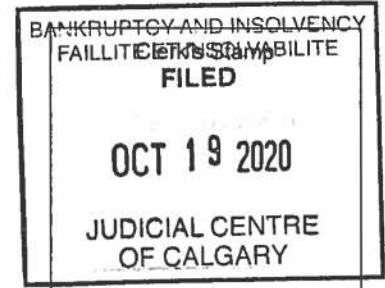




Grant Thornton



COURT FILE NUMBER: **25-2655526**

COURT: **COURT OF QUEEN'S BENCH OF ALBERTA**

JUDICIAL CENTRE: **CALGARY**

IN THE MATTERS OF: **IN THE MATTER OF THE NOTICE OF INTENTION TO MAKE A PROPOSAL UNDER THE *BANKRUPTCY AND INSOLVENCY ACT*, R.S.C. 1985, c. B-3, AS AMENDED, OF CABOT ENERGY INC.**

DOCUMENT: **THIRD REPORT OF THE PROPOSAL TRUSTEE OCTOBER 19, 2020**

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING DOCUMENT

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Appendices

Appendix 1 – Comparison of Projected to Actual Cash Flow

Appendix 2 – Extended Projected Statement of Cash Flow, dated October 15, 2020

Introduction

1. On June 30, 2020 (the "**Filing Date**"), Cabot Energy Inc. ("**Cabot**" or the "**Company**") filed with the Office of the Superintendent of Bankruptcy Canada (the "**OSB**"), a Notice of Intention to Make a Proposal ("**NOI**"), pursuant to the *Bankruptcy and Insolvency Act* ("**BIA**"). Grant Thornton Limited, a Licensed Insolvency Trustee, consented to act as the proposal trustee (the "**Proposal Trustee**").
2. On July 27, 2020, the Court of Queen's Bench of Alberta (the "**Court**") pronounced an Order (the "**First Extension Order**") that, among other things, extended the time for Cabot to file a Proposal with the Official Receiver to and including September 11, 2020, authorized the Company to obtain and borrow a debtor-in-possession credit facility (the "**Interim Financing**") and granted a corresponding priority charge to secure obligations under the Interim Financing (the "**Interim Financing Charge**").
3. On September 9, 2020, the Court pronounced an Order (the "**Second Extension Order**") that extended the time for Cabot to file a Proposal with the Official Receiver to and including October 23, 2020.
4. This report (the "**Proposal Trustee's Third Report**") is submitted by the Proposal Trustee in conjunction with Cabot's application for an order (the proposed "**Third Extension Order**") to extend the stay of proceedings and time for Cabot to file a Proposal to December 4, 2020 and the approval of increases to the Interim Financing and the Interim Financing Charge.
5. The purpose of the Proposal Trustee's Third Report is to provide the Court with information on:
 - a) the Company's and Proposal Trustee's activities since its last report (the "**Proposal Trustee's Second Report**");
 - b) the Company's actual performance versus the cash flow statement dated August 31, 2020 and included as Appendix 1 of the Proposal Trustee's Second Report (the "**Second Cash Flow Statement**") to date;
 - c) the Proposal Trustee's comments and report on the Company's extended cash flow statement (the "**Third Cash Flow Statement**") for the period of October 10, 2020 to December 4, 2020 (the "**Third Cash Flow Period**");
 - d) the increase to the Interim Financing and Interim Financing Charge being sought by Cabot;
and

- e) the Company's request for an extension of the period in which Cabot can make a proposal to its creditors and the stay of proceedings to December 4, 2020 (the "**Third Stay Extension**").

