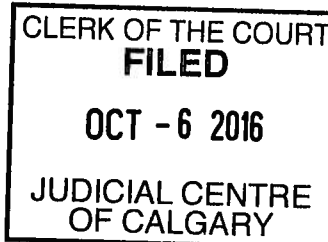


COURT FILE NUMBER 1601 05495
COURT COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE CALGARY
APPLICANT NATIONAL BANK OF CANADA
RESPONDENTS MOSAIC ENERGY LTD.
DOCUMENT THIRD REPORT OF THE RECEIVER



October 6, 2016

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
PARTY FILING THIS DOCUMENT

RECEIVER

ERNST & YOUNG INC.
Calgary City Centre
2200 - 215 2nd Street SW
Calgary AB T2P 1M4
Neil Narfason / Peter Chisholm
Telephone: (403) 206-5067 / (403) 206-5061
Email: neil.narfason@ca.ey.com
peter.chisholm@ca.ey.com

COUNSEL

Norton Rose Fulbright Canada LLP
Howard Gorman, Q.C. / Randal S. Van de Mosselaer
400 3rd Avenue SW, Suite 3700
Calgary AB T2P 4H2
Telephone: (403) 267-8144 / (403) 267-8196
E-mail: howard.gorman@nortonrosefulbright.com
randal.vandemosselaer@nortonrosefulbright.com

TABLE OF CONTENTS OF THE THIRD REPORT

INTRODUCTION.....	1
TERMS OF REFERENCE	1
BACKGROUND	1
PROPOSED AMENDEDMENT TO EMPLOYEE CLAIMS PROCEDURE	2
RECEIVER'S RECOMMENDATIONS	5

APPENDICES

EXAMPLE OF JUNE 30 EMPLOYEE NOTICE	APPENDIX A
EXAMPLE OF CURRENT EMPLOYEE NOTICE	APPENDIX B

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 third report (the "Third Report") of the Receiver is to provide the Receiver's comments on a proposed amendment to the employee claims procedure (the "Amended Employee Claims Procedure") contained in the September 14, 2016 Claims Procedure Order (the "Claims Procedure Order") and the Receiver's recommendation.

TERMS OF REFERENCE

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

BACKGROUND

6. Based upon the results of Phase I of the sale and investment solicitation process ("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.
7. On September 14, 2016, this Honourable Court granted the Claims Procedure Order, prescribing the process by which the identity and status of all claims against Mosaic are to be established for the purposes of the receivership proceedings. The Claims Procedure Order further established an employee claims procedure (the "Employee Claims Procedure").

8. The Employee Claims Procedure will establish employee's claims against Mosalc as at the Receivership Date and arising from the Receiver's termination of employee's employment with Mosalc subsequent to the Receivership Date (the "Employee Claims").
9. Additional background on Mosalc is available on the Receiver's website, www.ey.com/ca/Mosaic.

PROPOSED AMENDEDMENT TO EMPLOYEE CLAIMS PROCEDURE

Notice to Rehired Employees

10. On September 19, 2016, the Receiver mailed a claims package (the "Claims Package") to each of Mosaic's terminated employees in accordance with the Employee Claims Procedure. The Employee Claims Package included a notice to employee indicating the value of the claim which the Receiver was prepared to allow as a claim to such creditors (the "Notice to Employee").
11. The Claims Package contained a notice to employee ("Employee Notice") and an employee proof of claim form (the "Employee Proof of Claim").
12. The employees who received Claims Packages on September 19, 2016 included those employees (the "Rehired Employees") who had been terminated by the Receiver effective April 26, 2016 and subsequently rehired by the Receiver effective April 27, 2016 to assist with the ongoing operations of Mosaic during the receivership.
13. The employees of Mosaic who were not rehired by the Receiver were terminated effective April 30, 2016.
14. The Rehired Employees comprised of two categories:
 - a) "June 30 Employees": six employees rehired by the Receiver to assist with populating the virtual data room for the sale and investment solicitation. The June 30 Employees were provided notice on May 4, 2016 that their employment with the Receiver would be terminated effective June 30, 2016; and
 - b) "Current Employees": 27 employees rehired by the Receiver to assist with the ongoing operations of Mosaic (the "Current Employees"). The Current Employees were not provided with notice of termination at the date of their rehire and continue to be employed by the Receiver.

