Form 27
[Rules 6.3 and 10.52(1)]

Clerk's Stamp
CLERK OF THE COURT
FILED
JAN 20 2016
JUDICIAL CENTRE
OF CALGARY

COURT FILE NUMBER	**1501-13786**
COURT	COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE	Calgary
	IN THE MATTER OF AN APPLICATION UNDER SUBSECTION 243(1) OF THE *BANKRUPTCY AND INSOLVENCY ACT*, RSC 1985, C B-3, AS AMENDED
APPLICANT	**NATIONAL BANK OF CANADA, IN ITS CAPACITY AS ADMINISTRATIVE AGENT UNDER THAT CERTAIN AMENDED AND RESTATED CREDIT AGREEMENT DATED JUNE 30, 2015, AS AMENDED**
RESPONDENTS	**SPYGLASS RESOURCES CORP., 1196823 ALBERTA LTD., 1288916 ALBERTA LTD., 1398850 ALBERTA LTD., 15836621 ALBERTA LTD., 1636527 ALBERTA LTD., AVENEX ENERGY PARTNERSHIP, AVENEX REAL ESTATE ACQUISITION CORP., WESTBROOK MARKETING LIMITED PARTNERSHIP (formerly ELBOW RIVER MARKETING LIMITED PARTNERSHIP), 1159002 ALBERTA LTD. (formerly ELBOW RIVER MARKETING CORP.), MEOTA 2000 PARTNERSHIP, PACE OIL & GAS PARTNERSHIP, PACE OIL RESOURCES LTD. AND SEAVIEW ENERGY PARTNERSHIP**
DOCUMENT	**APPLICATION BY RECEIVER: APPROVAL OF SALE AND INVESTMENT SOLICITATION PROCESS, AND RECEIVERSHIP SALE AGREEMENT WITH THE ALBERTA ENERGY REGULATOR**

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT	Josef G.A. Krüger, Q.C./Jessica L. Cameron Borden Ladner Gervais LLP 1900, 520 3rd Ave. S.W. Calgary, AB T2P 0R3 Telephone: (403) 232-9563/9715 Facsimile: (403) 266-1395 Email: jkruger@blg.com/jcameron@blg.com File No. 413255/000044

NOTICE TO RESPONDENTS: See Service List, Schedule "A" to this Application

This application is made against you. You are a respondent.

You have the right to state your side of this matter before the master/judge.

To do so, you must be in Court when the application is heard as shown below:

Date	January 25, 2016
Time	2:00 p.m.
Where	Calgary Courts Centre, 601-5th Street SW, Calgary AB
Before Whom	The Honourable Mister Justice P.R. Jeffrey

Go to the end of this document to see what else you can do and when you must do it.

Remedy claimed or sought:

1. Ernst & Young Inc., in its capacity as the court-appointed receiver and manager (the "**Receiver**") of Spyglass Resources Corp., 1196823 Alberta Ltd., 1288916 Alberta Ltd., 1398850 Alberta Ltd., 15836621 Alberta Ltd., 1636527 Alberta Ltd., Avenex Energy Partnership, Avenex Real Estate Acquisition Corp., Westbrook Marketing Limited Partnership (formerly Elbow River Marketing Limited Partnership), 1159002 Alberta Ld., (formerly Elbow River Marketing Corp.), Meota 2000 Partnership, Pace Oil & Gas Partnership, Pace Oil Resources Ltd., and Seaview Energy Partnership (collectively, "**Spyglass**"), seeks an Order:

   (a) Declaring service of this Application good and sufficient, and abridging the time for notice of this Application to the time actually given, if necessary;

   (b) Approving the Sales and Investment Solicitation Process (the "**SISP**") described and attached as **Appendix "C"** to the First Report of the Receiver, dated January 20, 2016 (the "**First Report**"); and

(c) Approving the Receivership Sale Agreement between the Alberta Energy Regulator (the "**AER**") and the Receiver, dated January 20, 2016, and attached to the First Report as **Appendix "D"** (the "**AER Agreement**").

2. Such further and other relief as Counsel may advise and this Honourable Court permit.

Grounds for making this application:

Background

3. The Receiver was appointed as receiver and manager of Spyglass pursuant to an Order of this Honourable Court dated November 26, 2015 (the "**Receivership Order**").

