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OF CALGARY

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| 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 | NINTH REPORT OF THE RECEIVER<br>October 23, 2017 |
| ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT | RECEIVER<br><br>ERNST & YOUNG INC.<br>Calgary City Centre<br>2200 - 215 2nd Street SW<br>Calgary AB T2P 1M4<br>Neil Narfason / Peter Chisholm<br>Telephone: (403) 206-5067 / (403) 206-5061<br>Email: neil.narfason@ca.ey.com/<br>peter.chisholm@ca.ey.com<br><br>COUNSEL<br><br>Norton Rose Fulbright Canada LLP<br>Howard A. Gorman, Q.C. / Gunnar Benediktsson<br>400 3rd Avenue SW, Suite 3700<br>Calgary AB T2P 4H2<br>Telephone: (403) 267-8144 / (403) 267-8256<br>E-mail: howard.gorman@nortonrosefulbright.com/<br>gunnar.benediktsson@nortonrosefulbright.com |

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APPENDIX

## 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 by 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 Ninth Report (the "Ninth Report") of the Receiver is to provide this Honourable Court with an overview of the proof of claim filed by Pembina Pipeline Services LP ("Pembina") in the claims procedure (the "Claims Procedure") approved by an Order of this Honourable Court dated September 14, 2016 (the "Claims Procedure Order") arising from a 13th month adjustment for natural gas transportation and processing during 2016 and the Receiver's recommendation.

## TERMS OF REFERENCE

4. Capitalized terms not defined in this Ninth Report are as defined in the Receivership Order, the sale and investment solicitation process (the "SISP") approved by Order of this Honourable Court dated June 21, 2016, the Claims Procedure Order or the Order of this Honourable Court dated February 2, 2017 (the "Receivership Claims Procedure Order") approving the Receivership Claims Procedure.

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

## BACKGROUND

6. Mosaic is a privately owned company incorporated under the laws of the Province of Alberta and under the *Canada Business Corporations Act* on July 13, 2004. The Company was focused on the exploration for and the development, production, and acquisition of petroleum and natural gas reserves, and is primarily focused on multi zone horizons in the deep basin of the Western Canadian sedimentary basin.

7. Additional background on Mosaic is available on the Receiver's website, www.ey.com/ca/Mosaic.

## PEMBINA 2016 13TH MONTH ADJUSTMENT CLAIM

*Background*

8. Mosaic's oil and gas properties, including the Kakwa Property, were marketed under the SISP. The SISP generated recoveries sufficient for the Receiver to fully settle all Claims outstanding as at the Receivership Date and issue a distribution to the shareholders of Mosaic in the amount of $160.0 million. The Receiver is continuing to hold a reserve to settle unresolved Claims and expects to issue an additional distribution to the shareholders of Mosaic.

9. As at the Receivership Date, Mosaic's core oil and gas property was the Kakwa Property. Mosaic had entered into a Gas Handling Agreement with Pembina dated November 1, 2014 (the "GHA") for the Resthaven 8-11-60-3W6 Gas Processing Facility (the "Resthaven Plant") for Pembina to provide gas transportation and processing services to Mosaic at the Kakwa Property.

10. The SISP resulted in the sale of the Kakwa Property to Strath Resources Ltd. (the "Strath Transaction"). Pursuant to the Strath Transaction, the GHA was assigned to Strath, without amendment effective January 1, 2017 (the "Effective Date"). The assignment of the GHA avoided damages that Pembina may have claimed against Mosaic if the Receiver was required to disclaim the GHA to complete a sale of the Kakwa Property.

11. The Receiver operated Mosaic's oil and gas wells prior to the closing of the Strath Transaction including transportation and processing of production with Pembina pursuant to the GHA.

12. The Receiver has settled all amounts due to Pembina as at the Effective Date, with the exception of the 13th month adjustment (the "13th Month Adjustment Claim") due for 2016 under the GHA. The 13th Month Adjustment Claim arises from Mosaic's operating and capital cost adjustment associated with gas transportation and processing at the Resthaven Plant during 2016. A statement submitted by Pembina identifying the components of the 13th Month Adjustment Claim is attached hereto as appendix "A".

