

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 **SECOND REPORT OF THE RECEIVER,
HARDIE & KELLY INC.
DECEMBER 11, 2014**

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**SECOND REPORT OF THE RECEIVER
HARDIE & KELLY INC.
DECEMBER 11, 2014**

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INTRODUCTION

1. On February 19, 2014, Lone Mountain Resources Ltd., R. Ernie Anderson and 1404788 Alberta Ltd. 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. On May 23, 2014, the Receiver filed an initial report (the "First Report") and the Receiver's Confidential Supplemental Report (the "Confidential Supplemental Report") providing an overview of the Company along with a summary of the Receiver's activities in advance of an application seeking approval of the sale of Sedna's interest in the Meekwap area properties (the "Meekwap Assets") to a consortium of Sedna's working interest partners led by Westhill Resources Limited (the "Westhill Consortium") as well as the sale of Sedna's non-operated working interests in the Ronalane and Retlaw areas to Petro Viking Management Corp. ("Petro Viking").
4. On May 30, 2014, this Honourable Court granted Orders approving the sales to the Westhill Consortium and Petro Viking.
5. The purpose of this report (the "Second Report") is to provide information to the Court in respect of:
 - a. An update as to the status of the sales to the Westhill Consortium and Petro Viking;
 - b. The Receiver's recommendation in respect to the disposition of the remaining unrealizable licenses in Sedna's name;
 - c. An updated Statement of Receipts and Disbursements and the Receiver's recommendation with respect to the disposition of the remaining funds;

- d. The Receiver's recommendation with respect to the disposition of the pre-receivership corporate books and records of Sedna (the "Corporate Records"); and
- e. Details of the Receiver's accounts and those of the Receiver's legal counsel in contemplation of the review and approval of the respective accounts and the Receiver's discharge.

TERMS OF REFERENCE

6. In preparing this Second 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").

SALES OF ASSETS

7. The sale of the Meekwap Assets operated by Sedna to the Westhill Consortium for \$80,000 closed at the end of July 2014.
8. Prior to the date of the receivership, the Alberta Energy Regulator (the "AER") had issued Closure Orders ordering the immediate suspension and closure of Sedna's licensed interests for failure to provide payment of the required Licensee Liability Rating ("LLR") security deposit approximating \$2.6 Million.
9. As previously agreed upon with the AER, the Receiver remitted the entire \$80,000 of gross sales proceeds to the AER in order to facilitate the transfer of the associated licences that were in the name of Sedna.
10. The sale of the non-operated interests in the Ronalane and Retlaw areas to Petro Viking for \$150,000 closed in June 2014.

11. Since the date of the First Report, the Receiver executed a Sale and Conveyance Agreement (“Conveyance”) in favour of Canadian Natural Resources (“CNR”) in respect of a 5.7% non-operated interest in a property operated by CNR. The Receiver was prepared to otherwise abandon this interest which had garnered no offers during the sales process; however, the Receiver ultimately agreed to execute the Conveyance to facilitate administrative matters for CNR.

UNREALIZABLE LICENCES

12. In the First Report and the Confidential Supplemental Report, we advised this Honourable Court that after exhausting all sales efforts, the Receiver did not receive any potentially workable offers for Sedna’s remaining licensed interests (the “Unrealizable Licences”). A schedule of the Unrealizable Licences is attached as Exhibit “A”.
13. As set out in the First Report and the Confidential Supplemental Report, the Receiver’s sales process included the following efforts:
 - a. Advertisements were published in the Calgary Herald and in the Daily Oil Bulletin;
 - b. Cord directly 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; and
 - c. Discussions were also held with the 50% working interest partner surrounding the possibility of Petro Viking acquiring Sedna’s licensed interests in the Petro Viking / Kinsella area, but in light of the current LLR obligations associated with Sedna’s properties an agreement could not be reached.

14. Since the commencement of the receivership proceedings, the Receiver and Cord have met with and kept the AER apprised of the Receiver's progress including keeping the AER informed of the lack of interest expressed in the Unrealizable Licences.
15. The Receiver had previously applied to this Honourable Court on notice to the Service List, which included the AER, for an order, among other things, authorizing the Receiver to surrender the Unrealizable Licences to the AER (the "Surrender Order") and such order was granted on May 30, 2014 with no opposition from any party. After serving the Surrender Order on the Service List and speaking with the AER about matters going forward, the Receiver was advised that the AER objected to the Surrender Order. As such, as part of its discharge application the Receiver will seek an order directing that the Surrender Order be revised so that instead of surrendering the Unrealizable Licences, the Receiver will be discharged as the receiver of Sedna, including specifically the Unrealizable Licences. The anticipated effect of such would be that the AER would then be permitted to continue to take enforcement steps as deemed necessary against Sedna in respect of the remaining LLR security deposit deficiency.
16. The Receiver will issue notices of surrender to the known respective mineral and surface lease holders and working interest partners associated with the Unrealizable Licences.