Limitations of Report

6. In preparing the Proposal Trustee's Third Report, the Proposal Trustee has relied upon unaudited financial information, the Company's records, financial information and projections, and discussions with the Company's management. While the Proposal Trustee reviewed various documents provided by the Company and believes that the information therein provides a fair summary of the transactions and material, as reflected in the documents, such work does not constitute an audit or verification of such information for accuracy, completeness or compliance with Generally Accepted Accounting Principles ("**GAAP**"), International Financial Reporting Standards ("**IFRS**"), or Generally Accepted Auditing Standards ("**GAAS**"). Accordingly, the Proposal Trustee expresses no opinion or other form of assurance pursuant to GAAP, IFRS, or GAAS with respect to such information.
7. Some of the information used in preparing the Proposal Trustee's Third Report consists of financial projections, including the Third Cash Flow Statement. The Proposal Trustee cautions that these projections are based upon assumptions about future events and conditions that are not ascertainable. The Company's actual results may vary from the Third Cash Flow Statement, even if the hypothetical and probable assumptions contained therein materialize, and the variations could be significant. The Proposal Trustee's review of the future-oriented information used to prepare the Proposal Trustee's Third Report did not constitute an audit of such information under GAAP, IFRS, or GAAS.
8. The Proposal Trustee also bases the Proposal Trustee's Third Report on the Company's cash flow projections and underlying assumptions. The Proposal Trustee's review of and commentary on the Third Cash Flow Statement was performed in accordance with the requirements set out in the Canadian Association of Insolvency and Restructuring Professionals' Standards of Professional Practice No. 9 (Proposal Trustee's Report on Cash Flow Statement).
9. To date, nothing has come to the Proposal Trustee's attention that would cause it to question the reasonableness of the information and explanations provided to it by the Company and its management. The Proposal Trustee has requested that management bring to its attention any significant matters which were not addressed in the course of the Proposal Trustee's specific inquiries. Accordingly, the Proposal Trustee's Third Report is based on the information (financial or otherwise) made available to the Proposal Trustee by the Company.

10. The Proposal Trustee's Third Report has been prepared for the use of this Court and the Company's stakeholders as general information relating to the Company and to assist the Court in determining whether to grant the relief sought by the Company. Accordingly, the reader is cautioned that the Proposal Trustee's Third Report may not be appropriate for any other purpose. The Proposal Trustee will not assume responsibility or liability for losses incurred by the reader as a result of the circulation, publication, reproduction or use of the Proposal Trustee's Third Report contrary to the provisions of this paragraph.
11. All references to dollars are in Canadian currency unless otherwise noted.
12. A copy of the NOI, the Proposal Trustee's First, Second and Third Reports, the First and Second Extension Orders and any other relevant documents pertaining to these proceedings are available on the Proposal Trustee's website at: www.grantthornton.ca/creditorupdates.

Proposal Trustee's Activities

13. Since the issuance of the Proposal Trustee's Second Report, the Proposal Trustee has performed the following key activities:
 - a) filing the necessary prescribed forms required under the BIA for the NOI;
 - b) filing a copy of the Second Extension Order with the Official Receiver;
 - c) continuing to review and evaluate the state of the Company's business and financial affairs in accordance with section 50.4(7)(b)(ii) of the BIA;
 - d) corresponding and holding discussions with the Company's management and Cabot's restructuring counsel, Stikeman Elliott LLP ("**Stikeman**");
 - e) assisting the Company with developing its Proposal and providing financial modelling of different scenarios;
 - f) engaging an oil and gas sales agent to conduct a market valuation of the Company's oil and gas assets;
 - g) comparing the actual receipts and disbursements to the Second Cash Flow Statement and reviewing significant variances;

- h) assisting the Company in preparing the Third Cash Flow Statement for the Third Cash Flow Period;
- i) ongoing discussions with the Alberta Energy Regulator (the "AER") to keep them apprised of developments in the NOI proceedings;
- j) responding to calls and emails from creditors, suppliers and other stakeholders;
- k) preparing the Proposal Trustee's Third Report; and
- l) maintaining a public website for these NOI Proceedings at:
www.grantthornton.ca/creditorupdates.

