ..... 12

Appendix “A” – Cash Flow Statement for the period ending August 4, 2024

## INTRODUCTION

1. On July 4, 2024 (the “**Filing Date**”), China Construction Bank Toronto Branch (“**CCBT**” or the “**Applicant**”), in its capacity as collateral agent, sought and obtained an initial order (the “**Initial Order**”) from the Court of King’s Bench of Alberta (the “**Court**”) to commence proceedings under the *Companies’ Creditors Arrangement Act, RSC 1985, c C-36*, as amended (the “**CCAA**”) in respect of Long Run Exploration Ltd. (“**Long Run**”) and Calgary Sinoenergy Investment Corp. (the “**Guarantor**” and collectively with Long Run, the “**Debtors**”). The Initial Order, among other things established a stay of proceedings in favour of the Debtors for an initial stay period up to and including July 14, 2024 (the “**Stay Period**”), and appointed FTI Consulting Canada Inc. as Monitor (the “**Monitor**”), with enhanced powers, pursuant to the provisions of the CCAA.
2. On July 9, 2024, the Applicant filed a notice of application returnable July 12, 2024 (the “**July 12 Application**”) seeking an amended and restated initial order (the “**ARIO**”) in the CCAA Proceedings.
3. The Applicant is applying to this Honourable Court seeking the ARIO which, among other things:
  - (a) extends the Stay Period in favour of the Debtors to July 31, 2024;
  - (b) increasing the amount of the charge in favour of the Monitor, legal counsel to the Monitor, and the Applicant’s legal counsel in respect of their fees and disbursements, to a maximum amount of \$500,000 under section 11.52 of the CCAA (the “**Administrative Charge**”);
  - (c) elevating the Administrative Charge and the Directors’ Charge in priority to all security interests, trusts, liens, charges and encumbrances, and claims of any secured creditors, statutory or otherwise; and
  - (d) such further and other relief as may be sought by the Applicant and this Honourable Court may deem appropriate.

4. Electronic copies of all materials filed by the Applicant in connection with the July 12 Application and other statutory materials are available on the Monitor's website at: <http://efcanada.fticonsulting.com/longrun/>.

## PURPOSE

5. The purpose of this report (this “**Report**”) is to provide this Honourable Court and the Debtors’ stakeholders with information and the Monitor’s comments with respect to the following:
- (a) the initial activities of the Monitor since the Filing Date;
  - (b) the budget to actual results against the cash flow statement filed for the period ended July 7, 2024;
  - (c) the cash flow statement (the “**CFS#2**”) for the 4-week period ending August 4, 2024 (the “**Forecast Period**”), as well as the key assumptions on which the CFS#2 is based; and
  - (d) the relief sought in ARIO and the Monitor’s recommendations in respect of same, including, among other things:
    - the request for an extension of the Stay Period up to and including July 31, 2024; and
    - granting certain Court-ordered charges sought by the Applicant (collectively, the “**Charges**”).
6. This Report should be read in conjunction with the Affidavit of Ziqing (Eddie) Zou, affirmed on July 2, 2024 (the “**Zou Affidavit**”), which describes in more detail the Debtors’ operations and circumstances leading to their current situation.

## TERMS OF REFERENCE

7. Capitalized terms used but not defined herein are given the meaning ascribed to them in the Zou Affidavit and the Initial Order.
8. In preparing this Report, the Monitor has relied upon unaudited financial information, other information available to the Monitor and, where appropriate, the Debtors' books and records and discussions with various parties (collectively, the "**Information**").
9. Except as described in this Report:
  - (a) the Monitor 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 Chartered Professional Accountants of Canada Handbook;
  - (b) the Monitor has not examined or reviewed financial forecasts and projections referred to in this report in a manner that would comply with the procedures described in the Chartered Professional Accountants of Canada Handbook; and
  - (c) future oriented financial information reported or relied on in preparing this Report is based on assumptions regarding future events; actual results may vary from forecast and such variations may be material.
10. The Monitor has prepared this Report in connection with the July 12 Application. This Report should not be relied on for other purposes.

