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| COURT | COURT OF QUEEN'S BENCH OF ALBERTA | |
| JUDICIAL CENTRE | CALGARY | |
| 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., 1583662 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 | SIXTH REPORT OF THE RECEIVER<br><br>October 17, 2016 | |
| ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT | RECEIVER<br><br>Ernst & Young Inc.<br>2200, 215 - 2nd Street SW<br>Calgary, AB, T2P 1M4<br>Neil Narfason / Cassie Riglin<br>Telephone: (403) 206-5067 / (403) 206-5106<br>Email: neil.narfason@ca.ey.com<br>cassie.riglin@ca.ey.com<br><br>COUNSEL<br><br>Borden Ladner Gervais LLP<br>Josef G.A. Krüger, Q.C. / Jessica L. Cameron<br>1900, 520 - 3rd Avenue SW<br>Calgary, AB, T2P 0R3<br>Phone: (403) 232-9563 / (403) 232-9715<br>Fax: (403) 266-1395<br>Email: jkruger@blg.com<br>jcameron@blg.com | |

TABLE OF CONTENTS

## INTRODUCTION

1. Ernst & Young Inc. was appointed as Receiver (the "**Receiver**") of the property, assets and undertakings (the "**Property**") of Spyglass Resources Corp., 1196823 Alberta Ltd., 1288916 Alberta Ltd., 1398850 Alberta Ltd., 1583662 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, "**Spyglass**", the "**Company**" or the "**Debtor**") pursuant to an Order of this Honourable Court (the "**Receivership Order**") dated November 26, 2015 (the "**Appointment Date**").

2. The Receivership Order authorized the Receiver, among other things, to carry on the business of Spyglass, to sell, convey, transfer, lease or assign the Property out of the normal course of business, subject to approval of this Honourable Court for any transactions exceeding $1.0 million, or the aggregate of multiple transactions exceeding $5.0 million, and to make such arrangements or agreements as deemed necessary by the Receiver.

3. The purpose of this sixth report (the "**Sixth Report**") of the Receiver is to provide this Honourable Court with the Receiver's comments on:

    a) The activities of the Receiver since the fifth report of the Receiver dated June 27, 2016 (the "**Fifth Report**") and to provide a statement of receipts and disbursements for the period from the Appointment Date to October 11, 2016 (the "**Reporting Period**");

    b) The details of the lien claims process;

    c) The proposed interim distribution from the Receiver to the National Bank of Canada as agent for a syndicate of lenders (the "**Syndicate**");

    d) The remaining efforts to be undertaken by the Receiver to complete the administration of the Receivership; and

    e) The Receiver's recommendation.

## TERMS OF REFERENCE

4. Capitalized terms not defined in this Sixth Report are as defined in the Receivership Order.

5. All references to dollars are in Canadian currency unless otherwise noted.

## BACKGROUND

6. Prior to the Receivership Order, Spyglass was engaged in the acquisition, enhancement and exploration of conventional oil and gas projects in Alberta and British Columbia. As of the granting of the Receivership Order, Spyglass had a licensed interest in approximately 2,500 producing oil wells in Alberta and participating interest in over 4,500 wells. Spyglass was the operator of its core facilities. The Debtors' operations produced approximately 9,300 barrels of oil equivalent per day in Q3 2015. The particulars of Spyglass' operations are set out at paragraphs 11 to 22 of the Receiver's First Report, dated January 20, 2016.

7. 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 Syndicate, to successfully petition Spyglass into receivership.

## ACTIVITIES OF THE RECEIVER

### *SanLing Transaction*

8. As described in the Fifth Report, the sale of Spyglass' assets to SanLing Energy Ltd. ("**SanLing**") closed on June 15, 2016 (the "**Closing Date**"); however, the final statement of adjustments ("**FSOA**") for the sale was not due until approximately 90 days after the Closing Date, being September 15, 2016. The Receiver and SanLing have since mutually agreed to extend the FSOA to December 15, 2016.

9. As part of the transition of accounts to SanLing and continued administrative responsibilities, the Receiver has collected revenue and paid certain operating costs on behalf of SanLing. The net effect of these transactions will be settled by way of the FSOA.

*Administration*

10. The Receiver continues to pursue the collection of accounts receivable balances owing to Spyglass from joint venture ("**JV**") partners. The Receiver's counsel has issued various demand letters to collect and settle these outstanding balances.

11. The Receiver continues to wind down the administration of the receivership through the final settlement of accounts, records retention, finalization of employee matters and completion of GST filings.

