COURT FILE NUMBER	2001-06997
COURT	COURT OF QUEEN'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 THE COMPROMISE OR ARRANGEMENT OF BOW RIVER ENERGY LTD.
DOCUMENT	**SECOND REPORT OF BDO CANADA LIMITED, IN ITS CAPACITY AS MONITOR OF BOW RIVER ENERGY LTD.** **JULY 20, 2020**
ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	**MONITOR'S COUNSEL** Bennett Jones LLP 4500 Bankers Hall East, 855 - 2nd Street SW Calgary, AB T2P 4K7 Attention: Keely Cameron Telephone: 403-298-3324 Facsimile: 403-265-7219 Email: cameronk@bennettjones.com

SECOND REPORT OF THE MONITOR
BDO CANADA LIMITED
JULY 20, 2020

I N D E X

INTRODUCTION

1. On June 1, 2020, Bow River Energy Ltd. ("**Bow River**" or the "**Company**") made an application (the "**Initial Application**") to the Court of Queen's Bench of Alberta (the "**Court**") for an order granting an initial stay of proceedings in respect of the Company pursuant to the *Companies Creditors Arrangement Act*, RSC 1985 c. C-36, as amended (the "**CCAA**").

2. On June 1, 2020 (the "**Filing Date**"), a *CCAA Initial Order* was granted by the Honourable Madam Justice A. D. Grosse of the Court providing initial relief including but not limited to the imposition of an initial stay of proceedings (the "**Stay**") in favour of the Company and its assets through to June 11, 2020.

3. The Court appointed BDO Canada Limited as monitor (the "**Monitor**") in the CCAA proceedings (the "**Proceedings**").

4. On June 5, 2020, the Monitor filed a report to the Court (the "**First Report**") in advance of the Company's June 10, 2020 Court application (the "**Comeback Application**").

5. At the Comeback Application, the Court granted an *Amended and Restated CCAA Initial Order* (the "**ARIO**") which included certain relief, *inter alia*:

    a. An extension of the Stay through to July 31, 2020; and

    b. The approval of a super-priority afforded to the Administration Charge and the Director's Charge as against the property, assets and undertakings of the Company (the "**Assets**") as follows:

        i. Administration Charge ($300,000) – first ranking; and

        ii. Directors' Charge ($400,000) – second ranking.

PURPOSE

6. The purpose of this report (the "**Second Report**") is to provide information to this Honourable Court with respect to:

   a. An operational update since the Filing Date;

   b. Bow River's financial performance since the Filing Date;

   c. The Company's updated cash flow forecast for the period July 11 to October 16, 2020;

   d. Bow River's upcoming application seeking:

      - Approval of a settlement agreement (the "**Settlement Agreement**") entered into between the Company and Husky Oil Operations Limited ("**Husky**");

      - Approval of an interim financing agreement (the "**Interim Financing Term Sheet**") with 2270943 Alberta Ltd. ("**227**") and the granting of a charge to a maximum of $1.1 Million in relation to borrowings thereunder (the "**Interim Lender's Charge**");

      - Approval of a sales and investment solicitation process ("**SISP**") and the engagement of a sales advisor (the "**Sales Advisor**") to administer same;

      - Approval of an asset purchase and sale agreement in respect of certain of Bow River's assets as a stalking horse offer (the "**Stalking Horse APA**") in conjunction with the SISP;

      - The sealing of certain materials associated with the upcoming application; and

      - An extension of the Stay up to and including October 16, 2020.

   e. The Monitor's conclusions and recommendations in respect of the above, as applicable.

TERMS OF REFERENCE AND DISCLAIMER

7. In preparing this Second Report, the Monitor has been provided with, and has relied upon unaudited financial information, certain books and records of Bow River, discussions with the Company's management ("**Management**) and its legal counsel (collectively referred to as the "**Information**").

8. The Monitor has reviewed the Information for reasonableness, internal consistency and use in the context in which it was provided; however, the Monitor has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of such information in such a manner that would wholly or partially comply with standards as set out in the *Chartered Professional Accountants Canada Handbook* (the "**CPA Handbook**") and, accordingly, the Monitor expresses no opinion or other form of assurance in respect of such Information

9. Some of the Information referenced in this Second Report relates to weekly cash flow forecasts, projections and related assumptions. An examination or review of cash flow forecasts, projections and related assumptions as outlined in the CPA Handbook has not been performed.

