



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:
Interim Distribution

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.
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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	October 27, 2016
Time	10:00 a.m.
Where	Calgary Courts Centre, 601-5 th Street SW, Calgary AB
Before Whom	The Honourable Justice B.E. Romaine

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 (the “**Receiver**”) of Spyglass Resources Corp. (“**Spyglass**”), 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 (collectively, with Spyglass, the “**Debtors**”), seeks an Order in substantially the form attached hereto as **Schedule “B”**, for the following relief:
 - (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 Receiver’s Interim Statements of Receipts and Disbursements for the period from November 26, 2015 to October 17, 2016;
 - (c) Approving an interim distribution from the estate of the Debtors to the Syndicate (as defined below) in the amount of \$5 million; and
 - (d) Approving a holdback from the distribution in the approximate amount of \$3.75 million, comprised of the following anticipated disbursements, approximately:
 - (i) \$500,000 for the final payment under the final statement of adjustments of the sale to SanLing Energy Ltd.;
 - (ii) \$1.4 million for joint interest billings;
 - (iii) \$655,000 for liens and other priorities;

- (iv) \$175,000 for costs to complete;
- (v) \$445,000 for professional fees;
- (vi) \$575,000 for a contingency reserve.

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

Grounds for making this application:

Background

- 3. The Receiver was appointed as receiver of the Debtors pursuant to an Order of this Honourable Court dated November 26, 2015 (the “**Receivership Order**”).
- 4. Prior to the Receivership Order, the Debtors were engaged in the acquisition, enhancement and exploration of conventional oil and gas projects in Alberta. As of the granting of the Receivership Order, the Debtors had an interest in approximately 2,500 producing oil wells in Alberta. Spyglass was the operator of its core facilities. The Debtors’ operations produced approximately 9,000 barrels of oil equivalent per day. The particulars of Spyglass’ operations are set-out at paragraphs 11 to 22 of the First Report of the Receiver, dated January 20, 2016 (the “**First Report**”).
- 5. Prior to the granting of the Receivership Order, the Debtors were experiencing financial difficulties due primarily to the extended depressed market prices for crude oil, natural gas and other petroleum products. The Debtors attempted to alleviate their financial difficulties by engaging in a broad disposition process for core and non-core assets. Due to insufficient liquidity, the Debtors were unable to continue this disposition process and unable to close a transaction, prompting the Syndicate to successfully petition the Debtors into receivership.
- 6. Since its appointment, the Receiver has continued to operate the Debtors’ business.

Prior Distribution to the Syndicate

7. On July 6, 2016, this Court previously approved an interim distribution to the Debtors' first secured creditor, a syndicate of lenders (the "**Syndicate**"), in the amount of \$50 million (the "**First Distribution**"). Additionally, the Court approved a holdback in the amount of approximately \$12.8 million (the "**Initial Holdback**").
8. The background to the First Distribution and Initial Holdback is set forth in the Receiver's Fifth Report, dated June 27, 2016 (the "**Fifth Report**"), including the following facts which are also pertinent to the within Application:
 - (a) The Receiver has obtained a security review from its counsel, Borden Ladner Gervais LLP ("**BLG**"), indicating that the security granted by the Debtors to the Syndicate constitutes valid and enforceable first charge security over all present and after acquired assets and undertakings of the Debtors. The Syndicate's security includes certain registrations against the Debtors' real property interests at the Land Titles Registrar and the Debtors' mineral interests at the Department of Energy.
 - (b) As of November 25, 2015 the Debtors collectively owed the Syndicate \$171,877,149.11 (the "**Indebtedness**").
 - (c) Based on the Receiver's review, it appears there will be insufficient assets in the Receivership to extinguish the debts owed to the Syndicate. As a result, it is unlikely there will be any funds available to the Debtors' remaining creditors.
9. As of October 14, 2016, the amount owing to the Syndicate is \$128.9 million. The Receiver proposes to distribute a further \$5.0 million to the Syndicate, as more fully set out below.

