

COURT FILE NUMBER 24-2252839 AND 24-2252841

COURT IN THE COURT OF QUEEN'S  
BENCH OF ALBERTA  
IN BANKRUPTCY AND  
INSOLVENCY  
JUDICIAL DISTRICT OF  
EDMONTON



IN THE MATTER OF THE  
NOTICE OF INTENTION TO  
MAKE A PROPOSAL OF  
DECHEN GP CORPORATION

**-AND -**

IN THE COURT OF QUEEN'S  
BENCH OF ALBERTA  
IN BANKRUPTCY AND  
INSOLVENCY  
JUDICIAL DISTRICT OF  
EDMONTON

IN THE MATTER OF THE  
NOTICE OF INTENTION TO  
MAKE A PROPOSAL OF  
DECHEN LIMITED  
PARTNERSHIP

DOCUMENT **PROPOSAL TRUSTEE'S  
SECOND REPORT TO COURT  
DATED July 7, 2017**

ADDRESS FOR  
SERVICE AND  
CONTACT  
INFORMATION OF  
PARTY PREPARING  
THIS DOCUMENT Bishop & McKenzie LLP  
Jerritt Pawlyk  
Suite 2300, 10180 – 101 Street  
Edmonton, AB T5J 3S4  
Telephone: (780) 421.2477  
Facsimile: (780) 426.5550

**Introduction and Purpose of the Report**

1. Dechen GP Corporation ("Dechen GP") and Dechen Limited Partnership ("Dechen LP") (collectively as "Dechen" or the "Company") filed a Notice of Intention to Make a Proposal ("NOI") on May 17, 2017 and MNP Ltd. consented to act as Proposal Trustee. The Trustee issued a copy of the NOI to all known creditors on May 19, 2017.

2. The Projected Cash Flow Statement (the "Cash Flow") was prepared and filed on May 26, 2017 together with the Trustee's Report on Projected Cash Flow Statement and the Report on Projected Cash Flow Statement by the Person Making the Proposal.
3. In accordance with a June 15, 2017 Court Order (the "June 15 Order") Dechen was granted a thirty day extension to file a Proposal. A copy of the June 15 Order is attached as **Schedule A**.
4. The Trustee has prepared this Trustee's Second Report to Court (the "Second Report") in order to provide the Court with a background of Dechen, details with respect to Dechen's post filing activities and as a Report under Section 50.4(7)(b)(ii) of the *Bankruptcy and Insolvency Act* ("BIA"). The Second Report should be read in conjunction with the Trustee's First Report to Court dated June 9, 2017 (the "First Report").
5. It is the Trustee's view that Dechen will not be in a position to file a definitive Proposal by July 16, 2017 being the deadline to file a Proposal pursuant to a June 15 Order.

#### **Post Filing Activities**

6. Dechen ceased operating in or around early April, 2017 and has not carried on any operations since filing the NOI.
7. The Company has complied with providing the Trustee with the required financial information for the period ending June 28, 2017. As Dechen has not been operating during the NOI period the financial activity has been minimal.
8. The Trustee has confirmed that the insurance premium due June 14, 2017 referenced in the First Report was paid.
9. The Company has provided the Trustee with monitoring information showing transactions for the period of April 28, 2017 to June 28, 2017. Based on the information provided, the balance available in the account as of June 28, 2017, is \$3,418.31.
10. A copy of the Trustee's analysis of actual versus projected Cash Flow is attached as **Schedule B**.
11. Dechen projected to collect approximately \$415,000 in Accounts Receivable ("AR") due from Cenovus Energy Inc. ("Cenovus") during the week of June 4 – 10 comprised of \$145,000 in invoiced amounts and approximately \$270,000 in Work-in-Progress ("WIP"). Due to subcontractor liens being filed in relation to the outstanding amounts Cenovus has not been in a position to remit payment.
12. Dechen projected to collect approximately \$525,000 during the week of June 18 – 24 as sale proceeds from capital assets. The Company has not sought Court approval to sell assets outside the normal course of business and has not sold any assets during the NOI period.
13. The failure to collect outstanding AR (and WIP) and complete the sale of assets as projected is considered a material change by the Trustee, however, as there are minimal expenses projected and on the assumption that the insurance premiums are paid by a related third party the Trustee has not considered it adverse and as such has not filed a Material Adverse Change Report at this time.
14. The July 2017 insurance premium payment was due July 1, 2017 and based upon the information provided to the Trustee funds were not available to remit payment. A related third

party has confirmed to the Trustee that it will fund \$50,000 to Dechen's counsel's trust account to cover priority expenses including the insurance premiums.

