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COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

APPLICANT NATIONAL BANK OF CANADA

RESPONDENTS MOSAIC ENERGY LTD.

DOCUMENT SECOND REPORT OF THE RECEIVER

September 6, 2016

ADDRESS FOR SERVICE AND
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INTRODUCTION

1. Ernst & Young Inc. was appointed Receiver (the "Receiver") of the property, assets and undertakings (the "Property") of Mosaic Energy Ltd. ("Mosaic" or the "Company") pursuant to an Order of this Honourable Court (the "Receivership Order") dated April 26, 2016 (the "Receivership Date").
2. The Receivership Order authorized the Receiver, among other things, to carry on the business of Mosaic, 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 second report (the "Second Report") of the Receiver is to provide the Receiver's comments on:
 - a) an update on Phase I of the Sale and Investment Solicitation Process (the "SISP");
 - b) the Receiver's proposed amendment to the SISP;
 - c) the proposed claims procedure (the "Claims Procedure") and the proposed employee claims procedure (the "Employee Claims Procedure") to be conducted by the Receiver in respect of claims against Mosaic; and
 - d) the Receiver's recommendations.

TERMS OF REFERENCE

4. Capitalized terms not defined in this Second Report are as defined in the Receivership Order or the SISP.
5. All references to dollars are in Canadian currency unless otherwise noted.

BACKGROUND

6. Pursuant to an Order dated June 21, 2016 (the "SISP Approval Order"), this Honourable Court approved the SISP and the retention of RBC Dominion Securities Inc., a member company of RBC Capital Markets, to act as the selling agent (the "Selling Agent") in the SISP.

The SISP had a bid deadline of August 17, 2016 for non-binding letters of Intent (the "Phase I Bid Deadline") and a bid deadline of September 7, 2016 for binding offers (the "Phase II Bid Deadline").

7. In accordance with the SISP, the Receiver extended the Phase I Bid Deadline (receipt of non-binding letters of Intent) to August 24, 2016, 2016 and the Phase II Bid Deadline (receipt of binding bids) to September 21, 2016.
8. Additional background on Mosalc is available on the Receiver's website, www.ey.com/ca/Mosalc.

UPDATE ON SISP

9. The Receiver, with the assistance of the Selling Agent, commenced the marketing process of the SISP on June 22, 2016, immediately following granting of the SISP Approval Order.
10. The following is a summary of the key details of the SISP:
 - a) the SISP was advertised in the *Daily Oil Bulletin* and a press release was issued setting out relevant information about the SISP with *Canada Newswire* designating dissemination in Canada and major financial centres in the United States;
 - b) the Selling Agent delivered a non-confidential teaser letter describing the opportunity to acquire the Property of Mosalc to more than 1,500 prospective purchasers. The Teaser was also posted on the Receiver's website and the Selling Agent's RBC Rundle website;
 - c) the Selling Agent contacted potential bidders via telephone, e-mail and/or face to face meetings and described the opportunity to acquire the Property of Mosaic;
 - d) of the parties contacted, a certain number of them executed a confidentiality agreement, (the "Qualified Bidders"); and
 - e) Qualified Bidders were provided additional information via a confidential information memorandum and received access to a virtual data room containing confidential information on the Property, the business of Mosaic, and management presentations. Qualified Bidders also requested and received additional information from management.

11. Due to the significant interest in the SISP and to allow a sufficient period of time for the completion of management presentations and due diligence, the Receiver extended the deadline for Phase I of the SISP (receipt of non-binding letters of intent) to August 24, 2016 (the "Phase I Bid Deadline").

Non-binding Letters of Intent

12. Prior to the Phase I Bid Deadline, the Receiver received multiple non-binding letters of intent ("LOIs") in connection with the SISP.
13. As of the Receivership Date, Mosaic owed a syndicate of financial institutions (the "Lenders") approximately \$111.6 million, excluding accrued interest and professional fees (the "Secured Lenders' Debt"). In addition the Receiver borrowed \$4.5 million from the Lenders in Receiver's Certificates to fund the Receivership.
14. Pursuant to the SISP, a Qualified Bidder that submits an LOI that offers full cash payment of the Secured Lenders' Debt, and meets the other requirements to be a Qualified Phase I Bid, is currently deemed to proceed to Phase II of the SISP (the "Deemed Phase II Clause" contained within para. 19 of the SISP).
15. The SISP further required that LOIs provide a detailed description of all assumptions and conditions relating to six contracts related to oil and gas transportation, processing and marketing that were identified as contracts material to Mosaic's business operations (the "Material Contracts") which the Phase I Bidder has factored into its proposed purchase price.
16. Multiple of the Phase I LOIs identified that the purchase price was based upon an amendment to all or certain of the Material Contracts but did not identify the specific terms of the amendments.
17. The Receiver reviewed and assessed the LOIs received, in consultation with the Selling Agent and the Lenders, and determined that proceeding to Phase II of the SISP was not feasible as a result of the Deemed Phase II Clause, due to the lack of clarity supplied by certain bidders as it related to Material Contract assumptions and the overall number of Qualified Bidders currently deemed to be Phase II Bidders.
18. In Phase II of the SISP, Qualified Phase II Bidders are allowed further access to and are requested to conduct confirmatory due diligence materials including information regarding

mineral titles, material contracts, environmental diligence items and site visits (the "Phase II Due Diligence").

