

COURT FILE NUMBER 25-2101174

COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

IN THE MATTER OF THE PROPOSAL OF GAMET
RESOURCES LTD.

DOCUMENT SECOND REPORT OF THE PROPOSAL TRUSTEE

ADDRESS FOR SERVICE
AND CONTACT
INFORMATION OF PARTY
FILING THIS DOCUMENT

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INTRODUCTION

1. Ernst & Young Inc. ("EYI") the proposal trustee (the "Trustee"), under the Notice of Intention to Make a Proposal ("NOI") filed by Gamet Resources Ltd. ("Gamet") on March 18, 2016, provides this second report to the Court pursuant to paragraph 50.4(7)(b) of the *Bankruptcy and Insolvency Act* ("BIA").

BACKGROUND

2. Gamet is a private company incorporated under the laws of the Province of Alberta on August 8, 2007 and is headquartered in Calgary, Alberta. Gamet is engaged in the exploitation for and development and production of oil and natural gas primarily in west central Alberta.
3. The Company operates a gas plant near Innisfail, Alberta and has approximately 70 wells, of which 30 are currently active and producing, 17 are shut in due to low commodity prices, 11 are Gross Overriding Royalties, eight are abandoned awaiting reclamation certificates and the remainder are awaiting abandonment. Gamet has significant land inventory of approximately 26,000 net acres.
4. The active wells are producing approximately 326 Barrels of Oil Equivalent per day of which 30% is oil and natural gas liquids and the balance is natural gas.
5. As commodity prices declined over the past year and a half, Gamet's financial performance deteriorated. Management undertook various actions to reduce its monthly cash outlays by making significant reductions in both operating expenses and general administrative expenses.

6. Unfortunately commodity prices continued to deteriorate and Gamet was unable to meet its ongoing liabilities and had neared its operating loan limit. Gamet entered into discussions with its lender and it became clear Gamet needed to file a Notice of Intention to Make a Proposal to obtain protection from its creditors and to provide it with an opportunity to sell some or all of its assets.

ONGOING MATTERS

7. Since the NOI was filed on March 18, 2016 Gamet has continued its operations in the normal course, has continued to assess its costs and has taken steps to reduce those costs where possible.
8. Several of Gamet's creditors have been in contact with the Trustee to discuss their claims. The Trustee served notice of the NOI on Gamet's creditors, and advised creditors they would be notified following the filing of a proposal or Gamet obtaining an extension of time for filing a proposal. Other than Gamet's lender, no creditor has requested to be notified of applications to be made in these proceedings.
9. Gamet, with the assistance of the Trustee, filed a cash flow projection on March 28, 2016 with the Official Receiver as required under the BIA. An updated cash flow projection as at April 13, 2016 was filed with the first report of the trustee. A copy of that cash flow projection is attached as Appendix "A" to his Second Report. An updated cash flow projection as at May 29, 2016 is attached as Appendix "B".

10. As the cash flow projection is based on future events, actual results will vary and the variation may be material. There are some variances between the April 13 and May 29, 2016 cash flow projections which mainly relate to revenues as a result of a decrease in the price of natural gas. There have been no material changes in Gamet's monthly expenses.
11. Since filing the NOI, and obtaining an extension for filing a proposal, Gamet's management have been and/or are actively engaged in:
 - i. reviewing ongoing operating expenses and assessing opportunities to reduce those expenses;
 - ii. working closely with the Trustee to address creditor enquiries; and
 - iii. retained Sayers Energy Advisors ("Sayer") to act as an exclusive financial advisor to undertake strategic alternatives in consideration of a sale, merger or other type of business combination in respect of the sale or farmout of some or all of its assets.
12. Sayer commenced its marketing of Gamet's assets and pursuit of other types of business combinations on April 15, 2016. A virtual data room was established which contains significant information in respect of Gamet's oil and natural gas properties as well as financial information.
13. Sayer has provided the Trustee with weekly updates of its marketing process. As of Sayer's last update, there were 29 confidentiality agreements executed. Sayer advises it is pleased with the response to its marketing process and the activity of the interested parties in visiting the virtual data room. Gamet has provided additional information to Sayer as and when requested. The bid deadline is Thursday May 26, 2016.
14. The Trustee was advised that Gamet expected to receive a Stalking Horse Offer for its assets. Unfortunately, such an offer was not forthcoming.

EXTENSION APPLICATION

15. Gamet is not presently in a position to complete a proposal to its creditors, and requires an extension of time under section 50.4(9) of the BIA within which it may file its proposal. The timing of any proposal is dependent on the marketing of Gamet's business and assets by Sayer. Once bids are received on May 26, 2016 it will likely take prospective bidders 30 days or more to complete their due diligence and for Gamet to formulate a proposal to its creditors once the due diligence is completed.
16. The Trustee is satisfied, on the information it has received and Gamet's active participation in the Sayer sales process, that Gamet has conducted itself and continues to conduct itself in good faith and with due diligence. So far as the Trustee is aware, Gamet has complied with all its duties under the BIA.
17. The Trustee is also satisfied that it is likely Gamet will be able to make a viable proposal if the extension being applied for is granted and Sayer, its financial advisor, has the opportunity to conclude the sale process of either assets or other strategic alternative. The Trustee is satisfied that no creditor would be materially prejudiced if the extension being sought by Gamet is granted.
18. The Trustee understands that the secured lender supports the extension.