*Proof of Claim*

13. Prior to the Claims Bar Date (as defined in the Claims Procedure Order), Pembina filed a placeholder claim for the 13th Month Adjustment Claim in accordance with the Claims Procedure and advised the Receiver that the final amount due under the 13th Month Adjustment would be finalized on or before May 2017.

14. On April 11, 2014, Pembina filed with the Receiver an amended 13th Month Adjustment Claim in the amount of $1.29 million representing the final amount claimed under the 13th Month Adjustment and the Receiver has continued to hold a reserve in this amount.

15. The 13th Month Adjustment is comprised of the following:

a) operating charge adjustments of $263,101, including GST (the "Operating Charge Adjustment"); and

b) maintenance capital cost adjustments of $1,029,137, including GST (the "Maintenance Capital Allocation").

16. Pursuant to the GHA, Pembina charged Mosaic an estimate of the operating charges and additional charges, including maintenance capital, throughout 2016. Estimated operating charges and additional charges are subject to a 13th month adjustment pursuant to the terms of the construction, ownership and operation agreement (the "CO&O Agreement") governing the Rethaven Processing Plant. The Receiver has attached Appendix III of Exhibit 'A' to the GHA hereto as Appendix "B" referencing the calculation of charges and 13th month adjustments under the GHA.

17. Mosaic is not a party to the CO&O Agreement. In order to maintain confidentiality amongst the owners of the Resthaven Plant, the CO&O Agreement has not been disclosed to the Receiver; however, a 13th month adjustment is standard in the oil and gas industry under similar agreements, and permits an operator to true-up estimated charges to actual charges with customers and partners.

18. The Receiver has reviewed the supporting schedule for the Operating Charge Adjustment and agrees with Pembina's claim of $263,101.35 in respect thereof.

19. The following is definition of Maintenance Capital Costs from Appendix III of Exhibit 'A' to the GHA:

*Maintenance Capital Cost - is the maintenance capital cost, equal to the total amount paid by Operator for any and all capital costs and expenses in respect of the Facility for that Year, but does not include any of the expenses that comprise the Operating Charge.*

20. In 2016 Pembina spent $5,880,186 on three maintenance capital projects at the Resthaven plant, which related to the installation of beds to remove mercury, a condensate stabilizer reboiler and a heat exchanger.

21. Pursuant to the GHA, Maintenance Capital Costs are to be allocated to producers in accordance with their processing capacity. The Resthaven Plant has processing capacity of 300MMcf per day and the GHA provides Mosaic with 50 MMcf per day of natural gas processing or 16.67% of total plant processing capacity. If properly characterized as claimable capital maintenance capital projects, Mosaic's share of 2016 Maintenance Capital Costs claimed by Pembina is calculated as $980,225, before GST, allocated between the three capital projects as follows:

Mosaic Energy Ltd.
2016 - 13th Month Adjustment Maintanence Capital Cost Allocation
CDN$

Table 1.0

| Capital Project | Total | Mosaic's %[1] | Mosaic Allocation |
|---|---|---|---|
| Mercury Bed | 4,220,777 | 16.67% | 703,603 |
| Condensate Stabilizer Reboiler | 1,303,785 | 16.67% | 217,340 |
| Heat exchanger | 355,624 | 16.67% | 59,282 |
| Total | 5,880,186 | | 980,225 |

[1]Mosaic's percentage of contracted processing capacity at the Resthaven Plant:
50 MMcf per day / Resthaven Plant capacity of 300 MMcf per day =16.67%

22. The Receiver has provided the 13th Month Adjustment Claim and supporting materials to Mosaic's majority shareholders, NGP IX Holdings I, S.A.R.L. and NGP Quatro S.A.R.L. (collectively, "NGP"), Mosaic Co-Investors S.A.R.L. and Sabertooth Resources S.A.R.L., (jointly referred to as the "Majority Shareholders").