15. In accordance with the Employee Claims Procedure, the Employee Notice advised the Rehired Employees of the Receiver's assessment of the employee's claim (the "Employee Claim") arising from their termination by the Receiver on April 26, 2016.
16. On September 19, 2016, the Receiver sent a revised notice to employee (the "June 30 Employee Notice") via e-mail to all June 30 Employees. The June 30 Employee Notice advised the June 30 Employees of the following:
 - a) that the Receiver Intends to satisfy the Employee Claim by working notice ("Working Notice"), pay in lieu of working notice, or a combination thereof at the Receiver's discretion; and
 - b) that the Employee Claim was to be reduced for the period of notice that the Receiver provided the June 30 Employees between May 4, 2016 and June 30, 2016 (the "June 30 Notice Period").
17. Attached hereto as **Appendix "A"** is a June 30 Employee Notice with the Employee's Name and the Receiver's assessment of the Receiver's Employee Claim redacted for confidentiality purposes.
18. On September 19, 2016 and September 20, 2016, the Receiver sent a revised Employee Notice (the "Current Employee Notice") via e-mail to all Current Employees. The Current Employee Notice was subsequently sent via mail to the Current Employees on September 21, 2016. The Current Employee Notice advised the Current Employees of the following:
 - a) written notice that the Current Employee's employment with the Receiver will end no later than January 31, 2017 (the "January 31 Notice Period");
 - b) that the Receiver intends to satisfy the Employee Claim by Working Notice, pay in lieu of working notice, or a combination thereof at the Receiver's discretion; and
 - c) that the Employee Claim was to be reduced for the January 31 Notice Period.
19. Attached hereto as **Appendix "B"** is a Current Employee Notice with the Employee's Name and the Receiver's assessment of the Receiver's Employee Claim redacted for confidentiality purposes.

Notice Periods

20. The Receiver is requesting that this Honourable Court declare that:

- a) all June 30 Employees shall be deemed to have been provided with Working Notice as of May 4, 2016 that their employment was to be terminated by not later than June 30, 2016; and
- b) all Current Employees shall be deemed to have been provided with the January 31 Working Notice as of September 20, 2016 that their employment is to be terminated by not later than January 31, 2017; and
- c) The Receiver shall be entitled to terminate the employment of any Current Employee prior to January 31, 2017 by providing such Current Employee with a payment equal to the compensation that such Current Employee would have received between such termination date and January 31, 2017.

Adjustment for Notice Period Capacity

- 21. As part of Mosaic's initiatives to reduce overhead prior to the Receivership Date, Mosaic's employees had voluntarily agreed to a reduced work week with an associated reduction in salary (the "Reduced Work Week"). The Receiver has maintained the Reduced Work Week during the receivership proceedings.
- 22. Following the distribution of the June 30 Employee Notices and Current Employee Notices, the Receiver identified that the Employee Claims for certain of the Rehired Employees were understated as earnings during the Working Notice had not been adjusted for the Reduced Work Week.
- 23. An aggregate increase of approximately \$215,000 to the Receiver's assessment of the Employee Claims per the June 30 Employee Notices and Current Employee Notices is required to capture the Reduced Work Week (the "Reduced Work Week Adjustment").

