

**IN THE MATTER OF THE PROPOSAL OF
WESTERN CANADA ENERGY LTD.
OF THE CITY OF CALGARY
IN THE PROVINCE OF ALBERTA**

REPORT OF THE TRUSTEE - ALGER & ASSOCIATES INC.

All Capitalized terms are defined under Part I of the Proposal.

A. BACKGROUND AND CAUSES OF DIFFICULTIES

1. Western Canada Energy Ltd. (“WCE” or the “Company”) was formed by an amalgamation on April 1, 2008 of Blackpool Exploration Ltd. and Westbow Energy Inc. The Company is publicly traded and engaged in the exploration for and production of petroleum and natural gas in Western Canada.
2. The main causes of financial difficulty are summarized as follows:
 - a) The decline in oil and gas prices and resulting effect on the financial strength of the Company;
 - b) The Company’s primary secured lender, Canadian Western Bank (“CWB”) issuing demands on November 3, 2009 for repayment of the outstanding credit facility in full; and
 - c) A claim by Tallahassee Petroleum Inc. and Dewpoint Resources Ltd. (“Tallahassee and Dewpoint Claim”) against the Company as a result of WCE’s inability to convey title to oil and gas properties as required in recent transactions between the parties.
3. On February 25, 2010, the Company filed a Notice of Intention to File a Proposal (“NOI”) to provide for the necessary time required to restructure its affairs and file the Proposal. CWB is not stayed from taking enforcement actions by the filing of the NOI as the notice period required by the *Bankruptcy and Insolvency Act* (“BIA”) expired prior to the filing of the NOI.
4. On March 5, 2010 WCE and CWB entered into a forbearance agreement (“Forbearance Agreement”) in an effort to provide the Company an opportunity to restructure its affairs and specifically, to enter into a purchase and sale agreement (“PSA”) with Shoreline Energy Fund (“Shoreline”) and repay the CWB credit facility by April 16, 2010.
5. The PSA was signed on March 14, 2010. In accordance with the terms of the PSA, WCE filed a Proposal on March 18, 2010 and a Creditors’ Meeting to consider and vote on the Proposal has been set for March 31, 2010.

B. THE PROPOSAL

Overview

6. In order to maximize the distribution available to creditors, management believes that the Company's best alternative is through a transaction with Shoreline that provides for the sale of the Company's assets. Management believes the transaction with Shoreline provides for the best outcome for the Creditors.
7. The transaction with Shoreline provides for the following:
 - a) Payment in full to Joint Operators to the extent of their trust claims;
 - b) Payment in full of Crown Claims and Preferred Creditor Claims;
 - c) Payment in full of amounts owing to CWB;
 - d) A settlement of amounts due to the Affected Secured Creditor by payment of Shoreline Fund Units ("Shoreline Fund Units"); and
 - e) A distribution to the Ordinary Unsecured Creditors in cash.

Sale of Assets to Shoreline

8. The key terms of the PSA include:
 - a) Shoreline acquiring the assets of WCE which are defined as the hydrocarbon interests, the wells, the tangibles interests and the miscellaneous interests for consideration of \$6,075,000 consisting of:
 - A cash deposit of \$250,000;
 - A cash payment at closing of \$3,650,000; and
 - \$2,175,000 through the issuance at closing of 21,750 units of Shoreline ("Shoreline Units") at a deemed price of \$100 per unit.
 - b) the condition that the Creditors accept the Company's Proposal; and
 - c) the condition that the Company's assets are not encumbered by the Tallahassee and Dewpoint Claim.
9. The consideration to be paid to WCE is estimated to be distributed as follows:

WCE Estimated Distribution of Proceeds		Table 1.	
<u>Source of Funds</u>	Cash (\$000's)	Units (\$100/unit)	
Closing cash payment	3,650	-	
Deposit	250	-	
March 31, cash available from operations (estimate)	65	-	
Unit consideration	-	21,750	
Total sources of Funds	3,965	21,750	
<u>Use of Funds</u>			
Payments to Unaffected Joint Operators	315	-	
Payment to CWB	3,286	-	
Distribution to Affected Secured Creditor	-	21,750	
Payment to Crown and Preferred Creditors	10	-	
Distribution to Ordinary Unsecured Creditors	229	-	
Professional fees - Davis LLP	50	-	
Trustee's fees and its legal counsel fees	75	-	
Total uses of Funds	3,965	21,750	

CREDITORS

Unaffected Creditors

10. CWB is an Unaffected Secured Creditor and is currently owed approximately \$3.2 million plus costs and interest which is secured by a first charge general security agreement on all present and after acquired property of the Company. As a term of the Forbearance Agreement, CWB is required to be repaid all amounts due by April 16, 2010.
11. Unaffected Joint Operators are creditors who may have trust claims arising as a result of s. 507 of the 1990 Canadian Association of Petroleum Landmen Operating Procedure. The Company estimates that approximately \$315,000 is payable to Unaffected Joint Operators.