23. NGP has advised the Receiver that it has concerns with the inclusion of capital costs in the 13th Month Adjustment Claim. NGP has expressed particular concern regarding Pembina's claim for the cost of installing the mercury beds, as Mosaic has commenced a legal action against Pembina related to historical mercury issues at the Resthaven Plant. That action has been assigned by the Receiver to the Majority Shareholders. More broadly, the Receiver understands that NGP does not agree that the costs claimed by Pembina in the Maintenance Capital Allocation amount to Maintenance Capital Costs within the meaning of the GHA.

24. Pembina is of the opinion that the above capital projects qualify as Maintenance Capital Costs under the GHA and are not expansion capital (as the capital projects do not increase capacity), or modification capital (as the capital projects do not provide additional functionality).

25. Pembina provided the Receiver with invoices and schedules supporting the capital costs incurred by Pembina for the mercury bed installation. Additionally, Pembina provided the Receiver with the approval for expenditure (the "AFE") authorizing the mercury bed installation, and suggested to the Receiver that the mercury beds represent new equipment for the plant and were not replacement equipment. Mosaic or the Receiver did not execute the AFE as Mosaic is not an owner in the Resthaven Plant and therefore, not a party to the CO&O Agreement. A summary of the costs incurred on the capital projects are attached hereto as appendix "C" and the AFE is attached hereto as appendix "D".

26. Pembina advised the Receiver that the installation of the mercury beds was required to maintain status quo operations under the GHA. The Resthaven Plant would have had to shut down due to safety regulations if the mercury beds had not been installed, and as a result Mosaic would not have been able to flow production to the plant.

RECEIVER'S RECOMMENDATION

27. The Receiver recommends that this Honourable Court grant an order authorizing and directing the Receiver to immediately distribute $263,101.35 to Pembina, representing the Operating Charge Adjustment.

28. The Receiver seeks this Honourable Court's advice and direction with respect to Pembina's claim of $1,029,137.82, representing the Maintenance Capital Adjustment.

Dated at Calgary this 23rd day of October, 2017.

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

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

Peter Chisholm, CPA, CA, CIRP, LIT
Vice President

# APPENDIX A

PEMBINA

**Resthaven Plant - 2016 Equalization**

| | |
|---|---|
| Producer | Mosaic |
| CC | 3609511 |
| BA | 500020 |

| Throughput e3m3 (WHDV) | Operating Paid | Operating OH Paid | rate e3m3 | Operating Costs Final | Operating OH Final | Difference Operating Costs | Difference Operating OH | Total | |
|---|---|---|---|---|---|---|---|---|---|
| 163,129.5 | $1,876,269.95 | $187,626.99 | $12.35 | $2,014,597.12 | $202,067.27 | $138,327.17 | $14,440.28 | $152,767.45 | Plant Opex P94954 |
| 159,230.7 | $0.00 | $0.00 | | $88,913.87 | $8,891.39 | $88,913.87 | $8,891.39 | $97,805.26 | Gath opex P1623 |
| | | | | | | | | $250,572.71 | |
| | | | | | | | | $12,528.64 | 5% GST |
| | | | | | | | | $263,101.35 | 13th Month Equalization |
| | | | | | | AFE Costs | AFE OH | | |
| | | | | | | $695,926.22 | $7,625.03 | $703,551.25 | AFE 16031 Mercury Removal |
| | | | | | | $214,485.99 | $2,811.53 | $217,297.52 | AFE 16069 Reboiler |
| | | | | | | $58,035.47 | $1,247.02 | $59,282.49 | AFE 16455 Heat Exchanger |
| | | | | | | | | $980,131.26 | AFE Costs |
| | | | | | | | | $49,006.56 | 5% GST |
| | | | | | | | | $1,029,137.82 | Total AFE Costs with GST |
| | | | | | | | | $1,292,239.17 | Mosaic Total |

# APPENDIX B

# APPENDIX III of EXHIBIT "A" to

## GAS HANDLING AGREEMENT FOR THE RESTHAVEN 8-11-60-3W6 GAS PROCESSING FACILITY

## HANDLING CHARGES

1. **Handling Charges**

Starting on the Effective Date and continuing until the end of the Term, the charges for the handling of Producer Inlet Substances pursuant to this Agreement for each Month (or portion thereof) shall be the sum of the following:

(a) the Capital Charge for each Month (or portion thereof), as determined in accordance with Paragraph 2 below;

(b) the Operating Charge for each Month (or portion thereof), as determined in accordance with Paragraph 3 below; and

(c) the Additional Charges for each Month (or portion thereof), as determined in accordance with Paragraphs 4 and 6 below.

