

District of Alberta
Division 01 - Edmonton
Court No. 24-2579717
Estate No. 24-2579717

TRUSTEE'S PRELIMINARY REPORT

IN THE MATTER OF THE BANKRUPTCY OF **KITNUNA PETROLEUM LTD.**

Formerly carrying on business in the Hamlet of Cambridge Bay, Territory of Nunavut

BACKGROUND

On November 5, 2019, Kitnuna Petroleum Ltd. (the "**Company**") filed an assignment in bankruptcy and Deloitte Restructuring Inc. (the "**Trustee**") was appointed Licensed Insolvency Trustee, subject to affirmation at the First Meeting of Creditors.

Prior to its bankruptcy, the Company stored and delivered fuel in Cambridge Bay, Nunavut (the "**Hamlet**" or "**Cambridge Bay**"). The Company is incorporated under the laws of Nunavut and its directors are David Omilgoitok and John Stevenson (the "**Directors**"). The Company is a wholly owned subsidiary of Kitnuna Corporation, which is a subsidiary of Kitikmeot Corporation, a regional development corporation within Nunavut and the business arm of the Kitikmeot Inuit Association.

Cause of insolvency:

Since 2000, most of the Company's revenues were derived from a fuel storage and delivery contract with the Petroleum Products Division ("**PPD**") of the Government of Nunavut to store and deliver fuel within the Hamlet. However, in 2015, the Government of Nunavut built a new tank farm to supply and store fuel for the Hamlet. The Company did not replenish its fuel stores in 2015 in anticipation of the new tank farm taking over for the Company. However, the Company continued to have obligations under a delivery contract with the PPD, for which it needed to purchase fuel from the PPD.

The Company serviced the fuel delivery contract until January 2019. The fuel delivery contract was not profitable, and as a result, the Company was only able to satisfy its obligations to its secured lender, while its trade obligations, most notably fuel purchases from the PPD, accumulated. In addition, while the Company benefited from the fuel storage and delivery contract, it subsidized the operating losses of related companies, and was therefore undercapitalized. With no viable business, and significant environmental remediation obligations, the Company was rendered insolvent, and made a voluntary assignment in bankruptcy.

Notice to reader

In developing this report, the Trustee has relied upon unaudited financial information prepared by the Company's management ("**Management**"), the Company's books and records, and discussions with Management. The Trustee has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the information in a manner that would wholly or partially comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountants of Canada Handbook. The Trustee expresses no opinion or other form of assurance with respect to the accuracy of any financial information presented in this report, or relied upon by the Trustee in preparing this report.

The Trustee may refine or alter its observations as further information is obtained or brought to its attention after the date of this report. The Trustee assumes no responsibility or liability for any loss or damage occasioned by any party as a result of the circulation, publication, reproduction, or use of this report. Any use which any party makes of this report, or any reliance or decision to be made based on this report, is the sole responsibility of such party.

All amounts included herein are in Canadian dollars unless otherwise stated.

SECTION A – ASSETS

Class I – Inventory

No inventory was disclosed by the Company on its Statement of Affairs. Management has advised the Trustee that the Company has sustained itself on its fuel reserves for the past year, and only sludge remains in Company owned fuel tanks.

Class II – Plant, Machinery and Equipment and Office Equipment

Upper Tank Farm

The upper tank farm is shown on the Statement of Affairs with a value of \$1. The upper tank farm is situated on Company owned land. The Trustee's understanding is that the tanks are not certified to be operable, and there will be a cost to decommissioning the tanks in compliance with applicable regulations.

Lower Tank Farm

The lower tank farm is shown on the Statement of Affairs with a value of \$1. The lower tank farm is situated on Hamlet and Crown land. The Trustee's understanding is that the tanks are not certified to be operable, and there will be a cost to decommissioning the tanks in compliance with applicable regulations.

Miscellaneous Tanks

There are a number of tanks located on Company owned land, Hamlet land, and Crown land in Cambridge Bay. As with the upper and lower tank farms, the Trustee's understanding is that the tanks are not certified to be operable, and there will be a cost to decommissioning the tanks in compliance with applicable regulations.

