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COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

COM  
Jan 22 2021  
Justice Graesser

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

APPLICANTS IN THE MATTER OF THE NOTICE OF INTENTION TO  
MAKE A PROPOSAL OF GREENFIRE OIL AND GAS  
LTD.

AND IN THE MATTER OF THE NOTICE OF  
INTENTION TO MAKE A PROPOSAL OF GREENFIRE  
HANGINGSTONE OPERATING CORPORATION

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

**JANUARY 12, 2021**

ADDRESS FOR SERVICE AND  
CONTACT INFORMATION OF  
PARTY FILING THIS  
DOCUMENT

**PROPOSAL TRUSTEE**  
ALVAREZ & MARSAL CANADA INC.  
Bow Valley Square IV  
Suite 1110, 250 – 6<sup>th</sup> Avenue SW  
Calgary, Alberta T2P 3H7  
Orest Konowalchuk/Duncan MacRae  
Telephone: (403) 538-4736/(403) 538-7514  
Email: [okonowalchuk@alvarezandmarsal.com](mailto:okonowalchuk@alvarezandmarsal.com)  
[dmacrae@alvarezandmarsal.com](mailto:dmacrae@alvarezandmarsal.com)

**COUNSEL TO PROPOSAL TRUSTEE**

McMillan LLP  
1700, 421 – 7<sup>th</sup> Avenue SW  
Calgary, Alberta T2P 4K9  
Adam Maerov / Kourtney Rylands  
Telephone: (403) 215-2752/(403) 355-3326  
Email: [Adam.Maerov@mcmillan.ca](mailto:Adam.Maerov@mcmillan.ca)  
[Kourtney.Rylands@mcmillan.ca](mailto:Kourtney.Rylands@mcmillan.ca)  
File 277019

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TRUSTEE**

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## INTRODUCTION

1. On October 8, 2020 (the “**NOI Date**”), Greenfire Oil and Gas Ltd. (“**HoldCo**”) and Greenfire Hangingstone Operating Corporation (“**OpCo**”), each filed Notices of Intention to Make a Proposal (“**NOI**” or the “**Filing**”) 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 Proposal (“**A&M**” or the “**Proposal Trustee**”). For purposes of this sixth report of the Proposal Trustee (the “**Sixth Report**” or “**this Report**”), HoldCo and OpCo are together referred to as the “**Company**” or “**Greenfire**”.
2. On October 16, 2020, this Honourable Court granted an order that the NOI proceedings for Greenfire (together, the “**NOI Proceedings**”) be administratively consolidated and continued under Estate No. 25-2679073 and that a charge be granted on the assets, property and undertaking of the Company not to exceed \$500,000 (the “**Administration Charge**”) as security for the fees and costs of the Proposal Trustee, its independent legal counsel McMillan LLP and the legal counsel to the Company (collectively, the “**NOI Professionals**”), such charge to be in priority to all other security interests, liens and other encumbrances.
3. Pursuant to s. 50.4(8) of the BIA, the Company was required to file a proposal under the NOI Proceedings by November 9, 2020, unless this Court granted an order extending the time to file a proposal. On application by the Company, this Honourable Court has granted orders extending that timeframe for the Company to file a proposal to its creditors on several occasions. The most recent extension is until January 28, 2021 (“**Fourth NOI Period Extension**”).
4. On December 17, 2020, this Honourable Court granted an order:
  - a) authorizing the Company to borrow up to \$20,000,000 from Trafigura Canada General Partnership (“**Trafigura**”) under a credit facility (the “**Interim Lender Facility**”) to fund, among other things, the restart of its operations and granting Trafigura an interim lender’s charge (the

“**Interim Lender’s Charge**”) that ranks in priority to all other security interests, liens and other encumbrances with the exception of the Administration Charge and certain other Permitted Priority Liens set out in the Interim Lender Term Sheet (the “**Interim Lending Order**”);

- b) approving an asset sale transaction (the “**Asset Sale Transaction**”) contemplated by an asset purchase agreement (the “**APA**”) between Greenfire and Greenfire Acquisition Corporation (“**AcquisitionCo**”) (the “**Asset Sale Order**”). AcquisitionCo is the nominee of MWB UK Management Limited (doing business as “**McIntyre Partners**”).