Amendment to Employee Claims Procedure

- 24. The Receiver is requesting that this Honourable Court approve the amendments to the Employee Claims Procedure (collectively the "Amendments to the Employee Claims Procedure"), as follows:

- a) the Receiver is requesting a declaration that claims packages which were sent out are invalid and a direction that the Receiver send out new claims packages (the "Revised Claims Packages") on or before October 14, 2016 setting out the Receiver's assessment of the Employee Claims which will be adjusted for the Reduced Work Week Adjustment;
- b) the Receiver is extending the Claims Bar Date for an Employee to submit a Proof of Claim from October 26, 2016 to November 18, 2016;
- c) the Receiver shall be at liberty to calculate and satisfy (in whole or in part) the amount and classification of the Rehired Employees' proven claims (the "Employee's Proven Claims") by Working Notice, or by providing a Claim in lieu of Working Notice, or by any combination thereof, and the Receiver is at liberty to advise such Employee of the basis on which such Employee's Proven Claim is to be satisfied;
- d) an Employee's Proven Claim shall be reduced to zero in the event:
 - i. such Current Employee voluntarily resigns his or her employment prior to the end of any Working Notice that may be provided to such Current Employee (provided that such resignation is not the result of a constructive dismissal);
 - ii. such Current Employee is offered substantially similar employment by any purchaser of Mosaic's business or assets; or
 - iii. such Current Employee is terminated for Just Cause (as that term is defined at law).

RECEIVER'S RECOMMENDATIONS

25. The Receiver is recommending that this Honourable Court approve:

- a) the June 30 Notice Period;
- b) the January 31 Notice Period; and
- c) the Amendments to the Employee Claims Procedure described above.

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

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

A handwritten signature in black ink, appearing to be 'Narfason', with a long horizontal stroke extending to the right.

Neil Narfason, CA, CIRP, CBV
Senior Vice-President

A handwritten signature in black ink, appearing to be 'Peter Chisholm', with a stylized, cursive script.

Peter Chisholm, CA, CIRP
Vice President

APPENDIX A
EXAMPLE OF JUNE 30 EMPLOYEE NOTICE



Building a better
working world

NOTICE TO EMPLOYEE

**RE: NOTICE OF CLAIMS PROCESS PURSUANT TO THE CLAIMS PROCEDURE ORDER DATED
SEPTEMBER 14, 2016**

Date: [REDACTED]

Attention: [REDACTED]

Dear [REDACTED]

On April 26, 2016, Ernst & Young Inc. (the "**Receiver**") was appointed as receiver of the current and future assets, undertakings and properties of Mosaic Energy Ltd. ("**Mosaic**"), pursuant to an order of the Court of Queen's Bench of Alberta (the "**Court**").

On September 14, 2016, the Court granted a further order, prescribing the process by which the identity and status of all claims against Mosaic is to be established for the purposes of the receivership proceedings (the "**Claims Procedure Order**"). A copy of the Claims Procedure Order may be accessed online at www.ey.com/ca/mosaic.

Capitalized terms not defined herein have the meaning given to such terms in the Claims Procedure Order.

Pursuant to the Claims Procedure Order, the Receiver is required to send a notice to each terminated Employee of Mosaic. This Notice is to indicate the amount and classification of such Employee's Claim, as determined by the Receiver on the basis of its review of the books and records of Mosaic.

NOTICE PERIOD

Earlier today, you were sent a notice from the Receiver via e-mail and regular mail in accordance with the Claims Procedure Order.

For clarity, it is the Receiver's position that the notice period provided for in today's communication can be satisfied by working notice, pay in lieu of working notice, or a combination thereof at the Receiver's discretion.

AMENDED CLAIM ASSESSED

The Receiver has reviewed the books and records of Mosaic, including those books and records that relate to your employment with Mosaic, and, subject to your Notice Period of termination dated June 30, 2016, is prepared to accept a Claim against Mosaic from you as an unsecured claim in the amount of [REDACTED]

Please disregard your Employee Claim per the Notice of Employee's Claim dated September 16, 2016.

In the event that you agree with the Receiver's assessment of your claim, no further action is required.