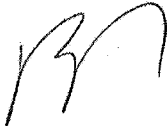
SUMMARY

19. The Trustee supports the application of Gamet for an extension of time within which it may file its proposal to July 15, 2016.

* * *

All of which is respectfully submitted this 26th day of May, 2016.

ERNST & YOUNG INC.
IN ITS CAPACITY AS TRUSTEE IN THE PROPOSAL OF
GAMET RESOURCES LTD. AND NOT IN ITS PERSONAL CAPACITY

A handwritten signature in black ink, appearing to be 'RJT', written in a cursive style.

Per: Robert J. Taylor FCA, CIRP

GAMLET RESOURCES LTD.
 13 Week Cash Flow (with actual results to April 13, 2016)
 For the Periods March 14 to July 17, 2016
 \$ CDN

	Actual	17-Apr-16	24-Apr-16	1-May-16	8-May-16	15-May-16	22-May-16	29-May-16	5-Jun-16	12-Jun-16	19-Jun-16	26-Jun-16	3-Jul-16	10-Jul-16
	March 18 to April 13	1	2	3	4	5	6	7	8	9	10	11	12	13
REVENUE														
Week Beginning														
OIL SALES	47,626	28,892	34,577	30,184	46,330	46,330	44,107							
GAS SALES	79,900	46,330												
LIQUIDS & Other	16,924	38,598												
Total Revenue	139,460	113,220	0	0	0	125,004	0	0	0	0	115,662	0	0	0
Total Royalties		1,000												12,100
Operating Expenses														
CONTRACT OPERATOR	20,436	19,050	19,050	19,050	19,050	19,050	19,050	19,050	19,050	19,050	19,050	19,050	19,050	19,050
TRUCKING	8,551	8,750	0	0	0	0	0	0	0	0	0	0	0	0
GAS PROCESSING	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PROPERTY TAXES	0	0	0	0	0	0	0	0	0	0	0	0	0	0
PROV REGULATORY FEES	0	0	0	0	0	0	0	0	0	0	0	0	0	0
SURFACE LEASES - FREENOLD + CROWN	15,450	16,463	13,421	13,421	13,421	13,421	13,421	13,421	13,421	13,421	13,421	13,421	13,421	13,421
MINERAL LEASES - CROWN + FREENOLD	4,308	2,560	2,560	2,560	2,560	2,560	2,560	2,560	2,560	2,560	2,560	2,560	2,560	2,560
OTHER Opex	3,873	9,018	9,018	9,018	9,018	9,018	9,018	9,018	9,018	9,018	9,018	9,018	9,018	9,018
Total Operating Expenses	52,577	0	55,841	0	0	0	58,051	0	0	0	124,953	0	0	0
G&A														
SALARIES & BENEFITS (consultants)	41,543	25,602	13,840	24,602	13,840	13,840	24,602	13,840	13,840	13,840	13,840	13,840	13,840	13,840
RENT	12,044	6,485	6,485	6,485	6,485	6,485	6,485	6,485	6,485	6,485	6,485	6,485	6,485	6,485
SOFTWARE (land, accounting, J18 link)	3,381	1,767	1,767	1,767	1,767	1,767	1,767	1,767	1,767	1,767	1,767	1,767	1,767	1,767
OTHER G&A	56,588	25,602	11,485	11,485	18,840	18,840	24,602	11,485	11,485	18,840	0	36,007	0	18,840
Total G&A	113,556	69,156	33,377	44,641	39,112	39,112	44,641	33,377	33,377	39,112	0	58,279	0	30,912
Total Expenses	166,133	69,156	89,218	44,641	78,252	78,252	89,218	71,717	71,717	78,252	124,953	58,279	138,840	30,912
Operational Weekly Cash Change														
Operational Weekly Cash Change	156,640	39,602	99,826	18,840	18,840	18,840	24,602	151,536	151,536	151,536	115,662	203,140	203,140	18,840
Weekly Cash Change														
Weekly Cash Change	362,689	74,318	-99,826	-18,840	-18,840	-18,840	100,412	-151,536	-151,536	-151,536	115,662	-203,140	-203,140	-18,840
Beginning Loan Balance	5,120,000	4,775,491	4,701,173	4,800,999	4,819,838	4,819,838	4,819,838	4,719,426	4,870,962	4,870,962	4,889,802	4,774,160	4,977,300	4,977,300
Ending Loan Balance	4,775,491	4,775,491	4,800,999	4,819,838	4,819,838	4,819,838	4,719,426	4,870,962	4,870,962	4,889,802	4,774,160	4,977,300	4,977,300	4,996,140
Prior Forecast	4,732,609	4,737,742	4,606,453	4,761,456	4,761,456	4,769,805	4,635,569	4,831,788	4,831,788	4,856,281	4,856,281	4,856,281	4,856,281	4,856,281
Loan Balance - Higher (Lower)	42,882	37,749	94,720	39,543	58,382	56,033	83,857	39,175	39,175	33,522	(82,120)	121,019	121,019	121,019

Refer to accompanying notes.