11. Information and advice described in this Report that has been provided to the Monitor by its legal counsel, Bennett Jones LLP (the “**Monitor’s Counsel**”), was provided to assist the Monitor 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.
12. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

## **INITIAL ACTIVITIES OF THE MONITOR**

13. The Monitor’s activities during the CCAA Proceedings to date have included the following:
  - (a) preparing and coordinating the publication or filing of the various notices under the CCAA including:
    - making a copy of the Initial Order and a list of known creditors showing the names and amounts owing publicly available on the Monitor’s Website;
    - the creditor notices pursuant to section 23(1)(a) of the CCAA and referenced in paragraph 40 of the Initial Order;
    - publishing a notice regarding the CCAA Proceedings in the Daily Oil Bulletin on July 8, 2024; and
    - filing the Form 1 and Form 2 notices to the Superintendent of Bankruptcy in the prescribed form as required under section 23(1)(f) of the CCAA;
  - (b) participating in ongoing discussions with the Applicant and its counsel, Blake, Cassels & Graydon LLP, regarding the restructuring proceedings including discussions and planning with respect to initiating a sale and investment solicitation process in due course. The Monitor anticipates bringing an application seeking approval of a sale and investment solicitation process prior to the expiry of the proposed extended Stay Period (July 31, 2024);

- (c) monitoring the Company's ongoing operations;
- (d) attending to numerous telephone and email inquiries from various customers and suppliers;
- (e) responding to numerous enquiries from the Debtors' creditors and other stakeholders;
- (f) preparation of budget to actual variance reports and the CFS#2; and
- (g) preparing this Report.

## **BACKGROUND INFORMATION**

14. Long Run is a private corporation formed under the laws of Alberta. Long Run's petroleum and natural gas assets ("**P&NG Assets**") are located primarily in Central and Northwest Alberta. Long Run is headquartered in Calgary, Alberta and has approximately 39 employees and contractors in its head office and 79 employees and contractor in the field.
15. Long Run's current production is approximately 6,500 barrels of oil equivalent per day. Production has declined in recent months given the limited cash flow available to Long Run.
16. Long Run is a wholly owned subsidiary of the Guarantor, which is also a privately owned Alberta corporation. The Monitor was advised that the Guarantor has no operation or assets other than its investment in Long Run. The Guarantor acquired all of the issued and outstanding shares of Long Run in 2016.
17. Operation of the P&NG Assets has continued in the normal course since the Filing Date.

## CASH FLOW AND BUDGET TO ACTUAL ANALYSIS

18. The Monitor has reviewed the operations and cash flow of Long Run since the Filing Date. The actual cash flow results for Long Run for the one-week period of July 1, 2024, through to July 7, 2024, are presented below. These actual results have been compared to the cash flow statement (“CFS”) outlined in Monitor’s pre-filing report dated July 3, 2024.

<b>Budget to Actual Results</b>				
<b>July 1, 2024 to July 7, 2024</b>		<b>Budget</b>	<b>Actual</b>	<b>Variance</b>
<b>(\$MM)</b>	<b>Week Beginning</b>	<b>1-Jul</b>	<b>1-Jul</b>	<b>\$</b>
<b>Receipts</b>				
Revenue		\$ 0.0	\$ 0.1	\$ 0.1
<b>Total - receipts</b>		<b>0.0</b>	<b>0.1</b>	<b>0.1</b>
<b>Disbursements</b>				
New Star Energy operations		-	-	-
Royalties		(0.0)	(0.0)	-
Processing and transportation		-	-	-
Operating expense		(0.3)	(0.3)	0.0
Lease rentals		-	-	-
G&A expense		(0.0)	(0.0)	(0.0)
Insurance		-	-	-
Property taxes		(0.1)	(0.1)	-
Professional fees		-	-	-
GST		-	-	-
<b>Total - disbursements</b>		<b>(0.4)</b>	<b>(0.361)</b>	<b>0.0</b>
<b>Net cash flow</b>		<b>(0.3)</b>	<b>(0.2)</b>	<b>0.1</b>
Opening cash		4.0	4.0	-
Net cash flow		(0.3)	(0.2)	0.1
<b>Ending cash</b>		<b>3.6</b>	<b>3.8</b>	<b>\$ 0.1</b>