15. Counsel for Cenovus has advised Dechen that subcontractor liens filed exceed the value of outstanding amounts currently payable to Dechen and as such payment will not be remitted.
16. Subsequent to filing the First Report, Cenovus has advised Dechen of additional subcontractor liens being filed where the current total value of the filed liens is approximately \$775,000. Counsel for the Company has advised that the liens have not yet been reviewed to determine their validity. A copy of the correspondence from counsel for Cenovus to Dechen is attached as **Schedule C**.
17. Subsequent to the filing of the First Report a former employee of Dechen contacted the Trustee advising that he was in possession of the information required to complete the final billings to Cenovus which he estimates to be approximately \$1.0 million. Dechen has retained the services of the former employee to assist with completing the final invoicing.
18. Upon further review of the supporting documentation in relation to the AR referenced in the Projected Cash Flow Statement the Trustee has identified approximately \$48,000 in amounts outstanding invoiced from Dechen to Cenovus. The balance of amounts claimed to be owed by Cenovus to Dechen would be comprised of WIP yet to be invoiced. The Company advises that the supporting data for the WIP is in the possession of the former employee recently retained to assist with the final billing.
19. Assuming the estimated value of amounts to be invoiced is correct, in Dechen's opinion total amounts payable by Cenovus to Dechen would be approximately \$1,048,000 which is \$293,000 more than the total filed subcontractor liens.
20. Dechen has provided confirmation of a zero balance for the Goods and Services Tax ("GST") and Corporate Income Tax accounts for Dechen GP Corporation. Confirmation of the status of the remaining CRA accounts for Dechen GP and Dechen LP have not yet been provided to the Trustee.

#### **Amended Cash Flow Statement**

21. Prior to filing the First Report the Trustee advised management that an amended Projected Cash Flow Statement would need to be filed to address the status of collection of the Cenovus AR.
22. The Trustee has made numerous requests to management for an amended Projected Cash Flow Statement, however, as at July 6, 2017 one has not been prepared for the Trustee's Review.
23. The current Projected Cash Flow Statement covers periods up to and including July 29, 2017. A revised Projected Cash Flow Statement should be prepared and filed by the Company covering, at a minimum, the duration of the extension in time to file a Proposal (if granted) up to the potential First Meeting of Creditors.

#### **Equipment Assets**

24. Dechen LP is the sole shareholder of Vidar Mulching Ltd. ("Vidar"); Cold Lake First Nations is the sole shareholder of Lakeland Firewood GP Corporation ("Lakeland GP"); Lakeland GP is the general partner of Lakeland Limited Partnership ("Lakeland LP"), whose shareholders are Lakeland GP and Dechen LP.

25. Management has provided the Trustee with asset listings of Dechen as well as two additional entities involved in the operations of Dechen, Vidar and Lakeland GP and Lakeland LP (collectively as "Lakeland").
26. An equipment appraisal has been completed by Miterra Corp. including all equipment owned by Dechen, Vidar and Lakeland (the "Miterra Appraisal"). Dechen has provided a copy of the Miterra Appraisal to the primary secured creditor Royal Bank of Canada ("RBC").
27. Dechen has issued a request for auction proposals from three auction companies; Ritchie Bros., Century Auctions and Miterra Corp. The auction proposals are to include all of the equipment in the Miterra Appraisal and are to be submitted to Dechen by July 7, 2017.

#### **Debtor in Possession ("DIP") Funding**

28. As mentioned above, a related third party, Cold Lake First Nations ("CLFN") has agreed to advance a sum of \$50,000 to Dechen to cover operating expenses until such time that the Dechen assets can be liquidated. Based on the information available, the monthly insurance premium totals approximately \$13,000. A total of \$39,000 (three months' premiums) will be required to be paid based on the assumption that an auction of the assets will take place in September 2017.
29. In addition to the insurance, the former employee who has agreed to invoice the remaining Cenovus AR has agreed to do so in exchange for a payment of approximately \$8,200. As this employee has intimate knowledge of the Cenovus invoicing, the Trustee believes it is in Dechen's best interest to retain the employee to carry out the invoicing.
30. CLFN has agreed to advance the DIP funding in exchange for a first charge on the Dechen assets in a subordinated position behind the secured debt of RBC.
31. As the invoicing and insurance premiums are critical expenses required to be paid to carry out the liquidation process and maximize return on the assets, the Trustee is of the opinion that the DIP funding is appropriate in the circumstances.

#### **Conclusion**

32. It is the Trustee's opinion that Dechen would not be in a position to file a definitive Proposal by July 16, 2017.
33. Dechen requires additional time to complete the following before a Proposal can be formulated:
  - a. Receive and analyze the auction proposals; and
  - b. Determine the collectability of the AR and the WIP as well as the validity of the subcontractor liens.
34. Based upon the information available to the Trustee (and on the assumption that confirmation is provided by related parties to cover priority payables such as insurance premiums), the Trustee is of the opinion that:
  - a) Dechen has and continues to act in good faith and with due diligence in formulating a Proposal;
  - b) Dechen would likely be able to formulate a viable Proposal if an extension were to be granted; and,
  - c) No creditor will be materially prejudiced if an extension is granted and the Company continues to act in good faith.

