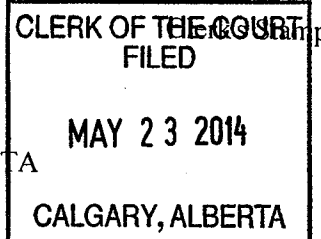


COURT FILE NUMBER 1401-01356  
COURT COURT OF QUEEN'S BENCH OF ALBERTA  
JUDICIAL CENTRE CALGARY  
PLAINTIFFS LONE MOUNTAIN RESOURCES LTD., R. ERNIE  
ANDERSON AND 1404788 ALBERTA LTD.  
DEFENDANT SEDNA OIL AND GAS LTD.



DOCUMENT **FIRST REPORT OF THE RECEIVER,  
HARDIE & KELLY INC.  
MAY 23, 2014**

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**FIRST REPORT OF THE RECEIVER  
HARDIE & KELLY INC.  
MAY 23, 2014**

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## **INTRODUCTION**

1. On February 19, 2014, Lone Mountain Resources Ltd., R. Ernie Anderson and 1404788 Alberta Ltd. (collectively referred to as the “Secured Lenders”) made an application to the Court of Queen’s Bench of Alberta (the “Court”) for the appointment of a receiver and manager (the “Receiver”) of the current and future assets, property and undertakings of Sedna Oil and Gas Ltd. (“Sedna” or the “Company”).
2. The Court granted an Order (the “Receivership Order”) on February 19, 2013, (the “Receivership Date”) appointing Hardie & Kelly Inc. as the Receiver.
3. The purpose of this report (the “First Report”) is to provide information to the Court in respect of:
  - a. An overview of the business of Sedna;
  - b. The Receiver’s initial activities including the Receiver’s efforts to realize on the assets of the Company; and
  - c. The Receiver’s recommendation in respect to the sale of certain of the Company’s assets and the disposition of the remaining unrealizable assets.

## **TERMS OF REFERENCE**

4. In preparing this First Report, the Receiver has relied upon certain unaudited financial information, the available records of Sedna and information obtained from the Receiver’s oil and gas consultant, Cord Resource Management Limited (“Cord”).

## **BACKGROUND**

5. Sedna is a private company that was incorporated in 2004 and was engaged in the exploration, production, development and acquisition of natural gas and petroleum properties with interests in Alberta.

6. The Company holds interests and serves as the designated operator of oil and gas properties located in the areas of Viking Kinsella (26 wells, 1 facility), Meekwap (3 wells, 3 facilities) Gordondale (1 well), Byemoore (1 well), Culp/Swanhills (1 well) and Provost (1 unconstructed facility licence) for which it holds licenses issued by the Alberta Energy Regulator (the "AER"). Sedna also holds non-operating working interests in properties located at Ronalane, Retlaw and Provost East.
7. On November 20, 2013, the AER issued Closure Orders ordering the immediate suspension and closure of Sedna's licensed properties for failure to provide payment of the required Licensee Liability Rating ("LLR") security deposit currently approximating \$2.6 Million.
8. Given an inability to fund the required security deposit, the wells that the Company operated had been shut in and the Company had ceased active day to day operations prior to the Receivership Date.

#### **INITIAL ACTIVITIES OF THE RECEIVER**

9. The Company had no active employees as of the Receivership Date. The Receiver arranged to take possession of the available records of the Company with the assistance from former directors and shareholders of the Company.
10. The Receiver engaged Cord to oversee and administer the oil and gas operations, review the available records with a view to confirming the Company's interests, assist with the preparation of a sales information package and assist with the Receiver's sales process.
11. Upon being appointed, the Receiver and Cord attended an initial meeting with the AER to discuss the Company's status and the Receiver's intended course of action with respect to the sale of the Company's oil and gas interests. A follow-up meeting was later held with the AER to attempt to structure a mechanism to potentially enable the Receiver to dispose of certain assets in light of the Company's outstanding issues with AER.