## EXECUTION OF THE LIEN CLAIMS PROCESS

*Claims process*

12. 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 a Court 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**"). The Claims Bar Date was arrived at as being the date which is 90 days from November 25, 2015 (limitation for registering a lien against oil and gas properties), plus an additional 180 days (limitation for commencing statement of claim and filing certificate of lis pendens ("**CLP**")). As such, the Claims Bar Date incorporated the substantive lien rights pursuant to the *Builders' Lien Act* (Alberta) and only abrogated the procedural service provisions of the *Alberta Rules of Court* and the British Columbia *Supreme Court Civil Rules*.

13. The Receiver notified potential lien claimants of the Claims Bar Date by:

    a) Placing advertisements in the *Globe and Mail*, the *Calgary Herald* and the *Daily Oil Bulletin* on July 13, 2016 and again on July 20, 2016;

    b) Sending a notice to all of the Debtors' known creditors on July 19, 2016; and

    c) Placing a copy of the notice on the Receiver's website established in respect of these proceedings on July 6, 2016.

14. Establishing the Claims Bar Date was the most efficient and cost-effective mechanism to ensure that all lien claims were accounted for and proper distributions made.

*Claims resolution*

15. All lien claimants, whether known or unknown, were required to deliver to the Receiver, in accordance with the timelines under the Lien Claims Process Order and as set-out in the Fifth Report, a Proof of Claim Form and an Affidavit of Truth of Proof of Claim Form, which shall operate as the lien claimants' Affidavit to Prove Lien in accordance with section 48 of the *Alberta Builder's Lien Act* and similar to the information contained in an action to enforce claim of lien pursuant to section 33 of the *BC Builder's Lien Act*.

16. Any person who claimed to have a lien claim was to prepare a Proof of Claim Form and an Affidavit of Truth of Proof of Claim Form and was to serve it on the Receiver on or before 5:00 p.m. Calgary time, on the Claims Bar Date.

17. Any lien claim not submitted in accordance with this procedure by the Claims Bar Date or otherwise allowed by the claims process, was forever barred, released and extinguished pursuant to the Lien Claims Process Order.

18. A total of 113 companies submitted a Proof of Claim Form.

19. After the Claims Bar Date, the Receiver held a meeting with the Receiver's counsel, Borden Ladner Gervais LLP ("**BLG**") to review the claims.

20. Of the 113 Proof of Claim Forms submitted, 91 of the claimants had not registered a lien right and simply have an unsecured claim, subordinate to the Syndicate, Spyglass' first secured creditor ("**Unsecured Claimants**"). Two of the claimants submitted claims for annual surface or mineral lease payments which were clarified and settled with the claimants. Twelve of the claimants had not registered a lien right; however these claims were submitted by Spyglass' JV partners for balances owing before and, in certain cases after, the Appointment Date ("**JV Claimants**"). The payment of the post-receivership payables is being addressed outside of the Lien Claims Process between the Receiver, SanLing, and the JV partners. The remaining eight claimants submitted claims with a registered lien right ("**Registered Lien Claimants**").

21. 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.

Spyglass Resources Corp.
Lien claimants summary
CAD$, unaudited

Exhibit 1

| Claimant class | *Claims* | *Submitted* | *Revised* | *Accepted* | *Disputed* |
|---|---|---|---|---|---|
| Unsecured claimants | 91 | 1,418,135 | - | - | 45,368 |
| JV claimants | 12 | 479,258 | - | - | 35,230 |
| Registered lien claimants | 8 | 526,347 | 99,020 | 28,901 | 492,754 |
| Other claimants | 2 | 3,367 | - | - | - |
| | 113 | 2,427,107 | 99,020 | 28,901 | 573,352 |

22. The Receiver had the ability to question lien claimants who submitted a Proof of Claim Form to it by way of oral examinations or written interrogatories, as arranged between the Receiver and the subject lien claimant. Any lien claimant who received a list of written interrogatories from the Receiver had five business days to reply to the Receiver and furnish the Receiver with any requested documentation. Through its counsel, BLG, the Receiver sent a request for written interrogatories to three of the Registered Lien Claimants, requesting further information concerning their respective lien claims. The Receiver received responses from two of the three Registered Lien Claimants to its request for written interrogatories.