2. **Capital Charge**

The "**Capital Charge**" or "**CC**" for each Month (or portion thereof) shall be payable starting on the Effective Date and continuing until the end of the Term, and shall be calculated as follows:

**CC = CC1 + CC2**

where:

**CC1** is the monthly capital fee for the Gathering System as set out below; and

**CC2** is the capital fee for the Resthaven Plant, which is equal to the Resthaven Plant Capital Fee set out below, multiplied by the total volume of Producer Inlet Substances delivered by Producer to the Resthaven Plant Inlet in each Month.

| Facility | Capital Fee |
|---|---|
| Gathering System (for the period from the start of operation of the Gathering System to October 1, 2015 | Volume based fee of $0.5129/mcf (to a maximum of $811,313 per Month) |
| Gathering System (as of October 1, 2015 | $811,313 per Month (1) |

| | |
|---|---|
| Resthaven Plant | $28.755 per $E^3m^3$ ($0.81/mcf) for interruptible service measured at the Resthaven Plant Inlet<br>$25.915 per $E^3m^3$ ($0.73/mcf) for Firm Service for Pembina Proprietary Volumes measured at the Resthaven Plant Inlet (the "**Firm Service Rate**") (2)<br><br>$ • per $E^3m^3$ ($ • /mcf) for Firm Service for Contributed Capacity measured at the Resthaven Plant Inlet (subject to negotiation with other Working Interest Owners that elect to contribute Contributed Capacity) |

<u>Notes</u>: 1) The Gathering System capital fee of $811,313 per month is based on a forecasted capital spend of $65 mm, incorporates a 6 month delay, and does not include an adjustment for the MITP (as defined in clause 9(a) of the Head Document). The actual monthly gathering fee will be calculated using the actual capital cost and will incorporate the MITP, as set out in clauses 9(a) and 9(b) of the Head Document. Gathering System capital fees charged prior to a final determination of the monthly fee shall be adjusted to match the final calculated fee.

2) The Resthaven Plant Firm Service capital fee of $25.915 per $E^3m^3$ ($0.73/mcf) for the Pembina Proprietary Volume Firm Service reflects the actual cost for the construction of the Resthaven Plant and a Class III cost estimate for construction of the Plant Expansion.

Notwithstanding the foregoing, the Capital Charge for firm service at the Resthaven Plant shall be applied to the greater of the Minimum Annual Volume Commitment and the volume of Producer Inlet Substances delivered for processing at the Resthaven Plant Inlet in each Contract Year, as set out in Appendices IX and XII.

## 3. <u>Operating Charge</u>

The "**Operating Charge**" or "**OC**" for each Month (or portion thereof) for each of the Gathering System and the Resthaven Plant shall be payable starting on the Effective Date and continuing until the end of the Term, and shall be calculated as follows:

$$OC = \frac{TOC}{TV} \times MPV$$

where:

**TOC** is the estimated total operating costs in respect of each of the Gathering System and the Resthaven Plant for the Year (including 10% overhead);

**TV** is the estimated total volume of Inlet Substances delivered by all Persons (including Producer) to each of the Gathering System and the Resthaven Plant for the Year; and

**MPV** is the total volume of Producer Inlet Substances delivered by Producer to each of the Facility Inlet and the Resthaven Plant Inlet for that Month (or portion thereof) pursuant to this Agreement.