OPERATIONAL UPDATE

10. Since the Filing Date, Management, with the assistance of the Monitor, has been able to communicate with suppliers and make mutually satisfactory arrangements to ensure continuous operations and the uninterrupted supply of goods and services to the Company. The Monitor is satisfied that Management has successfully stabilized operations subsequent to the Filing Date.

11. Following the granting of the Initial Order, there have been no material adverse changes in Bow River's operations. The Company has reported recent average production levels of approximately 1,265 boe/d versus approximately 1,400 boe/d as at the Filing Date.

RESILIATION OF LEASES

12. In the First Report, the Monitor advised that subsequent to the Filing Date the Company, with the approval of the Monitor, had issued a notice to disclaim or resiliate an office lease in Toronto pursuant to Section 32 of the CCAA with a view to reducing unnecessary expenses.

13. Since the date of the First Report, the Company, with approval of the Monitor, has issued two additional notices to Xerox Canada Ltd. (the "**Disclaimer Notices**") disclaiming two redundant photocopier leases.

HUSKY SETTLEMENT

14. In the First Report, the Monitor was advised that Bow River owed approximately $1 Million to Husky in respect of a production royalty financing arrangement (the "**PRFA**") arising from various agreements between the two parties. In addition to the current pre-filing obligations pursuant to the PRFA, Management estimates the future obligations under the PRFA to be approximately $1.7 Million, which obligations fluctuate based on the forward price curve of Western Canadian Oil Select oil prices. Husky is the first secured creditor of Bow River.

15. Husky is currently asserting a right of set-off in relation to all of its claims against Bow River as against the Company's production revenues held by Husky pursuant to several crude oil marketing agreements entered into between Husky (or its affiliates) and Bow River, wherein Husky purchases oil production from Bow River. The amount due from Husky to Bow River in respect of May and June production revenues totals approximately $932,000. A further amount of approximately $473,000 is estimated to be due to Bow River in August in relation to July production.

16. Since the granting of the ARIO, the Company has been working with Husky in an effort to resolve the matter of the PRFA and the set-off claim, as well as several other issues between the parties, as more particularly detailed in the July 17, 2020 Affidavit of Daniel G. Belot ("**Affidavit No. 3**") filed in these proceedings.

17. Management determined that a global resolution of all matters with Husky was necessary for the Company to be able to facilitate the SISP. This led to the Settlement Agreement, an unredacted copy of which is included as Confidential Exhibit "1" to Affidavit No. 3, the significant terms of which are, *inter alia*:

    a. Bow River will pay Husky a global settlement amount (the "**Settlement Amount**");

    b. The Settlement Amount shall be paid first by way of Husky's exercise of its claim to set-off as against the May and June production revenues. The balance of the Settlement Amount shall be paid in cash (the "**Residual Balance**") by Bow River to Husky;

    c. Husky shall pay the July production revenues to Bow River in the ordinary course in August;

    d. Husky shall consent to the assignment of the May 16, 2017 seismic license agreement (the "**Seismic License Agreement**") between the parties to a third party purchaser who is selected as a winning bid by Bow River through the SISP, without payment of any transfer fee; and

    e. The Settlement Agreement is subject to the approval of the Court.

18. The Monitor is of the view that the Settlement Agreement is reasonable and appropriate for the following reasons:

    a. The Settlement Amount is reasonable in relation to the amounts owing between the parties and the Residual Balance can be paid by Bow River immediately subsequent to Court approval of the Settlement Agreement through the contemplated interim financing;

    b. All existing and potential claims of Husky in its capacity as the first secured creditor of Bow River will be extinguished such that the Company's second secured creditors (the "**Debentureholders**") are able to submit the Stalking Horse APA as part of the proposed SISP, with a view to attempting to maximize the value realized from the SISP;

c. The costs, uncertainty and time constraints associated with potentially having to litigate one or more of the various matters with Husky are avoided;

d. A gross overriding royalty on many of the Company's assets is eliminated, which Management believes improves the overall marketability of those assets in the proposed SISP; and

e. The Seismic License Agreement can be transferred to a successful purchaser, again with a view to attempting to maximize the value realized from the SISP.