5. The Interim Lender Facility and the APA are specifically linked together such that funding under the Interim Lender Facility by Trafigura would only occur if the Asset Sale Order were granted by this Honourable Court and vice versa.
6. Since the granting of the Interim Lending Order, Trafigura has advanced three tranches of funding to the Company: (i) The \$1.0 million Deposit advance under Facility B received on December 18, 2020; (ii) a \$3.0 million advance under Facility B received on December 21, 2020; and (iii) a \$2.0 million advance under Facility B received on December 29, 2020.
7. On December 23, 2020, counsel for two groups of creditors of the Company advised that they had instructions to appeal the Interim Lending Order and the Asset Sale Order. On December 28, 2020, counsel for the two groups of creditors each filed separate notices of appeal and applications for leave to appeal the Interim Lending Order and the Asset Sale Order.
8. On January 12, 2021, the Company served notice of an Application to this Honourable Court, seeking, among other things, an Order:
  - a) granting a charge in favour of the Company’s directors and officers, securing the Company’s indemnification obligations to them in the amount of \$250,000 (the “**Proposed D&O Charge**”) that shall rank in

priority to all other security interests, liens and other encumbrances with the exception of the Administration Charge and the Interim Lender's Charge; and

- b) extending the period of time within which Greenfire is required to file a proposal to its creditors up to and including March 15, 2021 (the **"Proposed Fifth NOI Period Extension"**).

- 9. Further background regarding the Company and its operations is contained in the materials filed in support of the application for a stay extension, including the affidavits of Mr. Robert Logan. Various Court-filed documents and notices, together with the Proposal Trustee's filed reports and other information regarding the NOI Proceedings, have been posted on the Proposal Trustee's website at [www.alvarezandmarsal.com/greenfire](http://www.alvarezandmarsal.com/greenfire).

## **PURPOSE**

- 10. The purpose of this sixth report of the Proposal Trustee (the **"Sixth Report"**) is to provide this Honourable Court and the Company's stakeholders with information in respect of the following:
  - a) an update on the Asset Sale Transaction and advances under the Interim Lender Facility;
  - b) activities of the Company and the Proposal Trustee since the Fourth Report of the Proposal Trustee dated December 5, 2020 (the **"Fourth Report"**);
  - c) a comparison of the Company's actual cash receipts and disbursements compared to the Company's forecast weekly cash flow projection provided in the Fifth Report of the Proposal Trustee dated December 11, 2020 (the **"Fifth Report"**) during the period December 8, 2020 to January 8, 2021;

- d) the Company's revised weekly cash flow projection for the period from January 9, 2021 to April 2, 2021 (the "**Revised CF Forecast**");
- e) the Company's request for the Proposed D&O Charge;
- f) the Company's request for the Proposed Fifth NOI Period Extension;  
and
- g) the Proposal Trustee's observations and recommendations with respect to the above.

## **TERMS OF REFERENCE AND DISCLAIMER**

11. In preparing this Report, the Proposal Trustee has been provided with and necessarily relied upon unaudited financial and other information supplied (the "**Information**"), and representations made to it, by certain senior management of the Company ("**Management**"). Except as otherwise described in this Report in respect of the Company's cash flow forecast:

- a) the Proposal Trustee has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided. However, the Proposal Trustee has not audited or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would wholly or partially comply with Canadian Auditing Standards ("**CASs**") pursuant to the Chartered Professional Accountants Canada Handbook (the "**CPA Handbook**") and, accordingly, the Proposal Trustee expresses no opinion or other form of assurance contemplated under CASs in respect of the Information;  
and
- b) some of the information referred to in this Report consists of forecasts and projections. An examination or review of the financial forecasts and projections, as outlined in the CPA Handbook, has not been performed.

12. Although this information has been subject to review, the Proposal Trustee has not conducted an audit nor otherwise attempted to verify the accuracy or completeness of any of the information prepared by Management, the Applicants or otherwise provided by the Companies. Accordingly, A&M expresses no opinion and does not provide any other form of assurance on the accuracy and/or completeness of any information contained in this report, or otherwise used to prepare this report.
13. Future oriented financial information referred to in this Report was prepared based on the Company's estimates and assumptions. Readers are cautioned that since projections are based upon assumptions about future events and conditions that are not ascertainable, the actual results may vary from the projections, even if the assumptions materialize, and the variations could be significant.
14. All references to dollars are in Canadian currency unless otherwise noted.

#### **LIMITATION IN SCOPE OF REVIEW**

15. The 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.
16. This 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 proceedings and/or at any other time.
17. The 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.

## STATUS UPDATE ON THE ASSET SALE TRANSACTION

18. On December 17, 2020, this Honourable Court granted the Asset Sale Order and the Interim Lending Order.
19. As discussed in the Fifth Report, the sale of the Company's assets to AcquisitionCo is conditional on, among other things, the AER licenses being transferred to AcquisitionCo (the "**License Transfer**"). As a result, the APA contemplates an escrow closing to occur while the License Transfer application is pending with the AER. Final closing is to occur when the License Transfer is approved by the AER.
20. Escrow Closing under the APA is conditional upon, among other things (capitalized terms in this paragraph have the meaning given to them in the APA) the following remaining conditions:

- a) No notices, defaults or orders having been issued relating to Environmental Liabilities, permits or licenses relating to the Facilities other than AER Order RCAM 2020-001 dated November 17, 2020 (and the extension dated November 25, 2020).