19. Certain actions of the Phase II Due Diligence, such as the review of hard copy mineral title records and site visits, cannot be completed by multiple Phase II Bidders during the same period. Due to the linear nature of the Phase II Due Diligence, the Receiver would be required to significantly extend the Phase II Bid Deadline from September 21, 2016 to allow Phase II Bidders to complete Phase II Due Diligence.

Proposed Phase Ib

20. As a result of the foregoing, the Receiver, in consultation with the Selling Agent and the Lenders, has proposed the addition of Phase Ib to the SISP. On August 30, 2016, the Selling Agent informed certain Qualified Bidders that had submitted Phase I Bids of the proposed addition of Phase Ib to the SISP.
21. Terms of the proposed Phase Ib are as follows:
 - a) a Phase Ib bid deadline of 12:00 p.m. MDT on September 15, 2016 (the Phase Ib Bid Deadline) for Qualified Bidders to submit new non-binding letters of intent;
 - b) for a non-binding letter of intent to be considered a Qualified Phase Ib Bid, it must:
 - i. be received prior to the Phase Ib Bid Deadline;
 - ii. comply with the qualifications per para. 14 of the SISP to be a Qualified Phase I Bid; and
 - iii. fully disclose the business terms of all proposed amendments to the Material Contracts that form the basis of the purchase price;
 - c) full copies of the Material Contracts will be uploaded to the electronic data room for consideration by Qualified Bidders in development of their Qualified Phase Ib Bids; and
 - d) the removal of the Deemed Phase II Clause from the SISP.

22. Phase Ib will allow the Receiver, in consultation with the Selling Agent and Lenders, to refine the Qualified Bidders that proceed to Phase II of the SISP and provide Qualified Bidders with further information concerning the overall process.
23. The Receiver, in consultation with the Selling Agent and Lenders, will determine the revised Phase II Bid Deadline based upon the LOIs received in Phase Ib of the SISP and notify all Qualified Phase II Bidders of the same.

CLAIMS PROCEDURE AND EMPLOYEE CLAIMS PROCEDURE

24. Based upon the results of Phase I of the SISP, there is a high likelihood that sales proceeds available from the SISP will be sufficient to fully repay the Secured Lenders Debt and issue a distribution to the unsecured creditors of Mosaic. Accordingly, the Receiver is seeking this Honourable Court's approval of a Claims Procedure and an Employee Claims Procedure for the filing and review of claims against Mosaic (the "Claims Procedure Order").
25. The Claims Procedure will establish claims against Mosaic as at the Receivership Date and arising from the Receiver's disclaimer or resiliation of leases or contracts subsequent to the Receivership Date (collectively, the "Claims").
26. The Employee Claims Procedure will establish employees' claims against Mosaic as at the Receivership Date and arising from the Receiver's termination of employee's employment with Mosaic subsequent to the Receivership Date (the "Employee Claims").
27. For the convenience of the Court, a summary of the Claims Procedure and Employee Claims Procedure has been provided in this Second Report. In the event of any discrepancy between this Second Report and the Claims Procedure Order, the Claims Procedure Order shall prevail.

Claims Procedure

Notification Process

28. The notification process is as follows:
 - I. the Receiver shall send a claims package including notice of the Claims Procedure Order and a proof of claim form (the "Claims Package") to each person identified as a creditor per Mosaic's books and records by regular prepaid mail, fax, courier or email on or before September 19, 2016;

- ii. the Receiver shall publish a notice of the Claims Procedure Order in the *Calgary Herald* on or before September 19, 2016;
- iii. the Receiver shall post the Claims Package on its website for the receivership of Mosalco on or before September 19, 2016; and
- iv. the Receiver shall send a Claims Package to any person requesting such material as soon as practicable on receipt of a written request for a Claims Package from such person.

Claims Bar Date

29. A claimant (other than an employee) must deliver a proof of claim setting out its Claim as at the Receivership Date so that it is received by the Receiver no later than 5:00 p.m. MDT, October 26, 2016 (the "**Claims Bar Date**"), or in the case of a claim arising as a result of the disclaimer of a lease or an agreement subsequent to the Receivership Date, the later of the Claims Bar Date or 30 days following the date on which the relevant lease or agreement is disclaimed (the "**Subsequent Claims Bar Date**").
30. The Receiver shall review each proof of claim received by the Claims Bar Date or Subsequent Claims Bar Date, as applicable and shall accept, revise or disallow claim as applicable.