STATEMENT OF RECEIPTS AND DISBURSEMENTS

17. A copy of the Receiver's Statement of Receipts and Disbursements is attached as Exhibit "B" (the "Final R&D") indicating that as of December 11, 2014, the Receiver held approximately \$59,000 in its trust account.
18. As noted on Exhibit "B", the Receiver is still awaiting receipt of approximately \$24,000 from NewAlta Corporation representing the net proceeds from the disposal of waste water which resulted in some oil recoveries.

19. Exhibit "B" also includes provisions for the following estimated anticipated disbursements necessary to conclude the file (collectively referred to as the "Estimated Final Accounts"):
- a. the Receiver's final billing of fees and expenses representing unbilled work in process and costs to complete the administration of the estate estimated to be approximately \$4,500;
 - b. the Receiver's legal counsel's final billing of fees and expenses representing unbilled work in process and costs to complete the administration of the estate including costs associated with the Receiver's discharge application estimated to total approximately \$7,500;
 - c. Cord's final billing estimated to be approximately \$4,500 including attending to the issuance of surrender notices discussed above; and
 - d. The destruction of the Corporate Records that came into the possession of the Receiver estimated to be approximately \$2,000.
20. At this time, based on the above figures, the Receiver anticipates there will be approximately \$28,000 of residual funds available for distribution subject to adjustments of estimates to actual figures for the Estimated Final Accounts (the "Residual Funds").

CREDITOR CLAIMS

21. The Receiver's legal counsel has confirmed the validity and enforceability of the claims of the following four known secured creditors (collectively referred to as the "Secured Lenders"):
- a. Lone Mountain Resources Ltd. - principal sum of \$25,000;
 - b. Tyler Theberge - principal sum of \$100,000;
 - c. R. Ernie Anderson - principal sum of \$25,000; and
 - d. 1404788 Alberta Ltd - principal sum of \$150,000.

22. The Receiver has received verbal confirmation from Canada Revenue Agency that there are no amounts outstanding in respect of GST or unremitted employee source deductions which could give rise to a deemed trust claim in priority to the Secured Lenders. Also, as the Company did not have any employees there are no claims pursuant to S.81.4(1) of the *Bankruptcy and Insolvency Act* (“WEPPA Claims”).
23. The Secured Lenders are all party to an Inter-Creditor Agreement with Sedna dated April 1, 2012 providing for distributions in the event of an insolvency proceeding on a *pari pasu* basis.
24. In light of there being no known claims potentially ranking ahead of the Secured Lenders’ claims, the Receiver proposes to distribute the Residual Funds to the Secured Lenders on a pro rata basis based on their respective outstanding principal balances as follows (the “Distribution Scheme”):
- a. Lone Mountain Resources Ltd. - 8.33%;
 - b. Tyler Theberge - 33.33%;
 - c. R. Ernie Anderson - 8.33%; and
 - d. 1404788 Alberta Ltd - 50.00%.

PROFESSIONAL FEES

25. To date, the Receiver has rendered a single account in respect of the proceedings for which payment has not yet been issued from the estate (the “Receiver’s Fees”). The account is summarized below and will be made available upon request or at the hearing of the Receiver's discharge application.

Period	Fees and Expenses	GST	Total
Feb. - Nov., 2014	\$35,022.00	\$1,751.10	\$36,773.10

26. During the course of the Receivership proceedings, the Receiver's legal counsel has issued three accounts totalling approximately \$22,000 plus GST (the "Receiver's Counsel's Fees"). The accounts are summarized below and will be made available upon request or at the hearing of the Receiver's discharge application.

Period	Fees and Expenses	GST	Total
Feb. – Jul., 2014	\$16,791.40	\$839.57	\$17,630.97
Aug. – Sep., 2014	3,797.25	189.87	3,987.12
Oct. – Nov., 2014	1,131.50	56.58	1,188.08
Total	\$21,720.15	\$1,086.02	\$22,806.17

27. The Receiver is of the opinion that the Receiver's Fees and the Receiver's Counsel's Fees are appropriate and reasonable in the circumstances particularly in light of the difficulties encountered with attempting to solicit interest and close sales in light of Sedna's associated LLR obligations.