Company's Activities

14. Since the issuance of the Proposal Trustee's Second Report, the Company has performed the following key activities:

- a) continuing to manage operations as contemplated by the Second Cash Flow Statement, as discussed further below, and to meet obligations incurred since the Filing Date as they become due;
- b) reporting actual performance to the Proposal Trustee on a weekly basis;
- c) working with High Power Petroleum LLC ("H2P") to access funding as required to maintain operations under the Interim Financing;
- d) negotiated an increase to the Interim Financing with H2P, as discussed below;
- e) maintaining communications with creditors, suppliers and other stakeholders;
- f) commencing the capital expenditure project detailed in the Proposal Trustee's First Report (the "Well Tie-Ins"), as discussed below;
- g) on-going discussions with Stikeman and the Proposal Trustee regarding various restructuring strategies;
- h) negotiating with H2P regarding additional financing to fund a potential proposal to creditors;
- i) preparing the application for the Third Stay Extension with Stikeman's assistance; and

- j) preparing the Third Cash Flow Statement with the Proposal Trustee's assistance.

Performance against the Cash Flow Statement

15. In accordance with section 50.4(7)(b)(ii) of the BIA, the Proposal Trustee has continued to review and evaluate the state of the Company's business and financial affairs since the Filing Date.
16. A review process was established with the Company to review weekly cash movements and has continued since the Proposal Trustee's Second Report. A comparison of Cabot's receipts and disbursements to the Second Cash Flow Statement for the period of August 21, 2020 to October 9, 2020 (the "**Second Cash Flow Period**") is attached to this report as **Appendix 1**.

Proposal Trustee's Comments

17. For the Second Cash Flow Period, Cabot had total cash receipts of \$1,020,214, approximately \$2,366 less than forecasted in the Second Cash Flow Statement. The negligible variance is attributable to offsetting favourable and unfavourable variances as follows:
- a) net oil revenues during the Second Cash Flow Period of \$509,080, a favourable variance of \$66,036; and
 - b) interim financing of \$477,117, an unfavourable variance of \$67,872 for the Second Cash Flow Period due to the reduced need for additional working capital as a result of the favourable variance in net oil revenue.
18. The Second Cash Flow Statement projected total disbursements of \$1,043,638 for the Second Cash Flow Period. Actual disbursements for the Second Cash Flow Period totaled \$827,527 resulting in a favourable variance of \$216,111. The Proposal Trustee notes the following:
- a) \$113,045 of the favourable variance, approximately 52%, is attributable to professional fees arising from the NOI proceedings. The Receiver understands that fees for Stikeman and the Proposal Trustee's legal counsel have been accrued and are expected to be paid in the Third Cash Flow Period, as discussed below;
 - b) operational expenditure had a favourable variance of \$68,429, approximately 32% of the total variance, in the Second Cash Flow Period. This is in part due to the delay in the Well Tie-Ins resulting in production levels remaining flat during the Second Cash Flow Period instead of increasing as anticipated in the Second Cash Flow Statement; and

- c) a further \$13,925 of the favourable variance, relates to capital expenditure. The completion of the Well Tie-Ins was delayed due to poor weather conditions and the final costs are expected to be paid in the early weeks of the Third Cash Flow Period, as discussed below.

Extended Cash Flow Statement

19. As stated above, the Company prepared the Third Cash Flow Statement, on a weekly basis, for the Third Cash Flow Period. The Third Cash Flow Statement is attached to this report as **Appendix 2**. The Third Cash Flow Statement has been prepared by management using probable and hypothetical assumptions (the "**Probable and Hypothetical Assumptions**") set out therein.