Status: As at the date of this Report, no further notices, defaults or orders have been issued relating to Environmental Liabilities, permits or licenses relating to the Facilities. The Company has now addressed matters impacting the AER Order RCAM 2020-001. The Company committed to provide the AER with an update on AER Order RCAM 2020-001 by January 29, 2021 and will continue to work together with the AER to finalize the remaining items and close the order.

- b) The Purchaser having executed employment agreements with Robert Logan, Allan Bezanson and David Phung pursuant to which such individuals have accepted employment with Purchaser to commence as of the Effective Time.



Status: As at the date of this Report, the Company advises that this condition has not yet been met, as these individuals remain focused on OpCo's operations.

- c) The Facilities Inspection shall have confirmed that the total estimated Repair Costs are not anticipated to exceed three million dollars (\$3,000,000).

Status: As at the date of this Report, while not finalized, the Company does not anticipate the total Repair Costs will exceed three million dollars.

- d) No Material Adverse Effect shall have occurred from the date of the APA to the Escrow Closing Date.

Status: As at the date of this Report, the Company advises that no Material Adverse Effect has occurred.

- e) No Claim shall be pending before any Governmental Authority seeking to restrain or prohibit the Transaction or to obtain material damages or other relief from Vendor in connection with the consummation of the Transaction.

Status: As at the date of this Report, there are two notices of appeal and two applications for leave to appeal which are pending. The applications for leave to appeal are scheduled to be heard by the Court of Appeal of Alberta on February 10, 2021.

## **APPEAL OF INTERIM LENDING ORDER AND ASSET SALE ORDER**

- 21. As noted above, on December 28, 2020, counsel for two groups of creditors each filed separate notices of appeal and applications for leave to appeal the Interim Lending Order and the Asset Sale Order (the "**Appeals**");

- a) One set of Appeals was filed on behalf of Athabasca Workforce Solutions Inc. (“AWS”), a general unsecured creditor of Greenfire OpCo; and
  - b) A second set of Appeals was filed on behalf of a group of noteholders represented by Mr. Nishimura from Field Law (as described in the First Affidavit of Meer Taher Shabani-Rad sworn October 14, 2020) (the “**Ad Hoc Noteholder Group**”). The members of the Ad Hoc Noteholder Group are understood by the Proposal Trustee to be unsecured creditors of Greenfire HoldCo.
22. As previously discussed in prior reports, the Asset Sale Order that was granted by this Honourable Court, relates to the sale of all oil and gas assets of Greenfire OpCo to AcquisitionCo.
23. Greenfire HoldCo is not a party to the APA and does not have any operations nor does it own any assets, other than the common shares of Greenfire OpCo. Greenfire HoldCo’s only known liabilities relate to unsecured debenture holders (discussed above) and its guarantee of the loan by Summit Partners (“**Summit**”) to Greenfire OpCo. It is expected that there will be no recoveries to the creditors of Greenfire HoldCo.
24. AWS and the Ad Hoc Noteholder Group each advise in their materials that the Honourable Justice D.B. Nixon (“**Justice Nixon**”) erred in law in his decision to grant the Interim Lending Order and the Asset Sale Order for the following reasons:
- a) Justice Nixon incorrectly applied the tests and factors set out in s. 50.6 and 65.13 of the BIA to grant the Interim Lending Order and the Asset Sale Order;
  - b) Justice Nixon incorrectly held that the factual circumstances allowed him to amend or ignore the principles set out in the case of *Royal Bank*

*of Canada v Soundair* (1991), 83 DLR (4<sup>th</sup>) 76 (Ont CA), for approving the purchase and sale of the assets of OpCo; and

- c) Justice Nixon approved interim financing to Greenfire that was primarily being used by the Purchaser to purchase the assets of OpCo under the APA, and was not being used primarily for the preservation of the assets of Greenfire.

## **ACTIVITIES OF THE COMPANY AND THE PROPOSAL TRUSTEE**

### **Operational Update**

- 25. Since the Fourth Report, the activities of the Proposal Trustee and the Company include, but are not limited to:
  - a) numerous communications and meetings between the Company, the NOI Professionals, Trafigura and McIntyre Partners with respect to the Interim Lender Facility and the Asset Sale Transaction;
  - b) ongoing communications with the Alberta Energy Regulator (“AER”) regarding ongoing matters;
  - c) ongoing monitoring of the Company’s financial affairs and operational activities; and
  - d) providing weekly reporting to Trafigura, in accordance with the Interim Lender Term Sheet.