CORPORATE RECORDS

28. The Receiver continues to maintain the Corporate Records of the Company. Upon request, the Receiver proposes to deliver any available files to the AER in respect of the Unrealizable Licences and destroy the remaining Corporate Records.

RECOMMENDATIONS

29. The Receiver is seeking and recommends to this Honourable Court the following:
- a) Approval of the Final R & D;
 - b) Authorization for the destruction of the Corporate Records as set out above;
 - c) The approval of the Receiver's Fees, the Receiver's Counsel's Fees and the Estimated Final Accounts;

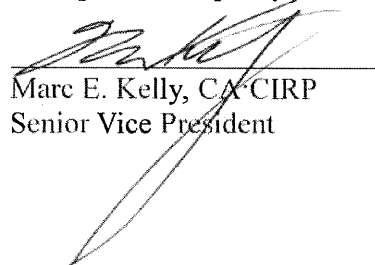
- d) Approval of the distribution of the Residual Funds in accordance with the Distribution Scheme set out above;
- e) The discharge of the Receiver, which for greater certainty includes a discharge as against the Unrealizable Licences and a direction that the Receiver shall have no further duty, obligation or liability with respect to the Unrealizable Licences, or any of them, and an amendment of the Surrender order reflecting that the Receiver is being discharged as against the Unrealizable Licences and is not surrendering them;
- f) The discharge of any claims by any authority having jurisdiction over any licenses or above ground structures of Sedna accruing prior to the date of the Receiver's discharge; and
- g) The approval of the actions and conduct of the Receiver in the receivership proceedings.

All of which is respectfully submitted this 11th day of December 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-CIRP
Senior Vice President

EXHIBIT “A”

Well Licenses

Field / Area	Unique Well Identifier (UWI)	Licence Number
Viking/Kinsella	02-06-045-11W4	133444
Viking/Kinsella	07-06-045-11W4	155893
Viking/Kinsella	08-06-045-11W4	157282
Viking/Kinsella	01-06-045-11W4	157283
Viking/Kinsella	09-06-045-11W4	157284
Viking/Kinsella	10-06-045-11W4	157362
Viking/Kinsella	15-31-044-11W4	157756
Viking/Kinsella	16-31-044-11W4	158651
Viking/Kinsella	09-06-045-11W4	173484
Viking/Kinsella	08-06-045-11W4	174748
Viking/Kinsella	07-06-045-11W4	174749
Viking/Kinsella	02-06-045-11W4	174750
Viking/Kinsella	01-06-045-11W4	174751
Viking/Kinsella	16-31-044-11W4	174765
Viking/Kinsella	15-31-044-11W4	174766
Viking/Kinsella	02-06-045-11W4	175414
Viking/Kinsella	02-06-045-11W4	175492
Viking/Kinsella	08-06-045-11W4	204882
Viking/Kinsella	08-06-045-11W4	204883
Viking/Kinsella	10-06-045-11W4	204885
Viking/Kinsella	07-06-045-11W4	204887
Viking/Kinsella	01-06-045-11W4	204910
Viking/Kinsella	10-31-044-11W4	204919
Viking/Kinsella	15-31-044-11W4	204920
Viking/Kinsella	16-31-044-11W4	204921
Viking/Kinsella	16-31-044-11W4	204922
Gordondale	14-08-080-10W6	216248
Byemoore	05-33-034-18W4	228631
Swan Hills	10-23-070-12W5	314200

Facility Licenses

Field / Area	Surface Location	Licence Number
Viking/Kinsella	00/02-36-036-09W4	38625
Provost	00/08-06-045-11W4	9651

EXHIBIT “B”

Sedna Oil and Gas Ltd.
Statement of Receipts and Disbursements
as at December 11, 2014

Receipts

Sale of assets	\$ 230,000.00
GST collected	2,300.00
Accounts receivable	1,767.62
Interest	209.35

234,276.97

Disbursements

Alberta Energy Regulator	80,000.00
Oil and gas consultants	42,722.57
Legal fees and expenses	21,720.15
Disposal	11,392.50
Insurance	4,905.00
GST paid	4,068.30
Pandell	4,194.75
Crown leases	2,762.00
Advertising	1,501.80
Orphan Well Fund Levy	1,153.86
WCSS fee	993.30
Filing fee	70.00

175,484.23

Cash on hand

58,792.74

Plus: Outstanding Receipts

NewAlta

24,435.90

Less: Outstanding Disbursements

Receiver's fees and expenses

41,500.00

Legal fees and expenses

7,500.00

Cord Resources

4,500.00

Record destruction

2,000.00

55,500.00

\$ 27,728.64