19. Husky has requested that the Settlement Agreement be sealed on the basis that it contains confidential information in relation to the Settlement Amount, such that Bow River will be seeking a sealing order in respect thereof. The Monitor is satisfied that it is appropriate in the circumstances for Confidential Exhibit "1" to be sealed subject to further Order of the Court.

FINANCIAL PERFORMANCE

20. In advance of the Initial Application, Management prepared a consolidated 13 week cash flow forecast (the "**Initial Forecast**") in respect of the period through to August 21, 2020 (the "**Initial Forecast Period**"), a copy of which was appended as Exhibit "J" to the May 29, 2020 Affidavit of Daniel Belot filed in the Proceedings.

21. A variance analysis of the Company's actual receipts and disbursements since the Filing Date through to July 10, 2020 versus the corresponding period in the Initial Forecast is set out in the following table:

BOW RIVER ENERGY LTD.

Financial Results
UNAUDITED
$CAD

	Forecast	Actual	Variance
	June 1 to July 10, 2020		
Opening cash	3,150,340	3,098,256	(52,084)
Cash Inflows			
Gross oil and gas sales	876,668	492,093	(384,575)
Receivables	150,000	26,084	(123,916)
	1,026,668	518,176	(508,492)
Cash Outflows			
Operating Disbursements:			
Operating	1,548,702	600,098	(948,604)
Transportation	99,750	80,795	(18,955)
Royalties	-	-	-
Leases	274,773	280,453	5,680
G&A	232,476	167,503	(64,973)
Capital	-	-	-
Other	-	-	-
Financing Disbursements:			
Debentures	-	-	-
Interim financing	-	-	-
Restructuring Costs:			
Professional fees	250,000	91,169	(158,831)
Sales process	50,000	15,750	(34,250)
	2,455,701	1,235,767	(1,219,934)
Net Cash Flow	*(1,429,033)*	*(717,591)*	*711,443*
Ending cash	*1,721,307*	*2,380,665*	*659,359*

22. The Company experienced negative cash flow of $717,591 from the Filing Date through to July 10, 2020, which resulted in a favourable overall variance of approximately $711,443 in comparison to the cash flows predicted in the Initial Forecast. The Monitor offers the following comments in respect of certain of the above noted individual line item variances:

a) The opening cash balance was approximately $52,000 lower than forecast due to higher than anticipated operating expense payments in the week prior to the Filing Date;

b) Oil and gas sales revenue was approximately $385,000 lower than forecast due to Husky's exercise of its claim to set-off as against May production revenues in relation to the PRFA;

c) Accounts receivable collections were approximately $124,000 lower than forecast, as a major partner of BRE failed to pay amounts owing due to certain disputes, which the Company continues to attempt to address;

d) The Company paid approximately $950,000 less in operating expenses and $65,000 less in general administrative expenses than respectively forecasted. This is almost entirely related to timing differences, as many of the Company's suppliers did not require payments up front to the extent anticipated. These timing differences are expected to reverse in the future;

e) The Company paid approximately $160,000 less in professional fees related to its restructuring than had been forecasted. This is related to timing differences based on the timing of invoices issued by the restructuring professionals and work completed and is expected to reverse in the near future; and

f) Certain fees of the sales advisor will be addressed after the proposed SISP is completed.

UPDATED CASH FLOW FORECAST

23. Management has prepared an updated cash flow forecast for the period July 11 to October 16, 2020 (the "**Updated Forecast**"), a copy of which is attached as Exhibit "B" to Affidavit No. 3. The Updated Forecast can be summarized as follows:

BOW RIVER ENERGY LTD.
UNAUDITED
$CAD

	Forecast (Jul 11 – Oct 16, 2020)
Opening cash	2,389,641
Cash Inflows	
Gross oil and gas sales	3,137,730
Receivables	40,000
	3,177,730
Cash Outflows	
Operating	3,696,619
Transportation	150,000
Royalties	267,882
Leases	405,476
G&A	742,331
Capital	-
Other	210,220
Financing Disbursements:	
Debentures	-
Interim financing	(710,000)
Restructuring Costs:	
Professional fees	494,048
Sales process	-
Total Cash Outflows	5,256,576
Net Cash Flow	(2,078 845)
Ending cash	310 795