### **Cash Draws on Interim Lender Facility**

- 26. The Company required immediate cash draws on the Interim Lender Facility in order to urgently address operational matters to avoid and/or limit any further damage to the facility and prevent any environmental issues.
- 27. Since the granting of the Interim Lending Order, the Company has received total cash draws from Trafigura of \$6.0 million, as detailed in Company’s forecast

weekly cash flow projection provided in the Fifth Report. The following is a summary of the date of the requests for funds and when the funds were received by the Company:

- a) \$4.0 million, requested on December 18, 2020, with:
    - i. \$1.0 million Deposit received on December 18, 2020; and
    - ii. \$3.0 million received on December 21, 2020; and
  - b) \$2.0 million requested on December 24, 2020 and received on December 29, 2020.
28. The Company's use of the funds advanced under the Interim Lender Facility was consistent with the weekly cash flow forecast as outlined in the Fifth Report and was required to:
- a) re-hire approximately 40 staff;
  - b) re-establish heat and thawing equipment;
  - c) provide initial retainers and upfront deposits to various vendors, suppliers and contractors to perform the required services and/or obtain the necessary inventory to complete the repair costs and prepare to restart operations;
  - d) update third-party facility inspections and estimates for repair costs; and
  - e) pay the outstanding fees and disbursements of the NOI Professionals, including priority payables subject to the Administration Charge.
29. Notably, the Company's ability to contact and mobilize certain key suppliers and contractors proved difficult with holidays and vacation taken by many industries and head offices between December 24, 2020 and January 4, 2021. As a result, the

Company required the cash draws on hand throughout that period, in the event it was successful at mobilizing and incurring the anticipated repair costs.

### **Production and Capital Expenditures**

30. The Company originally expected production to start in January 2021; however, as a result of the adjournment of the initial Court application to approve the Interim Lending Order and the Asset Sale Order (heard on December 17, 2020), as well as relatively slower procurement over the holiday season, the Company has adjusted its production forecast to begin in February 2021, resulting in expected cash receipts to now be collected in March 2021. These production changes have been updated in the Revised CF Forecast.
31. Shortly after the Company was able to restart the facility with the Interim Lender Facility provided by Trafigura, the Company identified further damages to the facility, specifically to a quench water pipeline (“**Quench Pipeline Damage**”). The Company advises, with support of its technical contractors/advisors, that the rupture damage is visible in numerous places along the pipeline (small cracks resulting in water seepage).
32. Based on a preliminary assessment, the most economical solution will be to fully replace in-kind the ruptured pipeline as opposed to repairing individual sections and the Company has advised it estimates that it will cost approximately \$600,000 for the full pipeline replacement. The Company is seeking quotes from vendors, suppliers and contractors they have existing relationships with, as well as additional counterparties, to ensure a competitive bidding process. The Company hopes to have finalized proposals from third-party contractors to start this work, which is expected to take approximately four weeks.
33. As previously reported, the Company originally estimated that the capital costs to repair damages to the facility as a result of cold winter conditions and plan shut-down (the “**Repair Costs**”) was approximately \$2.2 million. The actual Repair Costs, once finalized and incurred, will be deducted from the purchase price of \$4

million when the Asset Sale Transactions closes. Notwithstanding the additional repairs to the quench pipeline, the Company currently estimates that the total Repair Costs are still expected to be approximately \$2.2 million, as a result of certain Repair Costs which are expected to cost less than originally anticipated. Until all Repair Costs are determined and finalized, the Company has advised that the timing and quantum remain subject to further change.

34. The Company advised the AER of the Quench Pipeline Damage and the steps being taken by the Company to repair it.

#### **AER Order**

35. On November 17, 2020, the AER issued Order RCAM 2020-001, requiring various action items, including, among other things, Greenfire ensuring by December 1, 2020 that all substances at the wells, facilities, and pipelines are safely contained or removed within facility piping, tankage, pipelines and containers during winter weather conditions (the “**Winter Weather Action Item**”).
36. On November 23, 2020, Greenfire requested that the date of the Winter Weather Action Item be extended until December 15, 2020 (the “**AER Order Extension Request**”). On November 25, 2020, the AER approved the AER Order Extension Request.
37. Receipt of advanced funds from the Interim Lender Facility has allowed the Company to address the Winter Weather Action Item.
38. Order RCAM 2020-001 remains open as the AER may still need assurances that:
  - a) the site is now protected from freezing and the site integrity is re-established and/or that reasonable care and measures are implemented to prevent further impairment and/or damage to the site; and
  - b) subsurface monitoring on all wells is re-established and functioning properly.

39. As per Greenfire’s latest written communication with the AER, the Company committed to provide the AER with an update by January 29, 2021. Greenfire and the AER will continue to work together to finalize the remaining items and close the order.

### **Warner Matter**

40. On November 17, 2020, this Honourable Court made an Order declaring that the marketing agreement between Greenfire and Warner Petroleum Corporation (“**Warner**”) did not create an interest in land and is not an eligible financial contract under the provisions of the BIA. This Honourable Court ordered that the disclaimer issued by Greenfire pursuant to s. 65.11(1) of the BIA, that was approved by the Proposal Trustee, on November 6, 2020 was valid and effective (collectively, the “**Warner Decision**”).
41. On November 27, 2020, Warner appealed the Warner Decision pursuant to s. 193(a), (b) and (c) of the BIA and, in the alternative, sought leave to appeal the Warner Decision pursuant to section 193(e) of the BIA (the “**Warner Appeal**”).
42. On December 23, 2020, Warner filed a discontinuance of the Warner Appeal.