Crown Claims

12. Crown Claims, as defined in the Proposal, are to be paid in full under the terms of the Proposal, subject to the Superintendent of Bankruptcy Levy ("Levy")

Preferred Creditors

13. The claims of Preferred Creditors shall be paid in full in cash, subject to the Levy, in priority to the claims of Ordinary Unsecured Creditors to the extent provided for in Section 136 of the BIA.

Affected Secured Creditor

14. The Proposal provides for payment of 21,750 Shoreline valued at \$2,175,000 to be distributed to the Affected Secured Creditor, Olympia Trust, as debenture trustee for the debenture holders. This provides for an approximate dividend of 61% based on the deemed value of the Shoreline Units prior to deducting the Levy. The Affected Secured Creditor is owed approximately \$3,598,000.

Ordinary Unsecured Creditors

15. The Proposal provides for payment of a minimum of \$229,000 to a maximum of \$350,000 to be distributed to the Ordinary Unsecured Creditors. The cash will be distributed to each Ordinary Unsecured Creditor on the following basis:
- a) A payment of \$90,000 to be made available for distribution to the Ordinary Unsecured Creditors. This payment will be distributed based on the number of known Ordinary Unsecured Creditors. Based on the number of known creditors, it is estimated that each Ordinary Unsecured Creditor will receive the lesser amount of the Ordinary Unsecured Creditor's Proven Claim or approximately \$1,000. Based on known creditors it is estimated that approximately 52% of Ordinary Unsecured Creditors will be paid in full less the Levy; and
 - b) With respect to the balance, after payment of the sums referred to above, each Ordinary Unsecured Creditor's Claim, if any, its *pro rata pari passu* share of a minimum of \$139,000 and a maximum of \$260,000. It is estimated that each Ordinary Unsecured Creditor will receive a payment that approximates a distribution in the range of approximately 8 cents to 14 cents for each dollar of their Claim after the \$90,000 is distributed to Ordinary Unsecured Creditors.

C. BENEFITS OF THE PROPOSAL

16. The Proposal and the transaction with Shoreline will have the following benefits for each of the various stakeholder groups:
- a) Payment in full of the amounts due to CWB and discharge of the security interests in the assets of WCE;
 - b) Payment in full to amounts owed to the Joint Operators and Crown Claims;
 - c) The acceptance of the Proposal and granting of the vesting order the Company will be seeking in conjunction with the Proposal proceedings will allow the Company to convey title to its oil and gas properties to Shoreline without having to incur litigation costs as a result of defending the Tallahassee and Dewpoint Claim;

- d) The Ordinary Unsecured Creditors will receive a cash payment and approximately half of the Ordinary Unsecured Creditors will be repaid in full, less the Levy; and
- e) The Company's assets are transferred as a going concern to Shoreline which will benefit the Affected Secured Creditors as they will become unit holders of Shoreline and will be able to benefit from any future success of Shoreline.

D. CURRENT FINANCIAL POSITION

17. WCE's current financial position is summarized as follows:

WCE Balance Sheet (Unaudited)	Table 2.	
(\$000s)	Estimated Net Book Value as at Dec 31/09	Estimated Net Realizable Value as at Feb 28/10
Assets		
Cash	-	65
Accounts receivable	586	-
Prepaid expenses	125	-
Petroleum and natural gas properties	19,934	5,500
Total Assets	<u>\$ 20,645</u>	<u>\$ 5,565</u>
Liabilities		
Bank debt - CWB	2,868	3,200
Debentures	3,500	3,500
Accounts payable and accrued liabilities	1,847	1,847
Shareholder Loans	456	456
Convertible preferred shares	1,258	1,258
Asset retirement obligation	820	820
Total Liabilities	<u>10,749</u>	<u>11,081</u>
Equity/(Deficiency)	<u>\$ 9,896</u>	<u>\$ (5,516)</u>
* no provision has been made for future income taxes		

18. The major difference between the net book value of the Company assets and the current net realizable value arises from the low current market value of the oil and gas properties. The estimate of realizable value of the oil and gas properties was obtained from the Company which was based on following:

- a) The Company engaged the services of Avonlea Ventures Inc. and Steele Consulting Partnership (“Avonlea and Steele”) in July 2009 to work with the Company to, amongst other things, identify corporate strategic alternatives and market the WCE oil and gas properties. Between the period of July 2009 to February 2010, Avonlea conducted an extensive marketing program (“Marketing Program”) to potential acquirers for WCE; and
- b) As a result of the Marketing Program the Company has estimated the fair market value of the petroleum and natural gas properties in the range of \$4.5 to \$5.5 million. A summary of the results of the Marketing Program are as follows:
 - the Company received offers from three parties in the summer and fall of 2009 in the range of \$3.6 million to \$5 million for all the assets of the Company;
 - the Company also received offers on selected assets and accepted, but was unable to close, an offer for the sale of the certain assets for \$3 million that represented approximately 70% of the reserves of the Company; and
 - twelve or more possible merger and acquisition candidates were shown a Company sales package and several sub-debt lenders were approached by Avonlea and Steele with no purchase or financing offers received.

E. CONDUCT OF DEBTOR

19. The Trustee’s preliminary review has not identified any preferential payments or reviewable transactions; other than those identified below. Reviewable transactions are defined as transactions with parties who are non-arms length.

F. REVIEWABLE TRANSACTION AND PREFERENTIAL PAYMENTS

20. The Trustee is not aware of any preferential transactions or reviewable transactions.

G. CREDITORS' CLAIMS

21. No significant changes from the Statement of Affairs are anticipated.

H. REMUNERATION OF TRUSTEE

22. The Trustee's fees will be based on the time spent by the Trustee and the various members of its staff at their respective regular billing rates plus any direct out-of-pocket expenses incurred. All Administrative Fees and Expenses of the Trustee will be taxed by the Court. The Trustee will be entitled to take regular interim fees as approved by either the Court or Inspectors elected by the Affected Creditors.

I. ESTIMATED REALIZATIONS IN A LIQUIDATION SCENARIO

23. Based on the review by the Trustee and information provided by the Company and its advisors it is unlikely there would be sufficient funds in a bankruptcy to pay the claims of priority and secured creditors and provide residual funds for payment to unsecured creditors.
24. Based on the Marketing Program, the Company has estimated the value of the oil and gas assets at approximately \$5.5 million. Based on this assessment of value, a realization of this amount, prior to deducting costs of realization, would result in a shortfall to the Affected Secured Creditor and no distribution to the unsecured creditors.
25. In a liquidation scenario it is estimated that the Affected Secured Debenture Holder would receive approximately \$1,699,000 which is less than the \$2,175,000 offered in the Proposal based on the value of the Shoreline Units. The Proposal payment also provides some certainty as to the amount to be received whereas liquidation does not. The analysis of the estimated amounts are as follows:

WCE Estimated Distribution to the Affected Secured Creditor	Table 3. Estimated Distribution to the Affected Secured Creditor in a Liquidation
(\$000s)	
Gross Realization	5,500
Less:	
Payment to Unaffected Joint Operators	(315)
Payment to CWB	(3,286)
Estimated Realization costs	(200)
Net Realization	<u><u>1,699</u></u>
 * Prior to deducting the Levy	

J. RECOMMENDATION

26. The acceptance of the Company's Proposal allows the Company to make payments in the following manner:
- a) the Unaffected Secured Creditor will be paid in full;
 - b) the Joint Operators are paid in full;

- c) Crown Claims and Preferred Creditor Claims are paid in full;
- d) The Affected Secured Creditor will be paid in Shoreline Units valued at \$2,175,000 less the Levy which is greater than the estimated distribution they would receive in a bankruptcy scenario. Furthermore, the Proposal provides some certainty as to the amounts to be received by the Company as opposed to the bankruptcy liquidation;
- e) Approximately half of the Ordinary Unsecured Creditors are estimated to be paid in full while other Ordinary Unsecured Creditors will receive a lump sum payment and a pro-rata distribution. If the Company was deemed bankrupt, it is anticipated there would be no distribution to the unsecured creditors.

27. The Trustee respectfully recommends that the Affected Creditors may wish to accept the Proposal as it appears to provide a distribution to Affected Creditors that is equal or greater than they may achieve if the Proposal is not accepted and the Company is deemed bankrupt.

DATED at Calgary, Alberta, this 18th day of March 2010

ALGER & ASSOCIATES INC.

Per: _____