20. The Proposal Trustee makes the following comments on the Third Cash Flow Statement:

- a) projected monthly net oil revenues are as follows:
 - i. \$192,778 in October, \$190,752 lower than forecasted in the Second Cash Flow Statement due to the delay to the Well Tie-Ins and resulting increase in production. The October revenue estimate is consistent with Cabot's reduced operations since March 2020. It is also in line with the estimated for September net oil revenue in the Second Cash Flow Statement of \$191,673; and
 - ii. \$263,546 in November, an approximate 37% increase from October's revenue forecast. The revenue increase is directly attributable to projected average production rising from approximately 167 to 261 average BOEs per day between September and October as a result of the Well Tie-Ins and resulting increased production;
- b) CEWS payments are projected to be received in the months of November and December;
- c) Interim Financing in the approximate sum of \$332,750 is projected to be required by Cabot in order to meet the cash flow requirements of the Company over the Third Cash Flow Period. The Interim Financing is discussed in detail below;
- d) monthly payroll, management and administration expenditure in the Third Cash Flow Statement is consistent with that in the Second Cash Flow Statement. The recurring monthly operational expenses are consistent with the higher amounts forecast in the Second Cash Flow Statement due to the completion of the Well Tie-Ins and increased production levels;

- e) operational expenditure in the week ending October 16, 2020 includes a payment of \$33,717 to the AER relating to administrative fees and the Orphan Fund Levy. This represents 50% of the amount due as Cabot is seeking to negotiate a payment plan with the AER for the remainder to be paid in 5 monthly instalments. These instalments are included in the Third Cash Flow Statement. A further \$9,967 payment to Eldon's Transport Ltd is included in the week's operational expenditure for further road repairs, as discussed in the Proposal Trustee's Second Report;
 - f) capital expenditure of \$40,600 is projected during the first week of the Third Cash Flow Period. This expenditure relates to the completion of the Well Tie-Ins that have been delayed by the above noted poor weather conditions. The Well Tie-Ins are forecast to increase production by approximately 200 BOEs per day; and
 - g) the fees and disbursements of the Proposal Trustee's counsel accrued to date will be paid in the week ending October 16, 2020. Cabot expects the similar fees and disbursements of Stikeman to be paid in the week ending November 27, 2020.
21. The Proposal Trustee's review of the Third Cash Flow Statement consisted of inquiries, analytical procedures and discussions related to information supplied to the Proposal Trustee by the management of Cabot. Since hypothetical assumptions need not be supported, the Proposal Trustee's procedures with respect to such assumptions were limited to evaluating whether they were consistent with the purpose of the Third Cash Flow Statement. The Proposal Trustee has also reviewed the support provided by management for the probable assumptions and the preparation and presentation of the Third Cash Flow Statement. Based on the Proposal Trustee's review, nothing has come to its attention that causes it to believe that, in all material respects:
- a) the Probable and Hypothetical Assumptions are not consistent with the purpose of the Third Cash Flow Statement;
 - b) as at the date of the Proposal Trustee's Third Report, the Probable and Hypothetical Assumptions developed by management are not suitably supported and consistent with the Company's plans or do not provide a reasonable basis for the Third Cash Flow Statement, given the Probable and Hypothetical Assumptions; or
 - c) the Third Cash Flow Statement does not reflect the Probable and Hypothetical Assumptions.

Interim Financing

22. As noted above, the Third Cash Flow Statement projects interim financing in the sum of \$332,750 to be required by Cabot in order to meet the cash flow requirements of the Company over the Third Cash Flow Period.

23. The Proposal Trustee notes the following with regards to the Interim Financing:

- a) as discussed in the Proposal Trustee's First Report, Cabot obtained a term sheet from H2P (the "**Term Sheet**") for Interim Financing to fund the cash flow requirements of the Company during the NOI process. The Term Sheet, in the amount of \$645,000, was approved by Court in the First Extension Order;
- b) Interim Financing advanced since the Term Sheet totals \$577,105 and the Third Cash Flow Statement shows such advances totalling \$909,855 will be required to meet the cash flow requirements of the Company to the end of the Third Cash Flow Period;
- c) Cabot has secured an increase in Interim Financing facility from H2P to a total of \$910,000 on the same terms as the Term Sheet and summarized in the Proposal Trustee's First Report; and
- d) the Company is requesting an amendment of the First Extension Order to increase the Interim Financing to \$910,000 and the Interim Financing Charge to \$910,000.