### **Independent Security Opinion**

43. The Proposal Trustee requested its independent legal counsel, McMillan LLP, to initiate an independent security review respecting the validity and enforceability of the Company’s secured creditors, along with two filed builder’s liens filed against the Company. An evaluation of these potential claims will be necessary in order to determine the entitlement to the sales proceeds once the Asset Sale Transaction closes. Any payments to creditors will be subject to a further distribution order by this Honourable Court. McMillan LLP has requested copies of the relevant documentation from the Company.

## FORECAST CASH FLOW STATEMENTS TO ACTUAL CASH FLOW RESULTS

44. The Company's actual cash receipts and disbursements as compared to the Weekly Cash Flow Statement (as presented and defined in the Fifth Report) during the period of December 8, 2020 to January 8, 2021 (the "Reporting Period") follow:

| Greenfire Hangingstone Operating Corporation   |                |                |                |
|--|----------------|----------------|----------------|
| Weekly Cash Flow Cumulative Variances (8-Dec-20 to 8-Jan-21)   | Forecast       | Actuals        | Variance       |
| \$CAD 000's  | 5-week total   | 5-week total   | 5-week total   |
| Notes  |                |                |                |
| <b>Cash Receipts</b>   |                |                |                |
| Oil receipts   | -              | -              | -              |
| <b>Total cash receipts</b>   | <b>-</b>       | <b>-</b>       | <b>-</b>       |
| <b>Operating Cash Disbursements</b>  |                |                |                |
| Natural gas and electricity  | 1,620          | 613            | 1,006          |
| Contractor and employee expenses   | 363            | 85             | 278            |
| Chemicals, consumables and trucking  | 192            | 31             | 161            |
| Camp and travel  | 352            | 162            | 189            |
| Regulatory   | 174            | -              | 174            |
| Maintenance  | 152            | 105            | 47             |
| Other operating expenses   | 188            | 279            | (91)           |
| <b>Total operating cash disbursements</b>  | <b>3,040</b>   | <b>1,276</b>   | <b>1,764</b>   |
| <b>Operating Net Cash Flow</b>   | <b>(3,040)</b> | <b>(1,276)</b> | <b>1,764</b>   |
| <b>Capital Cash Disbursements</b>  |                |                |                |
| Repair costs   | 2,200          | 912            | 1,288          |
| <b>Total capital cash disbursements</b>  | <b>2,200</b>   | <b>912</b>     | <b>1,288</b>   |
| <b>Non-Operating Cash Disbursements</b>  |                |                |                |
| Salaries & benefits  | 78             | 26             | 52             |
| Bank charges, general and administration expenses  | -              | 3              | (3)            |
| Interim financing interest and related professional fees   | 28             | -              | 28             |
| Professional fees  | 1,043          | 961            | 81             |
| <b>Total non-operating cash disbursements</b>  | <b>1,148</b>   | <b>990</b>     | <b>158</b>     |
| <b>Net Cash Flow</b>   | <b>(6,388)</b> | <b>(3,177)</b> | <b>3,211</b>   |
| <b>Cash, beginning of Reporting Period</b>   |                |                |                |
| Facility B Advances  | 8,250          | 6,000          | (2,250)        |
| <b>Net Cash Flow</b>   | <b>(6,388)</b> | <b>(3,177)</b> | <b>3,211</b>   |
| <b>Cash, end of Reporting Period</b>   | <b>1,862</b>   | <b>2,823</b>   | <b>961</b>     |
| <b>Facility A Advances</b>   |                |                |                |
|  | <b>4,000</b>   | <b>-</b>       | <b>(4,000)</b> |
| <b>Notes</b>   |                |                |                |
| 1) The characterization of any expenses as "Repair Costs" is Greenfire's preliminary assessment and remains subject to further change and input from Greenfire and the Proposal Trustee. |                |                |                |



45. Over the Reporting Period, the Company spent \$3.2 million in total cash disbursements compared to the forecasted \$6.4 million (a positive cash flow variance of approximately \$3.2 million), primarily as a result of temporary timing differences relating to the adjournment of the initial Court application to approve the Interim Lending Order and the Asset Sale Order, as well relatively slower procurement over the holiday season.
46. The Company has reflected the temporary timing differences in its Revised CF Forecast as outlined in greater detail below.
47. The Proposal Trustee notes that the characterization of any expenses as "Repair Costs" is Greenfire's preliminary assessment and remains subject to further change and input from Greenfire and the Proposal Trustee.
48. Facility A under the Interim Lender Facility is expected to be advanced upon escrow closing of the Asset Sale Transaction.