However, if you wish to dispute the Receiver's assessment of your claim, you must take the steps

DISPUTE OF ASSESSMENT

The Claims Procedure Order establishes an Employee Claims Procedure, whereby if an Employee disagrees with the Receiver's assessment of such Employee's Claim, the Employee must complete and return an Employee Proof of Claim advancing a different amount and/or claiming secured status if applicable, attaching any supporting documentation. The Employee Proof of Claim must be completed using the attached form, and returned to the Receiver by registered mail, courier, email (in PDF format), personal delivery or facsimile transmission, addressed to:

Ernst & Young Inc., Court-appointed receiver of Mosaic Energy Ltd.
Attn: Carolyn Parker
2200, 215 2nd Street SW
Calgary, AB T2P 1M4
Email: carolyn.parker@ca.ey.com
Telephone: (403) 206-5331; Fax: (403) 206-5075

The completed Employee Proof of Claim must be actually received by the Receiver no later than 5:00 PM (Calgary Time) on October 26th, 2016 (the "Claims Bar Date").

If you are receiving this Notice to Employee after October 26th, 2016, the Completed Employee Proof of Claim must be actually received by the Receiver no later than 5:00 PM (Calgary Time) on the thirtieth (30th) Calendar Day after the date of this Notice to Employee, or If that day falls on a weekend or statutory holiday, the next Business Day (the "Subsequent Employee Claims Bar Date").

If no Employee Proof of Claim is received on or before the Claims Bar Date, or the Subsequent Employee Claims Bar Date, as the case may be, you will be conclusively deemed to have accepted the amount of your Claim as set out herein, and its status as unsecured. In all such cases your Claim as set out herein shall be a Proven Claim in the Receivership of Mosaic.

A copy of the Employee Proof of Claim form is enclosed; however, further copies may be accessed at www.ey.com/ca/mosaic.

If you choose to complete an Employee Proof of Claim, please note the following:

1. the person signing the form must have knowledge of the circumstances connected with the Claim;
2. the person signing the form must insert the place and date in the space provided; and
3. the signature must be witnessed.

Notice of Revision or Disallowance by the Receiver

If you send a completed Employee Proof of Claim to the receiver in accordance with the above, the Receiver will review the Employee Proof of Claim, and provide you with a notice in writing by registered mail, courier, email, or facsimile to advise as to whether your Claim is accepted, disputed in whole, or disputed in part. Where the Claim is disputed in whole or in part, the Receiver will issue a Notice of Revision or Disallowance indicating the reasons for the revision, or the disallowance, of your Claim.



Building a better
working world

Notice of Dispute by Employee

If you disagree with the Receiver's revision or disallowance of your Claim, the Employee Claims Procedure allows you to dispute the Receiver's revision or disallowance of your Claim by taking the following steps:

1. completing and returning a Notice of Dispute on the form prescribed in the Claims Procedure Order;
2. delivering the completed Notice of Dispute to the Receiver by registered mail, courier service, email (in PDF format) or facsimile within fifteen (15) Calendar Days of the date on which you receive the Notice of Revision or Disallowance from the Receiver; and,
3. file an application with the designated Employee Claims Officer, returnable within ten (10) Calendar Days of the date on which the Notice of Dispute is delivered to the Receiver, supported by an affidavit setting out the reasons for the dispute regarding your Claim.

The Employee Claims Officer will have the authority to decide any dispute regarding your Claim between you and the Receiver. Your Claim as determined by the Employee Claims Officer shall be a Proven Claim in the receivership of Mosaic.

CLAIMS NOT PROVEN OR ACCEPTED IN ACCORDANCE WITH THE PROCEDURES SET OUT IN THIS NOTICE TO EMPLOYEE, THE EMPLOYEE CLAIMS PROCEDURE, AND THE CLAIMS PROCEDURE ORDER, WILL BE FOREVER BARRED AND MAY NOT THEREAFTER BE ADVANCED AGAINST MOSAIC.