4. Prior to the Receivership Order, Spyglass was engaged in the acquisition, enhancement and exploration of conventional oil and gas projects in Alberta. As of the granting of the Receivership Order, Spyglass had an interest in approximately 2,500 producing oil wells in Alberta. Spyglass was the operator of its core facilities. Spyglass' operations produced approximately 9,300 barrels of oil equivalent per day. The particulars regarding Spyglass' operations are set out at paragraphs 11 to 22 of the First Report.

5. Prior to the granting of the Receivership Order, Spyglass was experiencing financial difficulties due primarily to the extended depressed market prices for oil and gas. Spyglass attempted to alleviate its financial difficulties by engaging in a broad disposition process for core and non-core assets. Due to insufficient liquidity, Spyglass was unable to continue this disposition process and unable to close a transaction, prompting its primary secured lender, the National Bank of Canada as agent for a syndicate of lenders (the "**Syndicate**"), to successfully petition Spyglass into receivership.

6. Since its appointment, the Receiver has continued to operate Spyglass' business.

Regulatory Issues

7. Pursuant to the Alberta Energy Regulator's ("**AER**") Licensee Liability Rating Program ("**LLR Program**"), Large Facility Liability Management Program and Oilfield Waste Liability Program (together the "**AER Programs**"), every month, as a licensee, Spyglass is assessed a Liability Management Rating ("**LMR**"). Spyglass' LMR is calculated based upon all of its interests under the AER Programs. The LMR is also calculated upon receipt of a license transfer application where the licensee is the transferor or transferee.

8. The LMR is a comparison of a licensee's deemed assets with its deemed liabilities in the AER Programs. The purpose of the LMR is to ensure that a licensee has sufficient assets to satisfy the end-of-life abandonment, remediation and reclamation obligations associated with its operation of oil and gas facilities in Alberta.

9. Where a licensee's LMR is less than 1.0 (its deemed liabilities exceeds its deemed assets), the licensee is required to post a security deposit for the difference with the AER. The AER may also refuse to approve the transfer of a license where the transferor (or the transferee) has an LMR of less than 1.0.

10. As of the date of the First Report, Spyglass' overall LMR was 1.25x. However, should the Receiver successfully sell Spyglass' facilities comprising the higher asset values, Spyglass' LMR will decrease, eventually resulting in an LMR below 1.0. In order to sell these remaining facilities the Receiver will need to be able to transfer these licenses, even where Spyglass' LMR is below 1.0.

11. The Receiver has reached agreement with the AER respecting transfer of licenses by the AER in circumstances where Spyglass' LMR is below 1.0. Specifically, the AER has agreed to approve the transfer of Spyglass' Licensed Properties (as defined in the AER Agreement and SISP) notwithstanding Spyglass' LMR may be below 1.0, so long as:

(a) A complete transfer application respecting the Licensed Properties is received by the AER from the Successful Bidder(s) (as defined in the SISP) (the "**Transfer Application**"), and the AER confirms that the Successful Bidder(s)' is a licensee in good standing with the AER;

(b) At the time the AER reviews the Transfer Application, Spyglass must have no material non-compliances (excepting LLR Program requirements) with AER requirements;

(c) At the time the AER reviews the Transfer Application, the Successful Bidder(s) submitting the Transfer Application must:

(i) Be a licensee in good standing with the AER and have, or be eligible to obtain, AER licenses,

(ii) Have an LMR of at least 1.0 following the transfer, or post sufficient security with the AER to rectify any LMR deficiencies,

(iii) Be arm's length from Spyglass, and

(iv) Be in compliance with all of its AER requirements;

(d) If the Transfer Application involves an Adverse LMR Sale (as defined in the AER Agreement), prior to approving the license transfers, the AER must receive the required security deposits as follows:

(i) From the Receiver, 50% of Spyglass' security adjusted LMR, should Spyglass' LMR rating decrease and be less than 1.0 immediately following the transfer, and

(ii) From the Successful Bidder(s), payment of its security adjusted LMR in an amount acceptable to the AER, should its LMR rating be less than 1.0 as of the date of the transfer or immediately following the transfer.