24. The Proposal Trustee supports the Company's request for the Interim Financing Charge, pursuant to section 50.6 of the BIA, for the following reasons:

- a) the Proposal Trustee previously reviewed the Term Sheet and noted that its terms are comparable to typical debtor-in-possession funding agreements; and
- b) the increase to the Interim Financing will allow Cabot to fund its operations through the Third Cash Flow Period as it restructures its affairs.

25. Any additional interim financing required by the Company during the NOI process will be addressed in later applications.

Other Matters


26. The Proposal Trustee has initiated a review of reviewable or preference transactions and intends to complete this review prior to the filing of a proposal.
27. The AER has notified Cabot that the Company's license eligibility status has been restricted to Limited and Global Refer status effective October 14, 2020 due to a deemed material change as a result of the NOI proceedings. The restriction prohibits the Company from acquiring any additional licenses with limited exceptions.

Conclusion and Recommendation


28. Granting the Third Stay Extension will give Cabot time to continue develop a restructuring strategy. The Proposal Trustee believes that the continuation of these proceedings is in the best interest of stakeholders, and preferable to a liquidation in a bankruptcy and/or receivership.
29. The Proposal Trustee believes that the Company has been acting in good faith and with due diligence, that the Company would likely be able to make a viable Proposal if the Third Stay Extension is granted and that no creditor would be materially prejudiced if the Third Stay Extension is granted.
30. Based on the Proposal Trustee's Third Report, the Proposal Trustee respectfully recommends this Court approve:
- a) the increase to the Interim Financing and the Interim Financing Charge; and
 - b) the Third Stay Extension.

DATED at Calgary, Alberta, the 19th day of October 2020.

Grant Thornton Limited,
*in its capacity as Proposal Trustee under a
Notice of Intention to Make a Proposal
filed by Cabot Energy Inc.
and not in its personal capacity*



Per: Andrew Basi, CPA, CA, CIRP, LIT
Senior Vice President



Per: James Saxton, FCCA
Manager

Cabot Energy Inc.
Second Cash Flow Period Comparison
August 22, 2020 to October 9, 2020

Second Cash Flow Period In CAD	Actual	Second Cash Flow Statement	Favourable / (Unfavourable) Variance
Opening Cash	\$ 110,169	\$ 110,169	\$ -
Receipts			
Net Oil Revenue	509,080	443,044	66,036
CEWS	32,204	34,547	(2,344)
GST	1,814	-	1,814
Interim Financing	477,117	544,988	(67,872)
Total Receipts	1,020,214	1,022,580	(2,366)
Disbursements			
Payroll	62,869	62,869	-
Management & Administration	30,132	45,573	15,442
Operational Expenditure	502,682	571,110	68,429
Capital Expenditure	119,675	133,600	13,925
Royalties	4,309	4,308	(1)
Leases	9,627	7,592	(2,035)
GST	2,693	10,000	7,307
Total Disbursements	731,987	835,053	103,066
Net cashflow from operations	288,227	187,527	100,700
Other Disbursements			
Legal Counsel Fees	26,355	100,000	73,645
Trustee Fees	69,185	93,586	24,400
Trustee's Legal Counsel Fees	-	15,000	15,000
Total Other Disbursements	95,540	208,586	113,045
Total Disbursements	827,527	1,043,638	216,111
Net Cash Flow	192,687	(21,058)	213,745
Closing Cash	\$ 302,856	\$ 89,110	\$ 213,745


Cabot Energy Inc.
Third Cash Flow Statement
October 9th 2020 To December 4th 2020