Additional information regarding the Mosaic receivership, as well as blank copies of any of the forms referenced herein, may be accessed at www.ey.com/ca/mosaic.

If you have any questions regarding the Employee Claims Procedure, as set out above, or the Claims Procedure Order, please contact the Receiver directly.

Dated the 19th day of September, 2016, at Calgary, Alberta,
Ernst & Young, Inc., in its capacity as Court-Appointed Receiver of Mosaic Energy, Ltd. and not its personal capacity.

Per:

Peter Chisholm, CA, CIRP
Vice-President

APPENDIX B
EXAMPLE OF CURRENT EMPLOYEE NOTICE

NOTICE TO EMPLOYEE

**RE: NOTICE OF CLAIMS PROCESS PURSUANT TO THE CLAIMS PROCEDURE ORDER DATED
SEPTEMBER 14, 2016**

Date: September 19, 2016

Attention: [REDACTED]

Dear [REDACTED]

On April 26, 2016, Ernst & Young Inc. (the "**Receiver**") was appointed as receiver of the current and future assets, undertakings and properties of Mosaic Energy Ltd. ("**Mosaic**"), pursuant to an order of the Court of Queen's Bench of Alberta (the "**Court**").

On September 14, 2016, the Court granted a further order, prescribing the process by which the identity and status of all claims against Mosaic is to be established for the purposes of the receivership proceedings (the "**Claims Procedure Order**"). A copy of the Claims Procedure Order may be accessed online at www.ey.com/ca/mosaic.

Capitalized terms not defined herein have the meaning given to such terms in the Claims Procedure Order.

Pursuant to the Claims Procedure Order, the Receiver is required to send a notice to each terminated Employee of Mosaic. This Notice is to indicate the amount and classification of such Employee's Claim, as determined by the Receiver on the basis of its review of the books and records of Mosaic.

NOTICE PERIOD

Earlier today, you were sent a notice from the Receiver via regular mail in accordance with the Claims Procedure Order.

For clarity, it is the Receiver's position that the notice period provided for in today's communication can be satisfied by working notice, pay in lieu of working notice, or a combination thereof at the Receiver's discretion. By way of this communication you are being provided with written notice that your employment with Mosaic will end no later than January 31, 2017 (the "**Notice Period**").

Between now and that time you are required to perform your regular duties to the company but may take reasonable, pre-approved time off to attend job interviews. This working notice of termination does not impact other rights which the Receiver may have in relation to your employment such as termination for just cause should that be necessary.

Should you quit or have your employment terminated for just cause prior to being formally provided with notice of your last day of work you will not be provided with any severance. We look forward to working with you as we wind down Mosaic.



Building a better
working world

AMENDED CLAIM ASSESSED

The Receiver has reviewed the books and records of Mosaic, including those books and records that relate to your employment with Mosaic, and, subject to your Notice Period of termination no later than January 31, 2017, is prepared to accept a Claim against Mosaic from you as an unsecured claim in the amount of [REDACTED]

Please disregard your Employee Claim per the Notice of Employee's Claim dated September 16, 2016.

In the event that you agree with the Receiver's assessment of your claim, no further action is required.

However, if you wish to dispute the Receiver's assessment of your claim, you must take the steps outlined below.

DISPUTE OF ASSESSMENT

The Claims Procedure Order establishes an Employee Claims Procedure, whereby if an Employee disagrees with the Receiver's assessment of such Employee's Claim, the Employee must complete and return an Employee Proof of Claim advancing a different amount and/or claiming secured status if applicable, attaching any supporting documentation. The Employee Proof of Claim must be completed using the attached form, and returned to the Receiver by registered mail, courier, email (in PDF format), personal delivery or facsimile transmission, addressed to:

Ernst & Young Inc., Court-appointed receiver of Mosaic Energy Ltd.
Attn: Carolyn Parker
2200, 215 2nd Street SW
Calgary, AB T2P 1M4
Email: carolyn.parker@ca.ey.com
Telephone: (403) 206-5331; Fax: (403) 206-5075

The completed Employee Proof of Claim must be actually received by the Receiver no later than 5:00 PM (Calgary Time) on October 26th, 2016 (the "Claims Bar Date").