4. **Additional Charges**

The "**Additional Charges**" or "**AC**" for each Month (or portion thereof) shall be payable starting on the Effective Date and continuing until the end of the Term, and calculated as follows:

$$AC = \frac{[(GHGC + MCC) \times PP]}{N}$$

where:

**GHGC** is the greenhouse gas cost, if any, equal to the total amount paid by Operator for any and all greenhouse gas costs and expenses whatsoever in respect of the Facility for that Year;

**MCC** is the maintenance capital cost, equal to the total amount paid by Operator for any and all capital costs and expenses in respect of the Facility for that Year, but does not include any of the expenses that comprise the Operating Charge;

**PP** is, for the purposes of the Resthaven Plant, the Producer Firm Service volume divided by the Resthaven Plant capacity, and for the Gathering System, Producer's total production into the Gathering System divided by the total throughput in the Gathering System; and

**N** is the number of Months in the Year (or portion thereof).

5. **Estimated Charges**

Following the Effective Date, Operator shall provide to Producer an estimate of the Operating Charge and the Additional Charges for each Month (or portion thereof) of a Year (or portion thereof) during the Term upon request by Producer for the first Year (or portion thereof) of the Term and on or before December 15 of each Year of the Term for the following Year. Such estimated Operating Charges and Additional Charges are subject to a 13th month adjustment pursuant to the terms of the CO&O.

6. **Charges for Failing to Take In Kind**

Pursuant to Clause 503 of the Gas Handling Procedure, any time that Producer fails to take or otherwise dispose of Producer Outlet Substances at any Facility Outlet, Producer shall be responsible for payment of the following fees, as applicable, plus applicable federal and provincial value added taxes:

(a) for Outlet Substances sold as marketable natural gas, the greater of 3% of the market netback price or $500.00 per Month;

(b) for Outlet Substances comprised of ethane, propane or butane, the greater of $5.00/m3 or $500.00 per Month;

(c) for Outlet Substances comprised of condensate, 2.5% of the market netback price; and/or

(d) for sulphur, $20.00/tonne with the market netback price (which market netback price may be positive or negative) subtracted therefrom.

# APPENDIX C

# Resthaven Mercury Bed Capital Cost Summary

| Cost element description | Cost | Pembina Cost Element Number |
|---|---|---|
| Pembina Labour Consultants | 4,169.00 | 601400 |
| Valves Materials | 31,691.53 | 602030 |
| AFE Overhead Expense | 45,755.42 | 602092 |
| Site Materials | 672,685.69 | 602117 |
| Frieght Services (Air Sea Rail Truck | 44,976.89 | 603020 |
| Integrity Facility Services | 2,637.86 | 603081 |
| Safety Services | 2,505.00 | 603085 |
| Consulting & Professional Services | 229,632.54 | 603088 |
| Site Services | 3,183,516.46 | 603100 |
| CL Professional - Senior | 1,018.72 | 950134 |
| CL Professional - Junior | 2,718.40 | 950136 |
| | **4,221,307.51** | **Grand Total** |

| | |
|---|---|
| E&Y % Share | 16.67% |
| E&Y Share | **703,551.25** |

# Resthaven Condensate Reboiler Capital Cost Summary

| Cost element description | Cost | Pembina Cost Element Number |
|---|---|---|
| Pipe/Fittings/Flanges Materials | 5,316.00 | 602000 |
| Transmitters/Switches Materials | 7,956.00 | 602008 |
| Electrical Materials | 20,074.00 | 602009 |
| Valves Materials | 11,419.74 | 602030 |
| Instruments & Controls Materials | 2,720.66 | 602062 |
| AFE Overhead Expense | 16,869.17 | 602092 |
| Packaged Equipment | 136,897.50 | 602100 |
| Site Materials | 13,478.15 | 602117 |
| Frieght Services (Air Sea Rail Truck) | 8,564.50 | 603020 |
| Integrity Facility Services | 2,137.86 | 603081 |
| Consulting & Professional Services | 625,763.55 | 603088 |
| Site Services | 451,178.70 | 603100 |
| CL Professional - Supervisor | 288.64 | 950133 |
| CL Professional - Senior | 1,018.72 | 950134 |
| CL Professional - Junior | 101.94 | 950136 |
| | **1,303,785.13** | **Grand Total** |