GAMET RESOURCES LTD.
13 Week Cash Flow (with actual results to April 13, 2016)
For the Periods March 14 to July 17, 2016
\$ CDN

Revenue

- 1 March revenue is based on actual February prices obtained. Revenue for future periods is based on Gamet's production forecast of all wells currently on production and current spot prices. Monthly fluctuations are based on Gamet's best estimates.

Royalties

- 2 Royalties comprise crown, gross overriding royalties and freehold royalties. The amounts are based on past experience and taking into consideration the "stay" provided by the *Bankruptcy and Insolvency Act* ("BIA").

Operating Expenses

- 3 Operating expenses are based on past experience and taking into consideration the "stay" provided pursuant to the BIA.

General & Administrative

- 4 General and Administrative expenses are based on past experience and mainly comprise salaries and benefits, office rent and insurance. Vacation pay is being paid with regular salary. Rent comprises rent due for part of March and all of April.

Professional fees

- 5 Professional fees include the retention of Sayer Energy Advisors to market Gamet's assets and the fees of the Trustee Ernst & Young Inc. and Gamet's legal counsel.

Loan Balance

- 6 The loan balance as compared to the 13 week cash flow filed on March 28, 2016 is higher than projected mainly due to the deterioration of natural gas prices and some timing differences in respect of certain expenditures. Well production has remained constant.

GAMET RESOURCES LTD.
13 Week Cash Flow
For the Periods May 29 to August 21, 2016

	Week Beginning												
	29-May-16	5-Jun-16	12-Jun-16	19-Jun-16	26-Jun-16	3-Jul-16	10-Jul-16	17-Jul-16	24-Jul-16	31-Jul-16	7-Aug-16	14-Aug-16	21-Aug-16
	1	2	3	4	5	6	7	8	9	10	11	12	13
\$ CDN	12,000												
REVENUE													
OIL SALES	147,909			41,850					41,850				40,500
GAS SALES	160,620			37,850					37,850				37,290
LIQUIDS & Other	81,338			36,890					36,890				37,950
Total Revenue	389,867	0	0	116,690	0	0	0	0	116,690	0	0	0	115,740
Total Royalties	12,100												
Operating Expenses	12,100												
CONTRACT OPERATOR	56,039		19,050				19,050					19,050	
TRUCKING	22,868				10,750				10,750				10,750
GAS PROCESSING	0	15,524			26,342				26,342				26,342
PROPERTY TAXES	0	13,000			42,100				11,000				3,550
PROV REGULATORY FEES	3,293	14,122		0	0				0				0
SURFACE LEASES - FREEHOLD + CROWN	36,242	11,941		15,510	7,500				2,183				5,100
MINERAL LEASES - CROWN + FREEHOLD	6,361	6,496		2,183	2,183				2,183				2,183
OTHER Opex	21,800	12,500		13,000	9,018				9,018				9,018
Total Operating Expenses	146,603	82,483	19,050	109,885	0	19,050	0	66,793	0	19,050	0	19,050	56,943
G&A	12,100												
SALARIES & BENEFITS (consultants)	106,070	20,340		24,602			18,840		24,602			18,840	24,602
RENT	5,559	6,485		6,485			6,485		6,485				6,485
SOFTWARE (land, accounting, JIB link)	2,848	1,747					1,747					1,747	
OTHER G&A	12,207	3,253		3,253					3,253				3,253
Total G&A	126,683	33,825	1,747	33,825	0	34,340	0	20,587	0	34,340	0	20,587	34,340
Total Expenses	273,286	116,308	20,797	143,710	0	53,390	0	87,380	0	53,390	0	39,637	91,283
Operational Weekly Cash Change	116,581	-20,340	-20,797	116,690	-186,325	0	-39,637	0	-26,963	0	-39,637	0	-17,543
COLUMBIA SALE	0												
Weekly Cash Change	116,581	-20,340	-20,797	116,690	-186,325	0	-39,637	0	-26,963	0	-39,637	0	-17,543
Beginning Loan Balance	5,120,000	4,698,706	4,852,927	4,853,267	4,874,064	4,757,374	4,943,698	4,983,335	4,983,335	5,010,298	5,010,298	5,049,935	5,049,935
Ending Loan Balance	4,698,706	4,832,927	4,853,267	4,874,064	4,757,374	4,943,698	4,983,335	4,983,335	5,010,298	5,010,298	5,049,935	5,049,935	5,067,578

GAMET RESOURCES LTD.

13 Week Cash Flow

For the Periods May 29 to August 21, 2016

\$ CDN

Revenue

- 1 Revenue's to May 28, 2016 are based on actual sales prices obtained. Revenue for future periods is based on Gamet's production forecast of all wells currently on production and current spot prices. Monthly fluctuations are based on Gamet's best estimates.

Royalties

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