If you are receiving this Notice to Employee after October 26th, 2016, the Completed Employee Proof of Claim must be actually received by the Receiver no later than 5:00 PM (Calgary Time) on the thirtieth (30th) Calendar Day after the date of this Notice to Employee, or if that day falls on a weekend or statutory holiday, the next Business Day (the "Subsequent Employee Claims Bar Date").

If no Employee Proof of Claim is received on or before the Claims Bar Date, or the Subsequent Employee Claims Bar Date, as the case may be, you will be conclusively deemed to have accepted the amount of your Claim as set out herein, and its status as unsecured. In all such cases your Claim as set out herein shall be a Proven Claim in the Receivership of Mosaic.

A copy of the Employee Proof of Claim form is enclosed; however, further copies may be accessed at www.ey.com/ca/mosaic.

If you choose to complete an Employee Proof of Claim, please note the following:

1. the person signing the form must have knowledge of the circumstances connected with the Claim;

2. the person signing the form must Insert the place and date in the space provided; and
3. the signature must be witnessed.

Notice of Revision or Disallowance by the Receiver

If you send a completed Employee Proof of Claim to the receiver in accordance with the above, the Receiver will review the Employee Proof of Claim, and provide you with a notice in writing by registered mail, courier, email, or facsimile to advise as to whether your Claim is accepted, disputed in whole, or disputed in part. Where the Claim is disputed in whole or in part, the Receiver will issue a Notice of Revision or Disallowance indicating the reasons for the revision, or the disallowance, of your Claim.

Notice of Dispute by Employee

If you disagree with the Receiver's revision or disallowance of your Claim, the Employee Claims Procedure allows you to dispute the Receiver's revision or disallowance of your Claim by taking the following steps:

1. completing and returning a Notice of Dispute on the form prescribed in the Claims Procedure Order;
2. delivering the completed Notice of Dispute to the Receiver by registered mail, courier service, email (in PDF format) or facsimile within fifteen (15) Calendar Days of the date on which you receive the Notice of Revision or Disallowance from the Receiver; and,
3. file an application with the designated Employee Claims Officer, returnable within ten (10) Calendar Days of the date on which the Notice of Dispute is delivered to the Receiver, supported by an affidavit setting out the reasons for the dispute regarding your Claim.

The Employee Claims Officer will have the authority to decide any dispute regarding your Claim between you and the Receiver. Your Claim as determined by the Employee Claims Officer shall be a Proven Claim in the receivership of Mosaic.

CLAIMS NOT PROVEN OR ACCEPTED IN ACCORDANCE WITH THE PROCEDURES SET OUT IN THIS NOTICE TO EMPLOYEE, THE EMPLOYEE CLAIMS PROCEDURE, AND THE CLAIMS PROCEDURE ORDER, WILL BE FOREVER BARRED AND MAY NOT THEREAFTER BE ADVANCED AGAINST MOSAIC.

Additional information regarding the Mosaic receivership, as well as blank copies of any of the forms referenced herein, may be accessed at www.ey.com/ca/mosaic.

If you have any questions regarding the Employee Claims Procedure, as set out above, or the Claims Procedure Order, please contact the Receiver directly.



Building a better
working world

Dated the 19th day of September, 2016, at Calgary, Alberta,
Ernst & Young, Inc., in its capacity as Court-Appointed Receiver of Mosaic Energy, Ltd. and not its personal
capacity.

Per:

A handwritten signature in black ink, appearing to read 'Peter Chisholm'.

Peter Chisholm, CA, CIRP
Vice-President