23. The Receiver had until September 22, 2016, or such later date as may have been reasonably required by the Receiver, to review the Proof of Claim Forms and the Receiver had the ability to allow or disallow all or any portion of a lien claim, and communicate any disallowance of a lien claim to the lien claimant (a "**Notice of Revision or Disallowance**"). The Receiver mailed the Notice of Revision or Disallowance to all claimants who submitted Proof of Claim Forms on September 22, 2016 by registered mail. The Notice of Revision or Disallowance was final, binding and conclusive, unless disputed in accordance with the Lien Claims Process Order as more fully discussed below,

24. The total amount of the revised claims allowed by the Receiver was $99,020.

25. Any lien claimant had ten business days from the date of receipt of a Notice of Revision or Disallowance to file and serve on BLG, a Notice of Dispute of the Notice of Revision or Disallowance (a "**Notice of Dispute**"). All claims which were not disputed were deemed to be accepted as final and binding.

26. As of October 11, 2016, BLG has received ten Notice of Disputes. Of the ten, five were from Unsecured Claimants, one was from a JV Claimant, one was from a claimant with an unregistered lien claim, and three were from Registered Lien Claimants.

27. 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.

28. The Receiver is presently working on resolving all Notice of Disputes received. In this regard the Receiver:

a) Is in the process of reviewing all Notice of Disputes received to attempt to resolve the disputes between the parties without further application to this Honourable Court;

b) Has, through its counsel BLG, requested that each Unsecured Claimant who filed a Notice of Dispute withdraw their Notice of Dispute on the basis that they have an unsecured claim, failing which the Receiver will bring an application seeking a declaration that the Notice of Disputes be set-aside; and

c) Advised those parties filing a Notice of Dispute that the Receiver will be exercising its ability to extend the time period within which it was required to bring an application to resolve the disputes (which was to occur within fifteen days of receipt of the Notice of Disputes, or after giving notice to each lien claimant, such later date as reasonably required by the Receiver to prepare its application materials), in an effort to resolve the disputes.

29. To date, two of the five Notices of Dispute received from Unsecured Claimants have been withdrawn.

STATEMENT OF RECEIPTS & DISBURSEMENTS

30. The following is a statement of the Receiver's receipts and disbursements during the Reporting Period:

| Spyglass Resources Corp.<br>Statement of receipts and disbursements<br>CAD$, unaudited<br>November 26, 2015 to October 11, 2016 | | Exhibit 2 |
|---|---|---|
| | *Notes* | |
| Opening cash balance | *a* | 1,455,521 |
| Receivers' certificates | *b* | 7,000,000 |
| Receipts | | |
| Sale of assets | *c* | 61,416,806 |
| Oil and gas sales | *d* | 44,748,632 |
| Joint interest billings and rental income | *d* | 7,395,495 |
| Royalty income | *d* | 371,137 |
| Sale of surplus equipment | | 125,424 |
| GST refunded | | 26,037 |
| Other | | 22,016 |
| | | 114,105,546 |
| Cash balance before disbursements | | 122,561,067 |
| Disbursements | | |
| Payments to Syndicate | *e* | 50,000,000 |
| Oil and gas operating costs | *f* | 29,949,882 |
| Joint interest billings and rental payments | *f* | 9,298,724 |
| Salaries and benefits | *g* | 8,123,177 |
| Interim payment for FSOA | *h* | 4,000,000 |
| Property and municipal taxes | *i* | 2,887,071 |
| Professional fees | *j* | 2,795,345 |
| Utilities | *f* | 2,148,656 |
| Office rent paid | *f* | 1,595,583 |
| Royalty payments | *f* | 961,133 |
| AER administrative levy | *k* | 911,160 |
| General and administration disbursements | *f* | 716,377 |
| Insurance | *f* | 492,412 |
| Interest and bank charges paid | *l* | 179,928 |
| GST remitted | | 77,955 |
| Receivership disbursements | *j* | 27,105 |
| | | 114,164,507 |
| Cash on hand | | 8,396,560 |

Notes:

a) Approximately $1.5 million was received from Spyglass' operating account on the Appointment Date. The Receiver did not freeze Spyglass' account upon appointment, because of the negotiations between Spyglass and the Syndicate pursuant to which Spyglass agreed not to oppose the enforcement of the Syndicate's debt, in exchange for the Syndicate and the Receiver agreeing to not return or cancel certain outstanding payments. This arrangement was disclosed to, and approved by the Court when the Receivership Order was granted.

b) The Receiver borrowed $7.0 million (of the $10.0 million authorized in the Receivership Order) in Receivers' certificates from the Syndicate to fund the Receivership.