#### **REVISED CASH FLOW FORECAST TO APRIL 2, 2021**

49. The Company, with the assistance of the Proposal Trustee, has prepared the Revised CF Forecast for Greenfire OpCo for the period ending April 2, 2021 (the **"CF Forecast Period"**), which, along with the underlying assumptions, is attached as Appendix **"A"**.

50. A summary of the Greenfire OpCo Revised CF Forecast is as follows:

| Greenfire Hangingstone Operating Corporation                   |                                      |                                       |                 |
|--|--------------------------------------|---------------------------------------|-----------------|
| Weekly Cash Flow Statement ending April 2, 2021<br>\$CAD 000's | Actuals                              | Forecast                              | 17-week total   |
|  | 8-Dec-20 to 8-Jan-21<br>5-week total | 9-Jan-21 to 2-Apr-21<br>12-week total |                 |
| <b>Cash Receipts</b>   |                                      |                                       |                 |
| Oil receipts   | -                                    | 1,778                                 | 1,778           |
| GST refunds  | -                                    | -                                     | -               |
| <b>Total cash receipts</b>                                     | <b>-</b>                             | <b>1,778</b>                          | <b>1,778</b>    |
| <b>Operating Cash Disbursements</b>                            |                                      |                                       |                 |
| Transportation and marketing                                   | -                                    | 36                                    | 36              |
| Natural gas and electricity                                    | 613                                  | 2,724                                 | 3,337           |
| Contractor and employee expenses                               | 85                                   | 2,040                                 | 2,125           |
| Chemicals, consumables and trucking                            | 31                                   | 495                                   | 526             |
| Camp and travel  | 162                                  | 396                                   | 558             |
| Regulatory   | -                                    | 338                                   | 338             |
| Maintenance  | 105                                  | 228                                   | 332             |
| Other operating expenses                                       | 279                                  | 392                                   | 672             |
| Royalties  | -                                    | 51                                    | 51              |
| <b>Total operating cash disbursements</b>                      | <b>1,276</b>                         | <b>6,701</b>                          | <b>7,977</b>    |
| <b>Operating Net Cash Flow</b>                                 | <b>(1,276)</b>                       | <b>(4,923)</b>                        | <b>(6,199)</b>  |
| <b>Capital Cash Disbursements</b>                              |                                      |                                       |                 |
| Repair costs   | 912                                  | 1,288                                 | 2,200           |
| Drilling, facilities and other acquisitions                    | -                                    | 700                                   | 700             |
| <b>Total capital cash disbursements</b>                        | <b>912</b>                           | <b>1,988</b>                          | <b>2,900</b>    |
| <b>Non-Operating Cash Disbursements</b>                        |                                      |                                       |                 |
| Salaries & benefits  | 26                                   | 468                                   | 494             |
| Bank charges, general and administration expenses              | 3                                    | -                                     | 3               |
| Interim financing interest and related professional fees       | -                                    | 487                                   | 487             |
| Professional fees  | 961                                  | 705                                   | 1,666           |
| <b>Total non-operating cash disbursements</b>                  | <b>990</b>                           | <b>1,660</b>                          | <b>2,649</b>    |
| <b>Net Cash Flow</b>   | <b>(3,177)</b>                       | <b>(8,571)</b>                        | <b>(11,748)</b> |

51. A summary of the forecast Interim Lender Facility borrowings of approximately \$15.5 million throughout the CF Forecast Period (made up of \$4.0 million in Escrowed Funds for the Asset Sale Transaction and \$11.5 million in interim financing towards the Company's operations) follows:

| Greenfire Hangingstone Operating Corporation          | Actuals              | Forecast             |               |
|---|----------------------|----------------------|---------------|
| Weekly Cash Flow Statement ending April 2, 2021       | 8-Dec-20 to 8-Jan-21 | 9-Jan-21 to 2-Apr-21 | 17-week total |
| \$CAD 000's   | 5-week total         | 12-week total        |               |
| <b>Cash</b>   |                      |                      |               |
| <b>Facility A - Escrowed Funds</b>                    |                      |                      |               |
| Beginning of period                                   | -                    | -                    | -             |
| Escrowed Funds Advanced                               | -                    | 4,000                | 4,000         |
| Repair costs  | -                    | (2,200)              | (2,200)       |
| <b>Ending of period</b>                               | <b>-</b>             | <b>1,800</b>         | <b>1,800</b>  |
| <b>Facility B - Interim Financing</b>                 |                      |                      |               |
| Operating Expense Funding                             |                      |                      |               |
| Beginning of period                                   | -                    | 2,823                | -             |
| Operating Expense Funding Advanced                    | 6,000                | 5,500                | 11,500        |
| Operating Expense Funding Repaid                      | -                    | (1,952)              | (1,952)       |
| Net Cash Flow   | (3,177)              | (8,571)              | (11,748)      |
| Repair costs (refunded from Escrowed Funds)           | -                    | 2,200                | 2,200         |
| <b>Ending of period</b>                               | <b>2,823</b>         | <b>-</b>             | <b>-</b>      |
| <b>Interim Lender Facility</b>                        |                      |                      |               |
| Beginning of period                                   | -                    | 6,000                | -             |
| Operating Expense Funding Advanced/(Repaid)           | 6,000                | 3,548                | 9,548         |
| Assignment of Interim Financing Facility by Purchaser | -                    | (9,548)              | (9,548)       |
| <b>Ending of period</b>                               | <b>6,000</b>         | <b>-</b>             | <b>-</b>      |