| | |
|---|---|
| E&Y % Share | 16.67% |
| E&Y Share | **217,297.52** |

# Resthaven Heat Exchanger Mitigation Study

| Cost element description | Cost | Pembina Cost Element Number |
|---|---|---|
| AFE Overhead Expense | 7,482.13 | 602092 |
| Environmental Services | 38,018.18 | 603084 |
| Consulting & Professional Services | 309,686.34 | 603088 |
| Travel Meals & Entertainment | 363.72 | 650108 |
| Travel Accomodation | 144.56 | 650116 |
| | **355,694.93** | **Grand Total** |

| | |
|---|---|
| E&Y % Share | 16.67% |
| E&Y Share | **59,282.49** |

# APPENDIX D

PEMBINA

## Pembina Gas Services LP
## Authorization for Expenditure (AFE)

| | | | |
|---|---|---|---|
| **Total This AFE (000's)** | **$4,705,000** | | |
| **Project Name:** Resthaven Mercury Bed | **Location (LSD)** 08-11-060-03 W6M | **Date Prepared:** Feb 25 2016 | **AFE. No.** C16031 |
| **Project Type:** 1. Gas Plant / 2 Gathering System / 3 Compressor / 4 Expense | | **Commission Date: (On stream)** Q2/2016 | Rev 1.00 / Rev Date November 25 2015 |
| **Business Manager:** [redacted] | **Project Manager:** [redacted] / Initials: | **Invoice Approval:** [redacted] | **Operations Rep:** [redacted] / Tolerance: +/-25% |

**General Description of Project:**

It has been determined that there is mercury in the gas stream at the Resthaven plant Mercury build up can cause Liquid Metal Embrittlement in the Brazed Aluminum Heat Exchangers (BAHEs) potentially causing failure of the BAHEs Therefore the addition of a process (a mercury removal bed) to remove the mercury from the gas stream is mandatory The addition of piping to bypass the BAHEs until the mercury removal bed is in place is to mitigate the revenue loss for both Pembina and our Partners in the facility In bypass mode the facility throughput will be limited to approximately 150 MMscfd and will produce a gas pipeline specification product (i e it will operate in dew-point mode) Bypass mode is not a deep cut operating mode

**AFE Type:**

| | |
|---|---|
| Gas Plant | X |
| GGS | |
| Compressor | |
| Expense | |

**Project Area:** Smokey Area Resthaven

**Justification of Project:**

Economic Justification Comments:

| Economics Attached: | Other Attachment: | Project Economic Indicators: | Budgeted Item: |
|---|---|---|---|
| Yes ☐ | Yes ☐ | NPV | Yes ☐ |
| | | P.I. Ratio | |
| | | IRR % | |
| No ☒ | No ☐ | Payout | No ☐ |

**Working Interest Owners:** WI % $

REDACTED BY RECEIVER

**Overhead rates Applied to Project:**
Circle or Highlight: 5%/3%/1% Other

**Total Project & AFE Cost (000's)**

| | | |
|---|---|---|
| | Project Total | $4,705,000 |
| Less: | Other AFE's/Costs | |
| | This AFE | $4,705,000 |
| | Total AFE | $4,705,000 |

**Cost Breakdown ($):**

| Description | Accounts | Amount ($) Gross |
|---|---|---|
| **Capital** | | |
| Project Management | B00 | $244,500 |
| Engineering | E00 | $145,000 |
| Supply Chain Management | P00 | $1,567,000 |
| Construction | S00 | $1,881,000 |
| Commissioning | V00 | $155,500 |
| Contingency | Z00 | $712,000 |
| | Expected Cash AFE. | $4,705,000 |

**Spending Profile**

| Year/Month | Incremental Amount |
|---|---|
| 1/16 | 1,300,000 |
| 2/16 | 800,000 |
| 3/16 | 2,374,000 |
| 4/16 | 180,000 |
| Overhead (5/3/1) | 51,000 |
| Total Estimate | 4,705,000 |
| Expected Cash AFE. | $4,705,000 |
| Total This AFE. | $4,705,000 |

| Required Approvals: | Signature | Date |
|---|---|---|