Overview of Lien Claims Process

10. As a result of the numerous lien claims registered against the Debtors' lands and mineral interests received by the Receiver, and the extensive mineral interests held by the Debtors, the Receiver determined that a lien claims process would be the most efficient and cost-effective mechanism to ensure that all lien claims are accounted for and proper distributions made.
11. In order to ensure that the Receiver had received all lien claims that had been registered against the Debtors' mineral interests, the Receiver sought and obtained an Order from this Honourable Court, dated July 6, 2016, establishing a lien claims process (the "**Lien Claims Process Order**"). The Lien Claims Process Order established a liens claim bar date of August 22, 2016 (the "**Claims Bar Date**").
12. A summary of the claims received by the Receiver in accordance with the Lien Claims Process Order is as follows:

- (a) A total of 113 companies submitted a Proof of Claim Form;
 - (b) Of the 113 Proof of Claim Forms submitted,
 - (i) 91 of the claimants had not registered a lien right and were unsecured creditors ("**Unsecured Claimants**");
 - (ii) Two of the claimants submitted claims for annual surface or mineral lease payments, which have been clarified and settled by the Receiver;
 - (iii) Twelve of the claimants had not registered a lien right, but were claims submitted by Spyglass' joint venture partners for balances owing before and, in certain cases after, November 26, 2015. The Receiver is addressing these claims outside of the Lien Claims Process ("**JV Claimants**"); and
 - (iv) Eight claims were submitted by registered lien claimants ("**Registered Lien Claimants**").
13. The total amount of the claims submitted was \$2,427,107. Of this amount, \$1,418,135 related to Unsecured Claimants, \$479,258 related to JV Claimants, and \$526,347 related to Registered Lien Claimants.
14. In consultation with its counsel, BLG, the Receiver reviewed the Proof of Claim Forms submitted and issued Notices of Revision or Disallowance to the claimants in accordance with the Lien Claims Process Order. The total amount of the revised claims allowed by the Receiver was \$99,020.
15. As of October 11, 2016, BLG has received ten Notice of Disputes from claimants, disputing the Receiver's revision or disallowance of their claims. Of the ten, five were from Unsecured Claimants, one was from a JV Claimant, one was from a claimant with an unregistered lien, and three were from Registered Lien Claimants.
16. The outstanding balance of the revised claims by the Receiver which were not disputed and deemed accepted is \$28,901. The Notice of Disputes received from the JV Claimant and claimant with an unregistered lien claim total \$35,230 and \$45,368, respectively. The three Notices of Dispute received from the Registered Lien Claimants totals \$492,754. The Receiver does not anticipate making any payment relating to the Unsecured Claimants whom disputed their respective disallowances. As such, the maximum exposure to the Receiver for resolution of the remaining Notices of Dispute received is \$573,352.

17. The Receiver is presently working with its counsel to resolve the outstanding lien claim issues. To date, two of the five Notices of Dispute received from Unsecured Claimants have been withdrawn.

Proposed Interim Distribution and Holdback

18. The Receiver has prepared a Statement of Receipts & Disbursements from November 26, 2015 to October 17, 2016, located at paragraph 30 of the Sixth Report of the Receiver, dated October 17, 2016 which provides for total receipts, less disbursements, including the prior interim distribution made to the Syndicate of \$50.0 million, in the amount of \$8,396,560 (the “**Net Receipts**”).
19. In addition, the Receiver anticipates collection of further receipts in the amount of \$358,562, which is comprised of \$300,000 for repayment of deposits paid by the Receiver to trade vendors, \$58,562 in GST refunds, and an unknown amount in accounts receivable collections (the “**Anticipated Receipts**”).
20. The Receiver estimates costs to complete the receivership in the amount of \$3,755,122, which is comprised of the following:
 - (a) \$500,000 for the final payment under the final statement of adjustments of the sale to SanLing Energy Ltd.;
 - (b) \$1.4 million for joint interest billings;
 - (c) \$655,000 for liens and other priorities;
 - (d) \$175,000 for costs to complete;
 - (e) \$445,000 for professional fees; and
 - (f) \$575,000 for a contingency reserve,
 (collectively the “**Holdback**”).
21. The Receiver proposes to distribute the amount of \$5 million to the Syndicate, being the Net Receipts and the Anticipated Receipts, less the Holdback.
22. Such further and other basis as Counsel may advise and this Honourable Court may permit.

Material or evidence to be relied on:

23. The Sixth Report of the Receiver, dated October 17, 2016.

24. The Fifth Report of the Receiver, dated June 27, 2016.
25. The pleadings and Receiver's Reports previously filed in these proceedings.
26. Such further and other evidence as counsel may advise and this Honourable Court permit.

Applicable rules:

27. *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.
28. *Bankruptcy and Insolvency General Rules*, and in particular Rules 3, 6 and 11.
29. Such further and other rules as Counsel may advise and this Honourable Court permit.

Applicable Acts and regulations:

30. *Bankruptcy and Insolvency Act*, RSC 1985, c B-3, as amended, and in particular Part XI thereof.
31. Such further and other acts and regulations as Counsel may advise and this Honourable Court permit.