c) The Receiver has collected approximately $59.7 million from the SanLing Transaction and approximately $1.7 million from the sale of other assets pursuant to multiple Orders of this Honourable Court dated February 1, 2016 and March 7, 2016; and

d) The Receiver has collected approximately $52.5 million from the Receiver continuing to operate Spyglass' business (including oil and gas sales, joint interest billings, rental income and royalty income).

e) The Receiver made an initial interim distribution, to the Syndicate of $50.0 million pursuant to an Order of this Honourable Court dated July 6, 2016:

   i. Of which $7.0 million related to the repayment of the Receivers' certificates, plus associated interest and fees; and

   ii. The remainder applied to the secured debt outstanding.

f) The Receiver has disbursed approximately $45.2 million from the Receiver continuing to operate Spyglass' business. Of this amount approximately:

   i. $40.2 million relates specifically to oil and gas operating costs (net of insurance recovery proceeds received and prepayments returned from vendors), joint interest billings, rental payments and royalty payments;

ii. $2.1 million relates to utility expenses;

iii. $1.6 million relates to office rent paid (net of subleased rental income received);

iv. $0.7 million relates to general administration expenses (including internet, telephone, telecommunications, computer services, accounting services, levies and courier expenses); and

v. $0.5 million relates to insurance expenses.

g) The Receiver has disbursed salaries and benefits of approximately $8.1 million (including Worker's Compensation Board disbursements).

h) The Receiver has disbursed an interim payment to SanLing of $4.0 million as determined on the second interim statement of adjustments ("**Second ISOA**") calculated on August 30, 2016.

i) The Receiver has disbursed approximately $2.9 million in relation to property taxes due in June and July 2016.

j) The Receiver has disbursed professional fees of approximately $2.8 million, of which:

i. Approximately $1.4 million relates to Receivers' fees and costs; and

ii. Approximately $1.4 million relates to the Receiver's counsels' fees and costs and other legal fees and costs where it is necessary to engage conflict counsel.

k) The Receiver has disbursed approximately $0.9 million in relation to the AER administrative levy.

l) The Receiver has disbursed interest and bank charges paid of approximately $0.2 million (net of interest income).

Total cash on hand held by the Receiver as at October 11, 2016 is approximately $8.4 million.

ESTIMATED COSTS TO COMPLETE RECEIVERSHIP

31. The Receiver estimates that the following estimated costs are required to complete the administration of the Receivership:

| Spyglass Resources Corp.<br>Proposed interim distribution<br>CAD$, unaudited | | Exhibit 3 |
|---|---|---|
| | *Notes* | |
| Cash on hand | | 8,396,560 |
| **Anticipated receipts** | | |
| Repayment of trade vendor deposits | *a* | 300,000 |
| GST refunds | *b* | 58,562 |
| Accounts receivable collections | *c* | unknown |
| | | 358,562 |
| **Holdback (anticipated disbursements)** | | |
| Final payment for FSOA | *d* | 500,000 |
| Joint interest billings | *e* | 1,403,824 |
| Liens and other priorities | *f* | 654,653 |
| Costs to complete | *g* | 175,000 |
| Contingency | *h* | 577,091 |
| Professional fees | *i* | 444,554 |
| | | 3,755,122 |
| Proposed interim distribution | | 5,000,000 |

**Notes:** The Receiver estimates that the following costs are required to complete the administration of the Receivership:

a) The Receiver issued prepayments of approximately $1.3 million to select trade vendors who required prepayment to continue providing goods and services necessary to continue the operations of Spyglass. The Receiver has requested that these trade vendors to return their prepayments, as the Receiver no longer requires their services. Approximately $1.0 million of the prepayments have been returned and $0.3 million remains outstanding to be collected.

b) The Receiver anticipates receiving post-filing GST refunds from Canada Revenue Agency of approximately $59,000.

c) The Receiver continues to pursue the collection of accounts receivable balances owing to Spyglass. The Receiver's counsel has issued various demand letters to collect and settle these outstanding balances. The collectible amounts are unknown at this time.

d) Included in the Second ISOA for the SanLing Transaction was a series of assumptions and accrued operating, general and administrative expenses. The FSOA will settle the results of the following differences:

i. The Second ISOA only included 15 days of revenue (oil and gas sales, joint interest billings, rental income and royalty income) for June. Because Spyglass received all 30 days for June, the difference is paid back to SanLing;

ii. The ISOA only included 15 days of operating expenses (oil and gas operating costs, joint interest payments, rental payments and royalties) for June. Because Spyglass paid all 30 days, the difference is paid back to the Receiver;

iii. The ISOA also included accrued operating, general and administrative expenses for vendors whom the Receiver and SanLing anticipated would not switch their billing records to SanLing until September 30, 2016 (the industry binding date for the SanLing Transaction). As a result of those vendors updating their records from Spyglass to SanLing earlier than anticipated, the difference in the accrual is paid back to SanLing; and

iv. The actual payments for property taxes and the AER administrative levy were less than expected.