52. Total intraweek drawings from the Interim Lender Facility under Facility B is forecast at \$11.5 million, with subsequent repayments by April 2, 2021 resulting in an forecast outstanding Interim Lender Facility balance of \$9.5 million. As such, it is forecast that approximately \$6.5 million remains available under the Interim Lender Facility.

## PROPOSED D&O CHARGE

53. The Company has renewed its insurance policy through to the period ending November 8, 2021. Included in the policy is runoff insurance coverage for its directors and officers, which was amended to exclude claims based upon, arising

out of, directly or indirectly resulting from or in consequence of, or in any way involving any Wrongful Act (as defined in the insurance contract) actually or allegedly committed subsequent to November 7, 2020.

54. As a result of the NOI Proceedings, the Company has not been able to secure sufficient, ongoing directors and officers insurance coverage.
55. The Proposal Trustee understands that the Company is seeking a Proposed D&O Charge in the amount of \$250,000, based upon forecast estimated source deduction liabilities during a typical employee pay period. The Proposal Trustee understands that the Company is currently in good standing with respect to outstanding payroll and source deductions, and with respect to other pre-NOI Filing obligations for which directors and officers may be personally liable.
56. The Company requires the services of its directors and officers in order to successfully restart operations, maintain compliance and the Company's relationship with the AER and to successfully close the Asset Sale Transaction. The Company's directors and officers have the technical knowledge, experience, and relationships necessary to continue to optimize value and complete a successful restructuring. As such, it is common in NOI Proceedings (such as these) for the Company to seek and obtain a directors and officers charge to provide some protection to these individuals who are considered critical to the success of the Company and overall restructuring process. The Proposed D&O Charge is intended to largely cover the directors' and officers' potential personal liabilities for unpaid payroll and source deductions. Greenfire's directors and officers have expressed the need for certainty with respect to potential personal liability if they continue in their current capacities.
57. The Proposal Trustee has evaluated the quantum of the Proposed D&O Charge being sought by the Company and has compared this quantum to other recent and historical D&O Charges granted by this Honourable Court. The Proposal Trustee believes the Proposed D&O Charge appears reasonable in the circumstances after

considering, among other factors, the Company's Revised CF Forecast and the amount of similar Court approved charges in comparable proceedings.

58. Should this Honourable Court grant the Proposed D&O Charge, this charge shall rank in priority to all other security interests, liens and other encumbrances with the exception of the Administration Charge and the Interim Lender's Charge.
59. The Proposed D&O Charge would not apply in the event that any such obligation or liability of any director or officer is incurred due to such directors' or officers' gross negligence or wilful misconduct or to the extent that any director or officer has coverage under the runoff insurance coverage for its directors and officers or any other insurance policy.

#### **APPLICATION TO EXTEND THE TIME TO FILE A PROPOSAL**

60. The Fourth NOI Period Extension will expire on January 28, 2021 and the Company is seeking an extension of the period to March 15, 2021, during which period it is required to take measures to close the Asset Sale Transaction in escrow and to facilitate Final Closing. The Company will also need this time to address the Appeals and to work with the AER and purchaser to transfer the AER licences.
61. The Proposal Trustee has considered the Proposed Fifth NOI Period Extension request and is supportive of a stay extension to March 15, 2021.
62. The Proposal Trustee considered the following factors regarding the stay extension:
  - a) whether the Company is acting in good faith and with due diligence;
  - b) whether the Company would likely be able to close the Asset Sale Transaction if the Fourth NOI Period Extension were further extended;  
and
  - c) whether any creditor in these proceedings will be materially prejudiced if the extension were to be granted.