35. The Trustee is further of the opinion that Dechen should be required to file an Amended Projected Cash Flow Statement up to September 30, 2017 together with confirmation of ongoing assistance from related third parties to pay priority payables (such as insurance premiums) by July 25, 2017.

All of which is respectfully submitted on this 7<sup>th</sup> day of July, 2017.


**MNP Ltd.**

In its capacity as Proposal Trustee of

**Dechen Limited Partnership and Dechen GP Corporation**

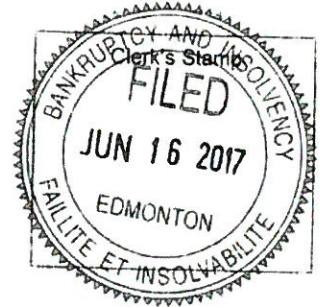
And not in its personal capacity

For  
~~Per:~~

  
Eric Sirrs, CIRP, LIT  
Senior Vice President

COURT FILE NUMBER 24-2252839 AND 24-2252841

COURT IN THE COURT OF QUEEN'S BENCH OF ALBERTA  
IN BANKRUPTCY AND INSOLVENCY  
JUDICIAL CENTRE OF EDMONTON



I hereby certify this to be a true copy of the original.  
*R. P. Wacowich*  
for Registrar In Bankruptcy

IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF DECHEN GP CORPORATION

-AND -

IN THE COURT OF QUEEN'S BENCH OF ALBERTA  
IN BANKRUPTCY AND INSOLVENCY  
JUDICIAL CENTRE OF EDMONTON

IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL OF DECHEN LIMITED PARTNERSHIP

DOCUMENT

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY PREPARING THIS DOCUMENT

ORDER

OGILVIE LLP  
Kentigern A. Rowan, Q.C.  
Ogilvie LLP  
1400, 10303 - Jasper Avenue  
Edmonton, AB T5J 3N6  
Telephone: (780) 429-6236  
Facsimile: (780) 701-5936

File Number: 64586.1/KAR

Service will be accepted by delivery or fax.  
No other form of service will be accepted.

DATE ON WHICH ORDER WAS PRONOUNCED: June 15, 2017

LOCATION WHERE ORDER WAS PRONOUNCED: Edmonton, Alberta

NAME OF REGISTRAR WHO MADE THIS ORDER: R.P. Wacowich

ORDER

UPON THE APPLICATION of Dechen GP Corporation ("Dechen GP") and Dechen Limited Partnership ("Dechen LP") (Dechen GP and Dechen LP are hereinafter collectively referred to as "Dechen"); AND UPON noting that Dechen filed Notices of Intention to Make a Proposal to its

creditors on May 17, 2017; AND UPON reviewing the Affidavit of Tom Piche; AND UPON reading the First Report of the Proposal Trustee; AND UPON hearing counsel for Dechen; AND UPON being satisfied that:

- (a) Dechen has acted and is acting in good faith and with due diligence;
- (b) Dechen will likely be able to make viable Proposals if the extension being requested is granted;
- (c) no creditor of Dechen will be materially prejudiced if the extension being applied for is granted;

IT IS HEREBY ORDERED AND ADJUDGED THAT:

1. Time for service of the notice of the within Application is hereby abridged.
2. The time by which Dechen is to file Proposals to their creditors pursuant to the provisions of the *Bankruptcy and Insolvency Act*, R.S.C. 1985, c.B-7 be and is hereby extended for a period of thirty (30) days.
3. For all future materials or applications, Dechen shall be required only to serve those creditors who provide an email address for service to Ogilvie LLP within 14 days of the date of service of this Order.
4. Service of all future materials or applications on those creditors who do not provide an email address as provided for herein shall be deemed effective by posting the materials or applications on MNP Ltd.'s website at:

<http://mnpdebt.ca/en/corporate/Engagements/dechen-limited-partnership-and-dechen-gp-corporation>