19. The variances in actual receipts and disbursements as compared to the CFS are primarily due to the following:
- (a) Revenue – positive variance of approximately \$100,000 due to the timing of collection of certain joint venture receivables; and



(b) Disbursements – substantially in line with forecast given the limited disbursements in the one week period.

20. As at July 7, 2024, Long Run has approximately \$3.8 million in its bank account.

## CASH FLOW STATEMENT

21. Given that the Guarantor has no operations the Cash Flow Statement is based on the operations of Long Run.

22. Management of Long Run, with the assistance of the Monitor, has prepared the CFS#2 to set out the liquidity requirements of the Debtors during the Forecast Period. The CFS#2 and management’s report on the cash-flow statement as required by section 10(2)(b) of the CCAA are attached hereto as Appendix “A”. The CFS#2 is summarized in the following table:

Cash Flow Statement	
Five Week Period ending August 4, 2024	4 Week
(\$MM)	Total
<b>Receipts</b>	
Revenue	\$ 5.4
<b>Total - receipts</b>	<b>5.4</b>
<b>Disbursements</b>	
New Star Energy operations	0.1
Royalties	(1.3)
Processing and transportation	(0.8)
Operating expense	(3.5)
Lease rentals	(0.1)
G&A expense	(1.0)
Insurance	(0.5)
Property taxes	(0.3)
Professional fees	(0.6)
GST	(0.2)
<b>Total - disbursements</b>	<b>(8.3)</b>
<b>Net cash flow</b>	<b>(2.9)</b>
Opening cash	3.8
Net cash flow	(2.9)
<b>Ending cash</b>	<b>\$ 0.8</b>

23. The Cash Flow Statement indicates that, during the period ending on August 4, 2024, Long Run will have a net cash loss of approximately \$2.9 million with total disbursements of approximately \$8.3 million.
24. The Cash Flow Statement is based on the following key assumptions:
- (a) cash disbursements of approximately \$8.3 million primarily related to trade payments, payroll and benefits, other operating disbursements and professional fees; and
  - (b) the Cash Flow Statement does not contemplate the payment of any amounts to secured creditors, including principal and interest.

#### **Monitor's Comments on the Cash Flow Statement**

25. Section 23(1)(b) of the CCAA states that the Monitor shall, “review the company’s cash-flow statement as to its reasonableness and file a report with the court on the Monitor’s findings”.
26. Pursuant to section 23(1)(b) of the CCAA, and in accordance with the Canadian Association of Insolvency and Restructuring Professionals Standard of Practice 09-1, the Monitor hereby reports as follows:
- (a) the CFS#2 has been prepared by management of Long Run, with the assistance of the Monitor, for the purpose described in the notes to the CFS#2, using the probable assumptions and the hypothetical assumptions set out therein;
  - (b) the Monitor’s review consisted of inquiries, analytical procedures and discussion related to information supplied by certain of the management and employees of Long Run. Since hypothetical assumptions need not be supported, the Monitor’s procedures with respect to those assumptions were limited to evaluating whether they were consistent with the purpose of the CFS#2. The Monitor has also reviewed the information provided by Management in support of the probable assumptions and the preparation and presentation of the CFS#2;

27. Based on its review, and as at the date of this Report, nothing has come to the attention of the Monitor that causes it to believe that, in all material respects:
- (a) the hypothetical assumptions are not consistent with the purpose of the CFS#2;
  - (b) the probable assumptions developed by management are not suitably supported and consistent with the plans of Long Run or do not provide a reasonable basis for the CFS#2, given the hypothetical assumptions; or
  - (c) the CFS#2 does not reflect the probable and hypothetical assumptions;
  - (d) since the CFS#2 is based on assumptions regarding future events, actual results will vary from the information presented even if the hypothetical assumptions occur, and the variations may be material. Accordingly, the Monitor expresses no assurance as to whether the CFS#2 will be achieved. The Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information present in this Report, or relied upon by the Monitor in preparing this Report; and
  - (e) the CFS#2 has been prepared solely for the purpose of estimating liquidity requirements of Long Run during the forecast period. The CFS#2 should not be relied upon for any other purpose.