## MARKETING OF ASSETS

12. The Receiver launched a sales tender process on March 13, 2014. Advertisements were published in the Calgary Herald and in the Daily Oil Bulletin.
13. In addition, Cord contacted various parties thought to potentially have an interest in the Company's assets based on an evaluation of existing working partner interests in the properties and an assessment of parties with operations in adjacent areas.
14. The deadline for offers was established as April 10, 2014 (the "Bid Deadline").
15. As a result of the marketing process undertaken by the Receiver, multiple parties ultimately submitted offers to the Receiver by the Bid Deadline. Prior to accepting any offers, the Receiver and Cord met with AER to review the possible alternative courses of action associated with Sedna's licensed properties as the Receiver was not on a position to accept any offers absent the AER's agreement to transfer the respective licenses to prospective purchasers.
16. Subsequent to meeting with the AER and subject to the approval of this Honourable Court, the Receiver accepted an offer for Sedna's interest in the Meekwap area properties (the "Meekwap Assets") from a consortium of Sedna's working interest partners in the Meekwap Assets led by Westhill Resources Limited (the "Westhill Consortium").
17. The AER has agreed to permit the transfer of the licenses associated with the Meekwap Assets to the Westhill Consortium pursuant to certain conditions including the payment of the gross sales proceeds associated with the sale of the Meekwap Assets to the AER as a payment towards the deemed liability in respect of Sedna's remaining licences.

18. After exhausting all sales efforts, the Receiver did not receive any potentially workable offers for Sedna's licensed interests in Viking Kinsella, Byemoore, Culp/Swan Hills, Gordondale or Provost (the "Unrealizable Properties"). The Unrealizable Properties will be turned over to the AER for further handling.
19. The Receiver also accepted an offer from Petro Viking Management Corp. ("Petro Viking") for Sedna's non-operated working interests in the Ronalane and Retlaw areas subject to the approval of this Honourable Court.
20. The details of the offers received and an overall analysis of same will be contained in the Receiver's Confidential Supplemental Report (the "Confidential Supplemental Report") as the Receiver is concerned that in the event the pending sales do not close for any reason, the disclosure of the details of the offers may affect the Receiver's efforts to remarket the respective assets. The Receiver will be seeking the Court's approval to have the Confidential Supplemental Report sealed.

#### **CREDITOR CLAIMS**

21. The Secured Lenders are owed a combined amount of \$200,000. The Receiver understands that Sedna did not have any employees and to date has not received notice of any deemed trust claims from Canada Revenue Agency in respect of outstanding source deduction remittances or GST.
22. Upon closing of the sales, the Receiver will direct its legal counsel to undertake an independent review of the security of the Secured Lenders to confirm the validity and enforceability of same. In the interim, the Receiver proposes to pay the gross sales proceeds from the sale to the Westhill Consortium to the AER to enable the transfer of the licences associated with the Meekwap Assets, pay any outstanding costs of administration of the receivership proceedings and maintain the balance of funds pending further order of the Court.

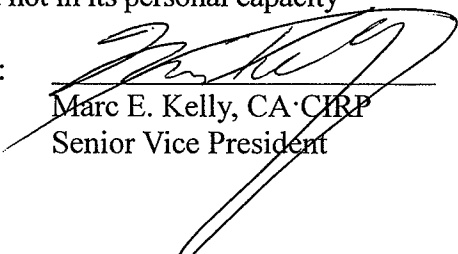
**RECOMMENDATIONS**

23. The Receiver is seeking and recommends to this Honourable Court the following:
- a. Approval of the offers submitted by the Westhill Consortium and Petro Viking for the reasons set out in the Confidential Supplemental Report;
  - b. Approval to pay the gross sales proceeds from the sale to the Westhill Consortium to the AER;
  - c. Approval for the Receiver to turn over the Unrealizable Properties to the AER for its further handling; and
  - d. Direction that the Confidential Supplemental Report be sealed for purposes of maintaining the integrity of the sales process in the event the contemplated sales to the Westhill Consortium and Petro Viking do not close for any reason.

All of which is respectfully submitted this 23<sup>rd</sup> day of May 2014.

**Hardie & Kelly Inc.,**  
in its capacity as Receiver and Manager of Sedna Oil and Gas Ltd.  
and not in its personal capacity

Per:



Marc E. Kelly, CA-CRP  
Senior Vice President