For the week ending, In CAD	Notes	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Forecast	Total
		Week 1	Week 2	Week 3	Week 4	Week 5	Week 6	Week 7	Week 8	
		16-Oct-20	23-Oct-20	30-Oct-20	6-Nov-20	13-Nov-20	20-Nov-20	27-Nov-20	4-Dec-20	
Opening Cash	1	302,856	132,018	194,018	116,697	120,869	107,413	80,334	45,305	302,856
Receipts										
Net Oil Revenue	2	-	-	192,778	-	-	-	263,546	-	456,324
CEWS	3	-	-	-	9,172	-	-	-	9,172	18,344
GST		-	-	-	-	-	-	-	-	-
Interim Financing	4	-	70,000	-	-	100,000	-	112,750	50,000	332,750
Total Receipts		-	70,000	192,778	9,172	100,000	-	376,296	59,172	807,418
Disbursements										
Payroll		20,956	-	20,956	-	20,956	-	20,956	-	83,825
Management & Administration		-	-	26,943	-	-	-	26,943	-	53,886
Operational Expenditure		53,684	8,000	217,925	5,000	10,000	5,000	246,402	5,000	551,011
Capital Expenditure	5	40,458	-	-	-	-	-	-	-	40,458
Royalties		-	-	4,274	-	-	-	4,274	-	8,549
Leases		12,281	-	-	-	-	22,079	-	-	34,360
GST		-	-	-	-	-	-	-	-	-
Total Disbursements		127,380	8,000	270,099	5,000	30,956	27,079	298,576	5,000	772,090
Net cashflow from operations		- 127,380	62,000	- 77,321	4,172	69,044	- 27,079	77,721	54,172	35,328
Other Disbursements										
Legal Counsel Fees		19,053	-	-	-	50,000	-	112,750	50,000	231,803
Trustee Fees		14,653	-	-	-	25,000	-	-	25,000	64,653
Trustee's Legal Counsel Fees		9,751	-	-	-	7,500	-	-	7,500	24,751
Total Non-Operating Disbursements		43,457	-	-	-	82,500	-	112,750	82,500	321,207
Ending Cash Balance		132,018	194,018	116,697	120,869	107,413	80,334	45,305	16,977	16,977


Management of Company (the "Company") has prepared this forecasted cash-flow statement (the "Third Cash Flow Statement") based on probable and hypothetical assumptions detailed in Notes 1 to 5. The Third Cash Flow Statement has been prepared solely for the purpose of supporting the Company's request for an extension of the stay of proceedings under the Notice of Intention to Make a Proposal filed by the Company on June 30, 2020. As such, readers are cautioned that it may not be appropriate for their purposes. The Third Cash Flow Statement of the Company is prepared in accordance with the provisions of the *Bankruptcy and Insolvency Act* and should be read in conjunction with the Proposal Trustee's Third Report.

Dated at the City of Calgary in the Province of Alberta, this 15th day of October 2020.

Cabot Energy Inc.

Per: 
Dave Kimery
Chief Executive Officer

Grant Thornton Limited

Per: 
Andrew Bass, CPA, CA, CIRP, LIT
Senior Vice President

Cabot Energy Inc.
Notes to the Third Cash Flow Statement
October 9th 2020 To December 4th 2020

Note 1

The Company had a cash balance of \$302,856 on October 9th, 2020, the commencement date of the Third Cash Flow Statement

Note 2

This represents oil revenues net of taken-in-kind Crown royalties. Receipt of monthly revenues occurs on the 25th of the following month.

Note 3

The amount projected to be received under the Canadian Emergency Wage Subsidy ("CEWS"), relates to eligible wages paid during the months of June through August. It is projected that CEWS will be received approximately 5-10 business days following submission/payment of related wages.

Note 4

The Company obtained Interim Financing to fund its ongoing operations throughout the NOI process. A super-priority charge over the Company's assets was created by the Court of Queen's Bench Alberta. As discussed in the Proposal Trustee's Third Report, Cabot has obtained increased Interim Financing to fund its ongoing operations and is making an application to have the super-priority charge increased to secure the additional Interim Financing.

Note 5

The Company is completing the tie in of two new wells that were drilled and completed in Q1 2020.