In addition, the expenses pertaining to the Transition Services Agreement ("**TSA**") executed by the Receiver and SanLing, whereby services provided to SanLing by the Receiver, services provided to the Receiver by SanLing employees, intellectual property matters and rent were resolved at an agreed upon rate will be settled on the FSOA. The Receiver and SanLing estimate the final payment due to SanLing on the FSOA will be approximately $0.5 million.

e) Through the ongoing receipt and reconciliation of joint interest billings between the various JV partners of Spyglass, the Receiver continues to collect and pay joint interest billings related to the period between the Appointment Date and the Closing

Date. The Receiver estimates the total amount payable to JV partners to be approximately $1.4 million.

f) The lien claims which have been, or may yet be allowed by the Receiver in accordance with the Liens Claim Process, will constitute proven lien claims for the purposes of these proceedings. There is approximately $0.6 million of potentially proven lien claims. Additionally, there is $0.1 million of pre-receivership GST/HST owing to the Canada Revenue Agency.

g) The Receiver anticipates approximately $0.2 million of administrative costs to wind down the Spyglass operations. These costs include amongst others the storage and destruction of company files and the deletion and destruction of third party seismic data.

h) The Receiver will hold back a contingent reserve of approximately $0.6 million which will be sufficient to fully settle any additional priority claims and unforeseen costs to complete the administration of the Receivership. Excess funds held by the Receiver at the completion of the Receivership and after the settlement of claims in priority to the Syndicate will be distributed to the Syndicate.

i) Professional fees of $0.4 million, include outstanding professional fees incurred to date and estimated costs of the Receiver and Receiver's counsel to complete the administration of the estate.

(collectively the "**Holdback**").

SECOND INTERIM DISTRIBUTION

32. The Receiver has obtained an independent security review from BLG, (the "**Security Review**"), indicating that the security granted by Spyglass to the Syndicate constitutes a valid and enforceable first charge security over all present and after acquired assets and undertakings of Spyglass, subject to certain priority registrations which include liens, and which the Receiver will review and deal with by way of the proposed Holdback. As of the Appointment Date, Spyglass owed the Syndicate approximately $171.9 million excluding interest and professional fees accrued during the Reporting Period. In addition the Receiver borrowed $7.0 million in Receiver's Certificates to fund the Receivership. As of October 14, 2016, the amount owing to the Syndicate of all borrowings (including the Receiver's Certificates), interest and professional fees,

less the $50.0 million initial interim distribution pursuant to the Order of this Honourable Court dated July 6, 2016, is $128.9 million.

33. The Security Review also indicates that there are no subordinated secured creditors, other than two parties whose registrations appear to be limited in nature to specific assets. The Receiver is investigating these registrations but does not believe them to impact on the priority of the Syndicate's security or the proposed interim distribution contemplated.

34. The Receiver is proposing to make a second interim distribution (the "**Second Interim Distribution**"), as shown above in Exhibit 2, to the Syndicate of $5.0 million, to be applied to the secured debt. The Second Interim Distribution contemplates the Holdback, which will provide sufficient funds to cover other priority claims and the remaining administration of the Receivership. Excess funds held by the Receiver at the completion of the Receivership and after the settlement of claims in priority to the Syndicate will be distributed to the Syndicate.

## COMPLETION OF RECEIVERSHIP

35. The Receiver has to complete the following tasks to complete the administration of the Receivership:

a) Complete the FSOA;

b) Finalize the unresolved lien claims;

c) Finalize outstanding litigation matters;

d) Complete the collection of accounts receivable balances owing; and

e) Complete final administration and wind down of Spyglass' operations.

## RECOMMENDATION

36. The Receiver recommends that this Honourable Court approve the Second Interim Distribution to the Syndicate.

All of which is respectfully submitted this 17th day of October, 2016.

ERNST & YOUNG INC.
in its capacity as Court Appointed
Receiver of Spyglass

| | |
|---|---|
| Neil Narfason, CA, CIRP, CBV | Cassie Riglin, CA |
| Senior Vice-President | Senior Manager |