24. The Monitor has reviewed the reasonableness of the Updated Forecast in accordance with section 23(1)(b) of the CCAA and wishes to highlight the following significant points:

    a. Management has forecast negative cash flow of approximately $2,078,845 from operations over the forecast period notwithstanding the Updated Forecast contemplates receipt of $710,000 in interim funding during this period. The terms of the Interim Financing Term Sheet are such that there is more than sufficient availability to satisfy this additional funding requirement;

    b. The Updated Forecast indicates that with the accessibility of the interim funding, the Company will have sufficient funds available to fund its operations until the requested stay extension date to allow it to complete the SISP; and

    c. As set out in the assumptions detailed in the Updated Forecast, and as further discussed in Affidavit No. 3, the Updated Forecast contemplates the deferral of certain mineral lease and surface lease rental payments associated with shut-in wells, which Management does not anticipate will be re-started during the forecast period. With respect to the surface lease deferrals, the Monitor anticipates that the affected landowners may raise concerns; however, the Monitor views the contemplated deferral of such payments as reasonable in the circumstances as lease access by Bow River will be limited where the wells are shut-in. The Monitor also views the deferral of the mineral lease payments as reasonable in the circumstances.

25. Our review consisted of inquiries, analytical procedures and discussions related to information, and assumptions provided to us by Management. Since hypothetical assumptions need not be supported, our analysis thereof was limited to evaluating whether they were consistent with the purpose of the Updated Forecast. We have also reviewed the support provided by Management for the probable assumptions and the preparation and presentation of the Updated Forecast.

26. Based on our review, nothing has come to our attention that causes us to believe that, in all material respects:

    a. The hypothetical assumptions are not consistent with the purpose of the Updated Forecast;

    b. As of the date of this Second Report, the probable assumptions developed by Management are not suitably supported and consistent with the current plans of Bow River or do not provide a reasonable basis for the Updated Forecast, given the hypothetical assumptions; or

    c. The Updated Forecast does not reflect the probable and hypothetical assumptions.

27. The Monitor gives no assurance and makes no representations as to whether the Updated Forecast will be met. The Monitor expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this Second Report that has been provided by the Company. The Updated Forecast has been prepared solely for the purpose described in the notes thereto and readers are cautioned that they might not be appropriate for other uses.

INTERIM FINANCING

28. As set out above, the Updated Forecast now reflects Bow River's requirement for interim financing leading to the Company entering into the Interim Financing Term Sheet with 227, a copy of which is included as Exhibit "C" of Affidavit No.3, the key terms of which are as follows:

    a. Access to interim funding of up to a maximum of $1.1 Million;

    b. Subject to an interest rate of 8% per annum;

    c. Conditional on the Court's approval of the Interim Financing Term Sheet;

    d. Conditional on the granting of the Interim Lender's Charge over the Assets, ranking second in priority only to the Administration Charge; and

    e. Conditional on the Court's approval of the Husky Settlement.

29. The Monitor wishes to note that:

    a. The maximum quantum of the interim facility is based on the assumption of the deferral of payment of certain mineral and surface lease rental payments associated with shut-in wells such that the requirement to pay any such rentals could lead to the need for additional incremental funding; and

    b. The Monitor understands that 227 is partially funded by certain of the Debentureholders.

30. The Monitor is of the view that the terms of the Interim Financing Term Sheet are reasonable and are not dissimilar from interim financing arrangements approved in other proceedings and recommends the approval thereof.

31. In light of Bow River's need for interim funding, the Monitor is of the view that the Interim Lender's Charge as required by 227 is reasonable and appropriate in the circumstances and recommends approval thereof.

SALES AND INVESTMENT SOLICITATION PROCESS

32. In the First Report, the Monitor advised that Bow River had taken preliminary steps with a view towards establishing a SISP including holding discussions with potential candidates in regard to acting as its sales advisor to administer the SISP.