## **RELIEF SOUGHT - AMENDED AND RESTATED INITIAL ORDER**

### **Extending the Stay Period**

28. The Applicant is seeking an extension to the Stay Period up to and including July 31, 2024, to allow Long Run, with the assistance of the Monitor to:
- (a) maintain Long Run's operations; and

- (b) maintain the status quo and provide time for the Monitor and the Applicants to formalize plans for a sale investment and solicitation process or alternative restructuring plan.
29. The Monitor has considered the Applicant's request to extend the Stay of Period up to and including July 31, 2024, and has the following comments:
- (a) CFS#2 illustrates that Long Run will have sufficient liquidity to fund its obligations for the Forecast Period;
  - (b) the Monitor does not believe that any creditor will be materially prejudiced if the extension of the Stay Period is granted;
  - (c) Long Run has complied with the requirements under the Initial Order and continues to act in good faith and with due diligence; and
  - (d) The extension to the Stay Period will provide the Applicants and the Monitor additional time to formalize a sale investment and solicitation process or alternative restructuring plan.

**Increase to the Administration Charge**

30. The ARIO provides for an increase to the Administration Charge up to \$500,000 charging the assets of Debtors in favour of the Monitor, the Monitor's counsel and the Applicant's counsel as security for their professional fees and disbursements incurred both before and after the commencement of the CCAA Proceedings.
31. The Monitor has reviewed (i) the underlying assumptions upon which the quantum of the proposed increase in the Administration Charge is based, (ii) the anticipated complexity of the CCAA Proceedings and the services to be provided by the beneficiaries of the Administration Charge, and (iii) is of the view that the proposed quantum of the Administration Charge is reasonable and appropriate in the circumstances.

32. The Monitor believes it is appropriate for the beneficiaries to be afforded the Administration Charge as they will be undertaking a necessary and integral role in the CCAA Proceedings.

**Elevation of Charges**

33. The proposed ARIO provides for the Charges as defined in the Initial Order (the Administration Charge and the Directors' Charge) to be elevated in priority to all security interests, trusts, liens, charges and encumbrances, and claims of any secured creditors, statutory or otherwise. Pursuant to the Initial Order, the security rights or interests of secured creditors not given notice of or served with materials in support of the Originating Application for the Initial Order were not affected by or subordinated to the Charges.
34. The Monitor of the view that the elevation of the Charges is reasonable and appropriate in the circumstances.

**CONCLUSIONS AND RECOMMENDATIONS**

35. The Monitor is of the view that the relief requested by the Applicant pursuant to the ARIO is necessary, reasonable and justified in the circumstances. The ARIO and Stay Period will provide the Debtors with stability and the best opportunity to preserve value and maximize recoveries for its stakeholders.

36. Based on the foregoing, the Monitor supports the relief being sought by the Applicant and respectfully recommends that the Court grant the ARIO.

All of which is respectfully submitted this 9th day of July 2024.

FTI Consulting Canada Inc. in its capacity as  
Monitor of Long Run Exploration Ltd. and  
Calgary Sinoenergy Investment Corp.,  
not in its personal or corporate capacity

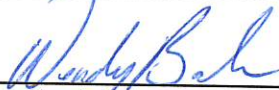


Name: Deryck Helkaa, CPA, CA, CIRP, LIT  
Title: Senior Managing Director,  
FTI Consulting Canada Inc.