Tank regulations

The Trustee has been notified by Environment and Climate Change Canada ("ECCC") that four (4) tanks are located on Crown land, and are subject to federal regulations governing the tanks. The ECCC has not issued an environmental protection compliance order, but has noted compliance issues that require rectification. ECCC has requested that the Trustee develop a plan to become compliant with the relevant regulations, and has agreed to provide the Trustee with a list of issues to be addressed. The Trustee has had preliminary discussions with an environmental consultant to assess the scope and cost of these issues.

Class III – Building and Real Estate

The Company owns buildings and lands situated in the Hamlet as shown below.

Building name	Land ownership (Note 1)	Value (\$) (Note 2)	Status (Note 3)
<i>Small garage 1</i>	Company	300,000	Leased
<i>Small garage 2</i>	Company	400,000	Leased
<i>Upper Tank Farm Land</i>	Company	1	Vacant
<i>Main Office</i>	Crown	1,300,000	Vacant
<i>Old Bunkhouse</i>	Hamlet	500,000	Vacant
<i>Carpenter Shop</i>	Hamlet	200,000	Vacant
<i>Metal Sheet Shed</i>	Unknown	100,000	Vacant
<i>Silver Shed</i>	Hamlet	300,000	Leased
<i>Triplex</i>	Hamlet	1,200,000	Leased

<i>Store</i>	Hamlet (encroachment onto Company land)	2,000,000	Leased
<i>Repair Garage</i>	Hamlet (encroachment onto Company land)	2,000,000	Leased
<i>Staff Residence</i>	Crown	400,000	Leased
<i>Modular building (Note 4)</i>	Hamlet	1	Vacant
<i>Blue building (Note 4)</i>	Hamlet	1	Vacant
Total		8,700,003	

Notes:

1. *The land ownership is the Trustee's understanding from discussions with Management. The Trustee has recently been in contact with the Hamlet, and the Hamlet advised that it has conducted a survey. The Trustee review land titles, and will work with the Hamlet to clarify land ownership.*
2. *Value per Management estimate on Statement of Affairs.*
3. *Buildings denoted as leased were leased out by the Company prior to the date of bankruptcy. The leases continue in bankruptcy, and will be evaluated in concert with an eventual sale process. The tenants have been notified that rent payments are to be made to the Trustee. The Trustee has been made aware that a tenant's lease term has expired for a portion of the Main Office, but the tenant continues to occupy the space. The Trustee will evaluate the merit of renewing a lease with the tenant.*
4. *Smaller structures inadvertently omitted from the Statement of Affairs.*
5. *Tenants are responsible for all utilities. The Trustee has arranged for continued utilities and fuel at the vacant locations.*

Class IV – Books and Records

The books and records are being stored at the Company's office located at 10 Omilik Road, Cambridge Bay. The Company has delivered to the Trustee an electronic backup of the Company's accounting records, GST and tax returns, bank statements, information to assist in the collection of accounts receivable, financial statements, and general ledgers for 2020 year to date, 2019, and 2018. The Company has a September yearend.

Class V – Other Assets

Motor vehicles

The Company disclosed on its Statement of Affairs one 2007 Chevrolet Silverado with a value of \$4,500. The vehicle has been parked, and is not in operation.

Accounts Receivable

The Company disclosed on its Statement of Affairs accounts receivable totalling \$1,285,665, of which approximately \$803,555 is considered collectible by Management. The Trustee has notified all customers of the bankruptcy proceedings, and has directed that payments be made to the Trustee.

2019 Tax refund

The Company disclosed on its Statement of Affairs a tax refund receivable for the 2019 year in the sum of \$14,028.

2019 GST refund

The Company disclosed on its Statement of Affairs a GST refund receivable for the 2019 year in the sum of \$50,259.