12. The AER's agreement to the above noted license transfer process was reached as a result of the AER Agreement, negotiated between the Receiver and the AER, in consultation with the Syndicate. The material terms of the AER Agreement are as follows:

(a) The Receiver shall package Spyglass' Licensed Property as a solvent entity would, meaning that an asset package under the SISP will contain licenses pertaining to facilities with assets and liabilities under the AER Programs,

(b) Following the Bid Deadline (as defined in the SISP), the Receiver shall hold a meeting with both the AER and the Syndicate in order for both parties to convey their positions on the Qualified Bids received under the SISP,

(c) Subject to the AER's ability to reject a Qualified Bidder on the basis that they are non-arm's length from Spyglass, the selection of the Successful Bid(s) shall be made by the Receiver and subject to further Order of this Court,

(d) Subject to the Trust Funds (as defined and detailed below), all sale proceeds generated from a Positive LMR Sale (as defined in the AER Agreement) shall be for the benefit of the receivership estate,

(e) For Adverse LMR Sales (as defined in the AER Agreement), the Receiver shall pay to the AER 50% of the maximum security deposit that Spyglass would be required to post to effect a transfer in accordance with AER's policies and regulations (the "**AER Proceeds**"),

(f) Upon payment of the AER Proceeds, the AER shall waive Spyglass' LMR requirements and permit the license transfers to proceed,

(g) If an Adverse LMR Sale fails to close, any AER Proceeds paid by the Receiver shall be returned by the AER to the Receiver, and

(h) Subject to statutory priorities, Receivership Charges and the costs of administration of the Estate, the Receiver shall hold $5 million in trust to fund shut-in, suspension, and abandonment requirements of any of Spyglass' remaining and unsold Licensed Properties following completion of the SISP (the "**Trust Funds**").

13. This Application for approval of the SISP and the AER Agreement is supported by Spyglass' first secured creditor, the Syndicate.

14. The proposed SISP provides certainty to prospective purchasers that Spyglass' LMR rating will not affect the AER's transfer of licenses to them, if they are the Successful Bidder. Without this certainty, the Receiver believes that the transaction values for Spyglass' assets will decrease and the possibility that no bids for the assets will be received increases, as prospective purchasers will not incur the costs associated with performing due diligence for transactions of this nature.

15. The Receiver believes that this is the most commercially reasonable manner in which to maximize the value to all of Spyglass' stakeholders, as it allows the Receiver to market all of Spyglass' assets for sale, thereby:

   (a) Maximizing the amounts available for distribution to Spyglass' creditors,

   (b) Reducing the potential number of Spyglass' assets that will end up with the Alberta Orphan Well Association, and

   (c) Increasing the potential number of Spyglass' assets that will remain producing oil and gas wells, generating future royalties, surface lease rentals, mineral tax payments, property tax payments and employment in Alberta.

16. As a result, the Receiver, with the support of the AER and the Syndicate, is seeking approval of both the SISP and the AER Agreement.

Material or evidence to be relied on:

17. The First Report of the Receiver, dated January 20, 2016.

18. The pleadings previously filed in these proceedings.

Applicable rules:

19. Alberta *Rules of Court*, AR 124/2010, and in particular Rules 1.3, 3.75, 6.3, 6.4, 11.27, 11.29 and 13.5.

20. *Bankruptcy and Insolvency General Rules*, and in particular Rules 3, 6 and 11.

21. Such further and other rules as Counsel may advise and this Honourable Court permit.

Applicable Acts and regulations:

22. *Bankruptcy and Insolvency Act*, RSC 1985, c B-3, as amended, and in particular Part XI thereof.

23. Such further and other acts and regulations as Counsel may advise and this Honourable Court permit.

Any irregularity complained of or objection relied on:

24. None.

How the application is proposed to be heard or considered:

25. In person before the Honourable Justice P.R. Jeffrey, with some or all of the parties' present.

WARNING

If you do not come to Court either in person or by your lawyer, the Court may give the applicant(s) what they want in your absence. You will be bound by any order that the Court makes. If you want to take part in this application, you or your lawyer must attend in Court on the date and at the time shown at the beginning of the form. If you intend to give evidence in response to the application, you must reply by filing an affidavit or other evidence with the Court and serving a copy of that affidavit or other evidence on the applicant(s) a reasonable time before the application is to be heard or considered.

SCHEDULE "A"

COURT FILE NUMBER	**1501-13786**
COURT	**COURT OF QUEEN'S BENCH OF ALBERTA**
JUDICIAL CENTRE	**CALGARY**
	IN THE MATTER OF AN APPLICATION UNDER SUBSECTION 243(1) OF *THE BANKRUPTCY AND INSOLVENCY ACT*, RSC1985, C B-3, AS AMENDED
PLANTIFF	**NATIONAL BANK OF CANADA, IN ITS CAPACITY AS ADMINSTRATIVE AGENT UNDER THAT CERTAIN AMENDED AND RESTATED CREDIT AGREEMENT DATED JUNE 30, 2015, AS AMENDED**
DEFENDANTS	**SPYGLASS RESOURCES CORP. ET AL**

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