63. It is the Proposal Trustee's respectful view that, to date, management has been acting in good faith and with due diligence in this matter. The Company has been made aware of the good faith and acting with due diligence obligations pursuant to s. 50.4(9) of the BIA.
64. The Proposal Trustee is of the view that an extension to March 15, 2021 is appropriate and necessary to advance efforts to achieve a successful restructuring and that no stakeholder or creditor is likely to be materially prejudiced if an extension is granted.
65. The Proposal Trustee notes that, subject to approval of this Honourable Court, one or more further extensions to April 8, 2021 may be required in order to address any outstanding matters that have not be addressed as discussed above. After April 8, 2021, the time period in which to extend will exceed the six month parameters pursuant to s. 50.4(9) of the BIA. At such time, the NOI Proceedings may need to be converted to proceedings under the *Companies' Creditors Arrangement Act*, RSC 1985, c C-36, as amended; otherwise, the Company will be deemed to have made an assignment in bankruptcy.

#### **PROPOSAL TRUSTEE'S RECOMMENDATION**

66. The Proposal Trustee respectfully recommends that this Honourable Court
- a) approve the Proposed D&O Charge; and
  - b) approve the extension of time during which the Company has to file a proposal to March 15, 2021.

All of which is respectfully submitted this 12<sup>th</sup> day of January, 2021.

**ALVAREZ & MARSAL CANADA INC.,  
in its capacity as Proposal Trustee of  
Greenfire Oil and Gas Ltd. and Greenfire Hangingstone  
Operating Corporation and  
not in its personal or corporate capacity**



Orest Konowalchuk, CPA, CA, CIRP, LIT  
Senior Vice President



Duncan MacRae, CPA, CA, CIRP, LIT  
Vice President

## APPENDIX A



  
Robert. B Logan  
Director

Date \_\_\_\_\_

In the Matter of the Notice of Intention  
to make a Proposal of  
Greenfire Hangingstone Operating Corporation

**Notes to the Consolidated Statement of Cash Flow for the 12-week  
period ending April 2, 2021**

**Purpose and General Assumptions of the Cash Flow Statement**

Greenfire Hangingstone Operating Corporation (“**Greenfire OpCo**” 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 have been filed under the Bankruptcy and Insolvency Act (“**BIA**”) on October 8, 2020.

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 January 9, 2020 to April 2, 2021 (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 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. Cash receipts consist of forecast oil receipts based on forecast production beginning in February at strip pricing as at January 7, 2021. Proceeds from production forecast are generally received on or around the 25<sup>th</sup> of the following month. Greenfire OpCo has connected with a third-party marketer that confirms the ability to receive 50% of the receipts on or around the 10<sup>th</sup> of the following month and the remaining 50% balance on or around the 25<sup>th</sup> of the following month. Earlier payment terms for production revenue, such as those outlined above, would allow the Company to manage its working capital but may come at a modest expense of profitability.
2. Marketing fees are based on forecast production and the fees provided in the most recent proposed agreement from the proposed marketer.
3. Operating cash disbursements consist of transportation, natural gas and electricity expenses and other operating expenses to facilitate the restart and operations of the facility. These disbursements are based on historical lease operating statements at the assumed production levels. Payments are assumed to be made in the week/month the goods or services are provided based on our assumption that parties will require “cash on delivery” payment terms or immediately after invoicing in the NOI filing. Certain expenses, such as natural gas and electricity may require prepayment for the forward month(s). There is less natural gas required during the restart of operations, but is also subject to weather conditions. Payment of municipal property taxes and AER administration fees

incurred since the NOI filing date of October 8, 2020 have been included in the operating expense forecast.

4. The characterization of any expenses as "Repair Costs" is Greenfire's preliminary assessment and remains subject to further change and input from Greenfire and the Proposal Trustee.
5. Contractor and employee expenses are based on historical lease operating statements at the assumed production levels. Payments are assumed to be made on a bi-weekly basis following start dates.
6. Royalty expenses include Crown royalties plus GORR royalties at strip pricing.
7. Capital expenses for the restart of operations consist of repair costs associated with damages related to freezing. These payments are assumed to be made in the week/month the goods or services are provided based on our assumption that parties will require "cash on delivery" payment terms or immediately after invoicing in the NOI filing. Slower procurement of certain costs over the holiday season has extended payment further into the forecast compared to the originally forecast timeline.
8. There is also the assumption of incurring capital expenses for an optional transfer pump to increase production levels, and is subject to production and cash flow performance and the decision to purchase and install this equipment will be made based on several considerations. These payments are assumed to be made in the week/month the goods or services are provided based on our assumption that parties will require "cash on delivery" payment terms or immediately after invoicing in the NOI filing. The decision to purchase and install will be made in conjunction and with support of the Interim Lender and AcquisitionCo.
9. Salaries, benefits and related source deductions based on expected timing of payment (a bi-weekly basis following start dates).
10. Based on the Proposed Interim Lending Facility interest rate and interest payment dates.
11. Includes the ongoing professional fees and expenses of the Company's legal counsel and those of the Proposal Trustee and its legal counsel.
12. Forecast cash balance based on the Company's net cash flow and borrowings of the Interim Lending Facility.

  
\_\_\_\_\_  
Robert B. Logan  
Director

Jan 12, 2021  
\_\_\_\_\_  
Date