Notice of Dispute

31. If the Receiver determines to revise or disallow a claim, the Receiver shall send a notice of revision or disallowance to the creditor (a "**Notice of Revision or Disallowance**").
32. Any creditor who disputes the classification or amount of its Claim as set forth in a notice of revision or disallowance, shall deliver a notice of dispute (the "**Notice of Dispute**") to the Receiver by 5:00 p.m. MDT on the day that is 15 days after the date of the Notice of Revision or Disallowance and follow the process for filing an application with the Court supported by an affidavit as set out in the notice of Dispute.
33. Upon receipt of a Notice of Dispute, the Receiver may attempt to resolve the classification and amount of the Claim with the creditor by consent.

Employee Claims Procedure

Notice to File Proofs of Claim

34. The Receiver shall send a claims package (an "Employee Claims Package") to each terminated employee by regular prepaid mail, fax, courier or email on or before September 19, 2016 in the case for all previously terminated Mosale employees or within three business days of the date of the termination of such employees.
35. The Employee Claims Package shall include a notice to employee indicating the value of the claim which the Receiver is prepared to allow as a claim to such creditors (the "Notice to Employee").
36. The Receiver shall also post a copy of the Employee Claims Package on its website.
37. In the event the employee agrees with the assessment of the amount and classification of their Employee Claim, they need not file a proof of claim or take any further action and upon no further action being taken; the Employee Claim shall be a proven claim.
38. The Receiver may attempt to consensually resolve the classification and amount of any Employee Claim with the employee prior to issuing a notice of revision or disallowance of such Claim. If the Receiver accepts the Employee Claim, then such Employee Claim shall be a proven claim.

Claims Bar Date

39. In the event the employee who receives an Employee Claims Package disagrees with the assessment of either the amount or classification (or both) of his or her Employee Claim as set out in the Notice to Employee, he or she must deliver a proof of claim setting out its Claim so that it is received by Receiver no later than the Claims Bar Date or 30 days following the date on which the Employee was terminated (the "Employee Claims Bar Date").
40. The Receiver shall review each proof of claim received by the Employee Claims Bar Date, as applicable and shall accept, revise or disallow the Employee Claim.

Employee Claims Officer

41. Rather than burden this Honourable Court with the resolution or determination of any disputed employee claims, the Receiver proposes that an employee claims officer (the "**Employee Claims Officer**") be appointed to resolve any disputed employee claims on an efficient and expedited basis. Such Employee Claims Officer would be appointed only if and when a disputed Employee Claim is received.
42. In the event that the Receiver and the employee are unable to agree to the appointment of an Individual as Employee Claims Officer, the parties shall jointly apply to this Honourable Court for the designation of an Employee Claims Officer.

Disputed Claims

43. If the Receiver determines to revise or disallow a Claim, the Receiver shall send a notice of revision or disallowance to the employee (a "**Notice of Revision or Disallowance by Employee**").
44. Any Employee who disputes the classification or amount of his or her Employee Claim as set forth in a Notice of Revision or Disallowance by Employee shall deliver a notice of dispute (a "**Notice of Dispute of Employee**") to the Receiver by 5:00 p.m. MDT on the day that is 15 days after the date of the Notice of Revision or Disallowance by Employee (the "**Deadline**") and follow the process for filing an application with this Honourable Court supported by an affidavit as set out in the Notice of Dispute of Employee.
45. Any employee who fails to deliver a Notice of Dispute of Employee by the Deadline shall be deemed to accept the classification and the amount of his or her Employee Claim as set out in the Notice of Revision or Disallowance by Employee and such Employee Claim as set out in the Notice of Revision or Disallowance by Employee shall constitute a proven claim.
46. Upon receipt of a Notice of Dispute of Employee, the Receiver may attempt to consensually resolve the classification and amount of the Employee Claim with the employee.
47. If the Receiver and the employee consensually resolve the classification and amount of the Employee Claim, the Receiver may accept a revised Employee Claim, and such Employee Claim will constitute a proven claim.

48. If not consensually resolved, the dispute will be referred to one of the Employee Claims Officer to be resolved in a process directed by such Employee Claims Officer, which process may include:

- a) filing of reply materials;
- b) questioning on any affidavits, under oath;
- c) exchange of written submissions; and/or
- d) conduct of an oral arbitration hearing;

all as may be directed by the assigned Employee Claims Officer.

49. The disputing employee or Receiver may file any decision of the Employee Claims Officer by way of an application to this Honourable Court returnable within 15 days of the rendering of any Employee Claims Officer determination.

RECEIVER'S RECOMMENDATIONS

50. The Receiver is recommending that this Honourable Court approve the:

- a) addition of Phase Ib of the SISP;
- b) Claims Procedure; and
- c) Employee Claims Procedure.

All of which is respectfully submitted this 6th day of September, 2016.

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



Neil Narfason, CA, CIRP, CBV
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