Cash

The Company disclosed on its Statement of Affairs cash on hand in the amount of \$362,716. The Trustee contacted the Royal Bank of Canada ("RBC") to request the funds and is now in receipt of \$354,827. RBC has set the Company's bank account to deposit only to capture any post-bankruptcy deposits.

SECTION B – CONSERVATORY AND PROTECTIVE MEASURES

To date, Management has cooperated with the Trustee, and the Trustee has agreed to utilize staff employed by related companies for certain activities. The related companies will bill and invoice the estate on an hourly rate basis for the time they spend assisting the Trustee.

To date, the employees have assisted the Trustee in performing the following activities:

- Receiving the Company's mail, and depositing payments to the RBC bank accounts;
- Monitoring the Company's assets including, but not limited to, walkthroughs of vacant buildings, dipping fuel tanks, and periodic drive by inspections of the tank farms;
- Securing the keys and registration for the motor vehicle;
- Posting notice of the bankruptcy on vacant buildings;

- Changing locks on vacant buildings; and
- Providing general guidance as necessary.

The Trustee has contacted the Company's insurance broker and requested that the Trustee be added to the Company's property, vehicle, commercial general liability, and pollution insurance policies as a named insured and loss payee. The Company's insurance premiums were paid up to date prior to the bankruptcy, and the insurance expires on November 30, 2019. The Trustee will evaluate the coverage and cost to maintain the Company's existing policies.

SECTION C – LEGAL PROCEEDINGS

Due to the complexity of these proceedings, the Trustee anticipates that consultation with legal counsel will be necessary to provide ongoing legal advice and support in respect of matters such as reviewing claims in the estate, environmental matters, commercial leases, and an eventual sale process.

SECTION D – PROVABLE CLAIMS

The Company declared \$5,527,157 of unsecured claims, and no preferred creditors, on its Statement of Affairs.

The largest claim declared by the Company, in the amount of \$5,500,331, is due to the Government of Nunavut (the "GN"). The GN has filed a proof of claim with the Trustee in the amount of approximately \$5,800,965.

No other claims have been filed with the Trustee as of the date of this report.

SECTION E – SECURED CREDITORS

The Trustee is unaware of any secured creditors as of the date of this report.

The Trustee performed a Personal Property Registry Search, which showed no registrations. The Trustee is not aware of any secured wage claims. Management advised the Trustee that all employees were fully paid and terminated, prior to the bankruptcy filing.

SECTION F – REALIZATION AND PROJECTED DISTRIBUTION

Due to the uncertainty of realization of the Company's assets, the Trustee is unable to provide any estimated realizations and recoveries to the creditors at this time.

SECTION G – REVIEWABLE TRANSACTIONS AND PREFERENCE PAYMENTS

The Trustee will conduct a review for preference payments and transfers at under value in due course.

SECTION H – OTHER MATTERS

Environmental matters

In addition to the tank compliance issues noted with the ECCC, the Trustee understands from Management that two fuel spills occurred in 2013 and June 2019 on or near the Company's land, resulting in soil and water contamination that may have discharged into the ocean. There is no immediate concern at this time as any running water that would carry contamination is frozen in the winter months.

The Trustee's understanding is that the cleanup is not complete, and there will likely be additional action required. The estate will receive reimbursement from the Company's insurer to a maximum of \$100,000 for the expenses incurred to perform the cleanup. The Trustee has had preliminary discussions with an environmental consultant to assess the situation, but understands that no environmental protection compliance orders have been issued at the date of this report.

Bond

The Official Receiver has requested that the Trustee post security for the estate in the sum of \$5,000,000. The Trustee has obtained a bond in the requisite amount as security.

Dated at the city of Edmonton, in the Province of Alberta, this 24th day of November, 2019.

DELOITTE RESTRUCTURING INC.

In its capacity as Licensed Insolvency Trustee of the Estate of
Kitnuna Petroleum Ltd., in bankruptcy,
And not in its personal capacity.



Darren M. Crocker, CPA, CGA, CIRP, LIT
Senior Vice-President