Any irregularity complained of or objection relied on:

32. None.

How the application is proposed to be heard or considered:

33. In person before the Honourable Justice B.E. Romaine, 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"

Service List

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 ADMINISTRATIVE AGENT UNDER THAT
CERTAIN AMENDED AND RESTATED CREDIT
AGREEMENT DATED JUNE 30, 2015, AS AMENDED

DEFENDANTS

SPYGLASS RESOURCES CORP. ET AL

Firm/Company	Email	Phone	Party Represented
Alberta Energy Regulator Suite 1000, 250 – 5 Street SW Calgary AB, T2P 0R4 Carole Hachey, Patricia Johnston & Keely Cameron	Carole.Hachey@aer.ca Patricia.Johnston@aer.ca Keely.Cameron@aer.ca	(403) 297-8448	Alberta Energy Regulator
B.C. Oil & Gas Commission PO Box 9331 Stn Prov Govt, Victoria BC, V8W 9N3 Mike Janzen	Mike.Janzen@bcogc.ca	(250) 419-4464 Fax: (250) 419-4403	B.C. Oil & Gas Commission
Orphan Well Association 1000, 250 - 5th Street SW Calgary AB T2P 0R4 Pat Payne, P.Eng	pat.payne@aer.ca	(403) 297-8981	Orphan Well Association
Blake, Cassels & Graydon LLP 855 – 2 nd Street SW Bankers Hall East Tower Calgary, AB T2P 4J8 Kelly Bourassa Ryan Zahara	kelly.bourassa@blakes.com ryan.zahara@blakes.com	(403) 260-9697 (403) 260-9628	National Bank of Canada, in its capacity as Administrative Agent under that certain amended and restated Credit Agreement, dated June 30, 2015, as amended
Borden Ladner Gervais LLP 1900, 520 – 3 rd Avenue SW Calgary, AB T2P 0R3 Josef G.A. Krüger, Q.C. Jessica L. Cameron Robyn Gurofsky	jkruger@blg.com jcameron@blg.com rgurofsky@blg.com	(403) 232-9563 (403) 232-9715 (403)-232-9774	Receiver, Ernst & Young Inc.

Ernst & Young Inc. 1000, 440 - 2nd Avenue SW Calgary, AB T2P 5E9 Neil Narfason Cassie Riglin Duncan MacRae	neil.narfason@ca.ey.com cassie.riglin@ca.ey.com duncan.macrae@ca.ey.com	(403) 206-5061	Receiver
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Grizzly Resources Ltd. 324-8 Avenue SW Calgary, AB T2P 2Z2 Jean MacLean	jmaclean@grizzlyresources.com	(403) 237-9600	Grizzly Resources Ltd.
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Leonard Zaseybida & Associated Petroleum & Gas Consultants 3602 1A Street SW Calgary, AB, T2S 1R5	leoz@telus.net	(403) 252-1700	
Rapid Rod Service Ltd. c/o Fasken Martineau 3400, 350-7 Avenue SW Calgary, AB T2P 3N9 David Both	dboth@fasken.com	(403)261-5507	Rapid Rod Service Ltd.
Precision Limited Partnership c/o Carscallen LLP 1500-407-2 Street SW Calgary, AB T2P 2Y3 Glenn Blackett	blackett@carscallen.com	(403)298-8474	Precision Limited Partnership
Jacar Energy Services, a division of Cascade Energy Services L.P. c/o Robb &Evenson PC 506, 933-17 Avenue SW Calgary AB T2T 5R6 Calvin Robb	crobb@robbevenson.com	(403) 541-1600	Jacar Energy Services, a division of Cascade Energy Services L.P.
Department of Justice, Tax Law Services, Prairie Region 601, 606-4th Street SW Calgary AB, T2P 1T1 Jill Medhurst-Tividar	Jill.Medhurst@justice.gc.ca		Canada Revenue Agency