33. Bow River has now developed the SISP and has engaged Sayer Energy Advisors ("**Sayer**") as its Sales Advisor to administer the SISP, subject to approval of this Honourable Court. A copy of the SISP is included as Exhibit "F" to Affidavit No. 3. The significant terms and milestone dates provided for by the SISP are, *inter alia*:;

    a. The Stalking Horse APA, a copy of which is attached as Exhibit "E" to Affidavit No. 3, has been entered into between 227 and the Company, the key terms of which are:

        i. 227 will acquire certain of the Company's assets in the Fleeing Horse and Black Creek areas (the "**Stalking Horse Assets**");

ii. The total purchase price is $4,290,221 of which $4,183,221 will be satisfied by way of partial set-off against Bow River's secured obligations to the Debentureholders. The Debentureholders have entered into an agreement with 227 providing for the assignment of Bow River's obligations to the Debentureholders and the security in relation thereto to 227 subject to the Stalking Horse APA being successful;

iii. A break-fee of $175,000 being approximately 4% of the purchase price; and

iv. Subject to Court approval.

b. Notwithstanding the Stalking Horse APA, all of the Assets are being marketed by the Sales Advisor. The SISP is also soliciting bids for an investment in the Company, through a recapitalization, restructuring or similar arrangement;

c. Final bid deadline of August 24, 2020;

d. The holding of an auction on September 11, 2020, in the event there are any qualified offers from parties that contemplate any of the Stalking Horse Assets and constitute a "Superior Offer" as defined under the SISP; and

e. Bids at the auction may contemplate incremental price increases comprised of cash and or the assumption of deemed liabilities.

34. The terms of the SISP and the Stalking Horse APA were prepared in consultation with the Monitor and the Sales Advisor. The Monitor is satisfied that the SISP and the Stalking Horse APA are commercially reasonable in the circumstances with a view to attempting to maximize the value of Bow River's assets for the benefit of all stakeholders. Further, the Monitor notes that the contemplated Break Fee is not dissimilar from those approved in other proceedings. Consequently, the Monitor recommends approval of the SISP and the Stalking Horse APA.

35. As noted above, Bow River has, subject to Court approval, entered into an engagement letter (the "**Engagement Letter**") with Sayer, a copy of which is attached as Confidential Exhibit "2" of Affidavit No. 3.

36. The Engagement Letter contains commercially sensitive information regarding Sayer's fee arrangement, which Sayer believes the public disclosure thereof could potentially adversely impact its commercial interest in future mandates. The Monitor has reviewed the Engagement Letter and recommends that the Company's request to seal Confidential Exhibit "2" be granted, subject to further order of the Court.

37. The Monitor is supportive of the retention of Sayer and the Engagement Letter and recommends approval thereof for the following reasons:

    a. Sayer is well respected in the oil and gas industry and has extensive experience administering sales processes in formal insolvency proceedings; and

    b. The fee structure contemplated in the Engagement Letter is commercially reasonable in the circumstances and is not dissimilar from those approved in other proceedings.

EXTENSION OF STAY OF PROCEEDINGS

38. The Company will be seeking a further extension of the Stay through to October 16, 2020. The Monitor is of the view that Management continues to act with due diligence and in good faith as reflected by:

   a. Stabilizing the ongoing operations subsequent to the Filling Date;

   b. Participating in ongoing meetings and communications with the Monitor;

   c. Negotiating the Settlement Agreement with Husky;

   d. Addressing the need for interim funding by negotiating the Interim Financing Term Sheet;

   e. Retaining the Sales Advisor and developing the SISP, including the negotiation of the Stalking Horse APA;

   f. Continuing to consider opportunities to reduce costs as evidenced by the issuance of the Disclaimer Notices; and

   g. Cooperated as necessary to prepare for the upcoming Court application.

39. In light of the foregoing, the Monitor is of the view that an extension of the Stay through to October 16, 2020 is appropriate as this date corresponds with the anticipated timing of the completion of the SISP.

RECOMMENDATIONS

40. In light of the above and for the reasons set out in this Second Report, the Monitor is supportive of and recommends to this Honourable Court approval of the following:

   a. An extension of the Stay through to October 16, 2020;

   b. Approval of the Settlement Agreement;

   c. Approval of the Interim Financing Term Sheet and the granting of the Interim Lender's Charge;

d. Approval of the Engagement Letter;

e. Approval of the SISP and the Stalking Horse APA in support of the SISP; and

f. The sealing of Confidential Exhibits "1" and "2" to Affidavit No. 3 subject to further Order of the Court.

All of which is respectfully submitted this 20th day of July 2020.

BDO Canada Limited
in its capacity as Monitor of Bow River Energy Ltd.
and not in its personal or corporate capacity

Per: ______________________
Marc Kelly
Senior Vice President