5. The First Report of the Proposal Trustee be and is hereby accepted

  
\_\_\_\_\_  
REGISTRAR OF THE COURT OF QUEEN'S  
BENCH OF ALBERTA IN BANKRUPTCY

ACTUAL VS PROJECTED CASH FLOW FOR DECHEN LIMITED PARTNERSHIP AND DECHEN GP CORPORATION  
FOR THE PERIOD JUNE 4 - JUNE 28

	6 Projection June 4-10	7 Projection June 11-17	8 Projection June 18-24	9 Projection June 25-July 1
<b>REVENUE</b>				
WIP - To be billed	270,000		525,000	
Disposals of assets (estimate)				
<b>TOTAL REVENUE</b>	<b>270,000</b>		<b>525,000</b>	
<b>OPENING CASH BALANCE</b>				
	(1,421,447)	(1,021,947)	(1,022,447)	(497,447)
<b>CASH COLLECTED</b>				
Loan Advance				3,418
Collection of AR from YE	145,000			
Collection of WIP (invoiced after NOI)	270,000			
Equipment Sales				
Misc		20,341		
<b>TOTAL CASH COLLECTED</b>	<b>415,000</b>	<b>20,341</b>	<b>525,000</b>	
<b>CASH DISBURSED</b>				
<b>OPERATING COSTS</b>				
Subcontractors - Accounting	500	500		
<b>TOTAL OPERATING COSTS</b>	<b>500</b>	<b>500</b>		
<b>GROSS PROFIT</b>	<b>269,500</b>	<b>(500)</b>	<b>525,000</b>	
<b>ADMIN COSTS</b>				
Office Wages				
Benefits				
Consultations				
Lodging				
Board Meetings				
Freight				
Insurance	15,000			
Interest on Capital Lease		13,174		
Interest on RBC Loans				
Office Supplies				
Internet expenses				
Motor Vehicle expenses				
Misc				
Rent				
Cell Phone				
Telephone				
Utilities				
<b>TOTAL ADMIN COSTS</b>	<b>15,000</b>	<b>13,174</b>	<b>46</b>	
<b>NET INCOME (LOSS)</b>	<b>254,500</b>	<b>(500)</b>	<b>525,000</b>	<b>(46)</b>
<b>NET CHANGE</b>	<b>389,500</b>	<b>(500)</b>	<b>525,000</b>	<b>(46)</b>
<b>CLOSING CASH BALANCE</b>				
	(1,021,947)	(1,022,447)	(497,447)	(497,447)
<b>OPERATING LINE BEGINNING OF PERIOD</b>				
	(1,421,447)	(1,021,947)	(1,022,447)	(497,447)
<b>OPERATING LINE END OF PERIOD</b>				
	(1,021,947)	(1,022,447)	(497,447)	(497,447)





McCarthy Tétrault LLP  
 Suite 4000  
 421-7th Avenue S.W.  
 Calgary AB T2P 4K9  
 Canada  
 Tel: 403-260-3500  
 Fax: 403-260-3501

**Bryan G. West**  
 Associate  
 Direct Line: (403) 260-3743  
 Direct Fax: (403) 260-3501  
 Email: bwesi@mccarthy.ca

*Assistant: Donna van Eerde*  
*Direct Line: (403) 260-3643*  
*Email: dvaneerde@mccarthy.ca*

June 27, 2017

VIA EMAIL (krowan@ogilvie.com)

Ogilvie LLP  
 1400 Canadian Western Bank Place  
 10303 Jasper Avenue  
 Edmonton AB T5J 3N6

Attention: Kentigern A. Rowan, Q.C.

Dear Sir:

Re: ***Cenovus Energy Inc. ("Cenovus") and Dechen Limited Partnership and Dechen GP Corporation ("Dechen")***

We write in reply to your letter of May 18, 2017. Cenovus does not owe Dechen any outstanding amounts. While Cenovus is aware that Dechen may have unissued invoices in or about the amount of \$113,000; Cenovus's expenses and costs arising directly from Dechen's breaches of contract with Cenovus, including its failure to pay its subcontractors and material supplies, are currently estimated in excess of \$800,000. Accordingly, Cenovus claims full lawful set-off, including under Article 14 of the Master Service and Supply Agreement between Cenovus and Dechen, against any and all amounts claimed by Dechen.

Cenovus confirms that to date the following lien claims have been registered against Cenovus's lands as a result of Dechen's failures:

Filing Date	Lien Claimant	Registration No.	Amount
May 19, 2017	1649608 Alberta Ltd., operating as Ron's Rentals	172123428	\$110,000.00 plus GST interest and costs
April 26, 2017	White Horse Energy – Absolute Multi Corp Ltd	Crown Minerals 1701107 and 1701108	\$371,168.80
April 26, 2017	Absolute Multicorp Ltd.	Crown Minerals 1701109 and 1701110	\$60,868.00
May 1, 2017	Mitchell Bros Excavating	1701148	\$230,371.51, plus interest and costs

mccarthy  
tétrault

page 2

Yours truly,

**McCarthy Tétrault LLP**

Per:



*for* Bryan G. West

BGW:

cc Cenovus Energy Inc.