Bidell Equipment Limited Partnership c/o McLeod Law LLP, Suite 300, 14505 Bannister Road SE, Calgary, AB, T2X 3J3 Shane King General Counsel : Cam Danyluk	sking@mcleod-law.com cdanyluk@totalenergy.ca		Bidell Equipment Limited Partnership
Sage Energy Corp. 261122 Wagon Wheel Crescent, Rocky View County, AB, T4A 0E2 Karen Narfason	Karen.narfason@sageenergy.ca	(403) 250-8810	Sage Energy Corp.
GE VFS Canada Limited Partnership 2300 Meadowvale Blvd, Suite 200 Mississauga ON, L5N 5P9 Helena Miller	Helena.miller@ge.com	(905) 858-6450	GE VFS Canada Limited Partnership
Bull Moose Capital LP 500, 505-8 Ave SW, Calgary AB, T2P 1G2 David Aycock	daycock@bullmoosecapital.ca	(403) 234-7204	Bull Moose Capital LP
Jim Pattison Industries Ltd. 1235-73rd Ave SE, Calgary AB, T2H 2X1 Ion Lazar	Ion.lazar@jplease.com	(403) 212-8900	Jim Pattison Industries Ltd.
Altagas Processing Partnership 1700, 355-4th Ave SW, Calgary AB, T2P 0J1 Paul McLoughlin	Paul.mcloughlin@altagas.ca	(403) 691-9865	Altagas Processing Partnership
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Standard Life Assurance Company of Canada 121 King Street West, Suite 810 Toronto, ON M5H 3T9			

ROYNAT INC. Suite 1500, 4710 Kingsway St. Burnaby, BC V5H 4M2	Fax # 604-646-2222		
GE RAILCAR SERVICES Suite 720, 530- 8th. Avenue SW Calgary, AB T2P 3S8	Fax # 403-531-2854		
Aird & Berlis LLP Brookfield Pl., 181 Bay Street Suite 1800, Box 754 Toronto ON, M5J 2T9 Harry Fogul	hfogul@airdberlis.com		Logan Leasing I, LLC and Longtrain Leasing I, LLC
Superior Propane, a Division of Superior Plus LP 1111 – 49th Avenue NE, Calgary AB, T2E 8V2	FAX # 403 - 730-7512		

Schedule “B”

Proposed Form of Interim Distribution Order

Schedule "B"

COURT FILE NUMBER **1501-13786**

COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE Calgary

Clerk's Stamp

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
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CORP.), MEOTA 2000 PARTNERSHIP,
PACE OIL & GAS PARTNERSHIP, PACE
OIL RESOURCES LTD. AND SEAVIEW
ENERGY PARTNERSHIP

DOCUMENT INTERIM DISTRIBUTION ORDER

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

DATE ON WHICH ORDER WAS PRONOUNCED: October 27, 2016

LOCATION WHERE ORDER WAS PRONOUNCED: Calgary Alberta

NAME OF JUSTICE WHO MADE THIS ORDER: B.E. Romaine

UPON the Application of Ernst & Young Inc., in its capacity as the court-appointed receiver (the “Receiver”) of all of the current and future property and undertakings of Spyglass Resources Corp. (“Spyglass”), 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 (collectively, with Spyglass, the “Debtors”), for an order approving an interim distribution to be made from the within Receivership Estate; **AND UPON** having read the Application, the Receiver’s Sixth Report, dated October 17, 2016 (the “Sixth Report”), the Affidavit of Service of Rhonda Lastockin, filed (the “Service Affidavit”), and the pleadings and proceedings filed herein, including the receivership order granted on November 26, 2015 (the “Receivership Order”); **AND UPON** hearing from counsel for the Receiver and any other interested party appearing at the Application;

IT IS HEREBY ORDERED AND DECLARED THAT:

1. The time for service of notice of this Application is abridged to the time actually given and service of the Application and supporting materials as described in the Service Affidavit is good and sufficient, and this hearing is properly returnable before this Honourable Court today and further service thereof is hereby dispensed with.
2. The Receiver’s Statement of Receipts and Disbursements for the period November 26, 2015 to October 17, 2016, as more particularly set out at paragraph 30 of the Sixth Report, is approved.
3. The Receiver is authorized to make an interim distribution to the National Bank of Canada, in its capacity as administrative agent under that certain amended and restated credit agreement dated June 30, 2015, as amended, for a syndicate of lenders (the “Syndicate”), in the amount of \$5 million.
4. The Receiver is authorized to maintain a holdback fund of \$3,755,122.

Miscellaneous Matters

5. Service of this Order shall be deemed good and sufficient by serving the same on:
 - (a) The persons listed on the Service List (attached as Schedule “A” to the Application); and
 - (b) By posting a copy of this Order on the Receiver’s website at: www.ey.com/ca/spyglassresources.
6. No other Persons are entitled to be served with a copy of this Order.

7. Service of this Order shall be deemed good and sufficient regardless of whether service is effected by PDF copy attached to an email, facsimile, courier, personal delivery or ordinary mail.

Justice of the Court of Queen's Bench of Alberta