## **Appendix “B” – Cash Flow Statement for the period ending August 4, 2024**

Long Run Exploration Ltd,  
Cash Flow Statement  
For the 4 week period ending August 4, 2024

<b>Cash Flow Statement</b>						<b>Notes</b>
<b>Five Week Period ending August 4, 2024</b>						
<i>(\$MM)</i>	<b>Week 1</b>	<b>Week 2</b>	<b>Week 3</b>	<b>Week 4</b>	<b>4 Week</b>	
	8-Jul	15-Jul	22-Jul	29-Jul	Total	
<b>Receipts</b>						
Revenue	\$ -	\$ -	\$ -	\$ 5.4	\$ 5.4	1
<b>Total - receipts</b>	-	-	-	<b>5.4</b>	<b>5.4</b>	
<b>Disbursements</b>						
New Star Energy operations	(0.1)	-	-	0.2	<b>0.1</b>	2
Royalties	-	-	-	(1.3)	<b>(1.3)</b>	3
Processing and transportation	-	-	(0.1)	(0.8)	<b>(0.8)</b>	4
Operating expense	(0.6)	(0.3)	(0.2)	(2.4)	<b>(3.5)</b>	5
Lease rentals	-	(0.1)	-	-	<b>(0.1)</b>	6
G&A expense	(0.4)	(0.1)	-	(0.4)	<b>(1.0)</b>	7
Insurance	-	-	-	(0.5)	<b>(0.5)</b>	8
Property taxes	-	-	-	(0.3)	<b>(0.3)</b>	9
Professional fees	(0.3)	-	-	(0.4)	<b>(0.6)</b>	10
GST	-	-	-	(0.2)	<b>(0.2)</b>	11
<b>Total - disbursements</b>	<b>(1.3)</b>	<b>(0.6)</b>	<b>(0.2)</b>	<b>(6.2)</b>	<b>(8.3)</b>	
<b>Net cash flow</b>	<b>(1.3)</b>	<b>(0.6)</b>	<b>(0.2)</b>	<b>(0.8)</b>	<b>(2.9)</b>	
Opening cash	3.8	2.4	1.9	1.6	<b>3.8</b>	
Net cash flow	(1.3)	(0.6)	(0.2)	(0.8)	<b>(2.9)</b>	
<b>Ending cash</b>	<b>\$ 2.4</b>	<b>\$ 1.9</b>	<b>\$ 1.6</b>	<b>\$ 0.8</b>	<b>\$ 0.8</b>	

  
Per: Wendy Barber, Interim CEO  
Long Run

**Notes:**

Management of Long Run Exploration Ltd. ("Long Run") has prepared this Projected Cash Flow Statement solely for the purposes of determining the liquidity requirements of Long Run during the period of July 8 to August 4, 2024. This Projected Cash Flow Statement is based on probable and hypothetical assumptions detailed in Note 1-11. Consequently, actual results will likely vary from actual performance and such variances may be material.

- Revenue relates to the sale of Long Run's petroleum and natural gas production. Production is based on current forecast production. The forecast sales prices are based on third party price forecasts and Long Run's quality discount to benchmark pricing. Crown royalties on oil are paid in kind.
- New Star Energy operations relates to Long Run's collection of revenue and payment of operating expenses of New Star Energy as a sister company.
- Royalties expense relates to royalties paid to the crown and freehold land owners and are based on historical rates.
- Processing and transportation relates to transmission tariffs and trucking fees of Long Run's petroleum and natural gas production. It is based on projected production volumes.
- Operating expenses are based on Long Run's annual operating budget and relates to the costs associated with the operation of oil and natural gas wells and facilities.
- Lease rentals relates to surface and mineral leases held by the crown.
- G&A expense relates costs associated with Long Run's head office, employees, field office lease and overhead based on its
- Insurance expense relates to Long Run's insurance policies.
- Property taxes relates to Long Run's property taxes with municipalities.
- Professional fees includes estimates for Long Run's legal counsel, proposed Monitor and proposed Monitor's counsel.
- GST relates to goods and services tax incur by Long Run during the forecast period.