

COURT FILE NUMBER 1201-07521

COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

PLAINTIFF NATIONAL BANK OF CANADA

DEFENDANT TRAFINA ENERGY LTD.

DOCUMENT **THIRD REPORT OF FTI CONSULTING CANADA INC., IN ITS CAPACITY AS COURT-APPOINTED RECEIVER AND. MANAGER OF TRAFINA ENERGY LTD.**

January 3, 2017

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT

RECEIVER

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INTRODUCTION

1. FTI Consulting Canada Inc. was appointed Receiver and Manager (the “**Receiver**”) of the property, assets and undertakings (the “**Assets**”) of Trafina Energy Ltd. (“**Trafina**” or the “**Company**”) pursuant to an Order of this Honourable Court filed on June 13, 2012 (the “**Date of Appointment**”), as amended and restated by an Order of this Honourable Court filed on July 16, 2012 (the “**Receivership Order**”).
2. The Receivership Order authorized the Receiver, among other things, to carry on the business of the Company, to market and solicit offers to purchase the Assets of the Company, and to make such arrangements or agreements as deemed necessary by the Receiver.
3. To date, the Receiver has filed two reports on various aspects of the Receivership. Each of the reports and other information in respect of these proceedings are posted on the Receiver’s website at <http://cfcanada.fticonsulting.com/trafina/>.
4. The purpose of this third report (the “**Third Report**”) of the Receiver is to advise this Honourable Court with respect to:
 - (a) the status of various aspects of the receivership proceedings (the “**Receivership Proceedings**”);
 - (b) the Receiver’s receipts and disbursements from the October 1, 2012 to January 3, 2017; and
 - (c) the Receiver’s Recommendations (as defined below).
5. The Receiver is requesting the following relief from this Honourable Court:
 - (a) approving the Receiver’s actions and conduct throughout the Receivership Proceedings;

- (b) approving the Receiver's schedule of receipts and disbursements;
- (c) approving the proposed distribution of surplus funds to National Bank of Canada ("**National Bank**");
- (d) authorization for the destruction of the books and records if not claimed by the former directors within 30 days;
- (e) approval of the Receiver's Fees, the Receiver's Final Fees, the Receiver's Counsel's Fees and the Receiver's Counsels Final Fees (as each term is defined below); and
- (f) approving the discharge of the Receiver.

TERMS OF REFERENCE

- 6. In preparing this report, the Receiver has relied upon unaudited financial information, other information available to the Receiver and, where appropriate, Trafina's books and records and discussions with various parties (collectively, the "**Information**").
- 7. Except as described in this Report:
 - (a) the Receiver has not audited, reviewed or otherwise attempted to verify the accuracy or completeness of the Information in a manner that would comply with Generally Accepted Assurance Standards pursuant to the Chartered Professional Accountants Canada Handbook; and
 - (b) the Receiver has not examined or reviewed financial forecasts and projections referred to in this report in a manner that would comply with the procedures described in the Chartered Professional Accountants Canada Handbook.

8. Future oriented financial information reported or relied on in preparing this report is based on assumptions regarding future events; actual results may vary from forecast and such variations may be material.
9. The Receiver has prepared this report in connection with the motion described in the Receiver's Notice of Application returnable January 11, 2017. This report should not be relied on for other purposes.
10. Information and advice described in this Third Report has been provided to the Receiver by its counsel, Blake, Cassels & Graydon LLP (the "**Receiver's Counsel**") and has been provided to the Receiver to assist it in considering its course of action and is not intended as legal or other advice to, and may not be relied upon by, any other stakeholder.
11. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

CURRENT STATUS OF THE RECEIVERSHIP PROCEEDINGS

BACKGROUND

12. Trafina is an oil and gas company engaged in the production, exploration, development and acquisition of petroleum and natural gas properties in the Provinces of Alberta and Saskatchewan. Trafina is a public company listed on the TSX Venture Exchange with its head office located in Calgary, Alberta.
13. Trafina's operations included the following three core oil and gas exploration and production areas:
 - (a) operated and non-operated oil and natural gas properties located in central Alberta near Wetaskiwin (the "**Wetaskiwin Properties**");

- (b) a heavy oil play known as McMullen located in northeast Alberta (the “**McMullen Property**”); and
 - (c) certain properties which comprise operated oil and natural gas properties in Rangeview, Divide and Katherine located in southwest Saskatchewan (the “**SW Saskatchewan Properties**”).
- 14. Trafina’s unaudited March 31, 2012 financial statements indicated the following:
 - (a) book value of oil and gas assets totaling approximately \$13.4 million;
 - (b) secured debt of approximately \$3.2 million primarily owed to the National Bank. National Bank provided Trafina with an operating line of credit and is the most significant secured creditor with respect to these Receivership Proceedings; and
 - (c) unsecured creditors totaling \$4.5 million.
- 15. At the date of the granting of the Receivership Order, all of Trafina’s oil and natural gas wells had been shut-in with the exception of the Wetaskiwin Properties non-operated wells which were producing approximately 200 barrels of oil equivalent (“**BOE**”) per day of natural gas at the time of the receivership filing.
- 16. The Receiver previously sold all of Trafina’s oil and gas assets in two separate sales as follows:
 - (a) on July 16, 2012 the Receiver obtained an order approving the sale of all of Trafina’s SW Saskatchewan Properties;
 - (b) on October 17, 2012 the Receiver obtained an order approving the sale of the McMullen Property and Wetaskiwin Properties;

SALE OF SW SASKATCHEWAN PROPERTIES

17. On July 20, 2012, the Receiver closed the sale of the SW Saskatchewan Properties to Quattro Exploration and Production Ltd. ("**Quattro**") and received the net remaining funds of \$950,000 as set out in the asset sale agreement (total purchase price of \$1,000,000, including a \$50,000 deposit amount) (the "**Quattro ASA**").
18. The Quattro ASA was approved by an Order made on July 16, 2012 by this Honourable Court.

NATIONAL BANK LETTER OF CREDIT

19. At the date of the Second Report National Bank had an outstanding letter of credit in the amount of \$138,605.58 (the "**National Bank LOC**") held by the Government of Saskatchewan Ministry of Energy, now the Saskatchewan Ministry of the Economy (the "**SME**") in relation to the SW Saskatchewan Properties.
20. After closing the Quattro APA the LOC was to be released upon the transfer of the SW Saskatchewan Properties licenses from the Receiver to Quattro and payment of a security deposit by Quattro to the SME to take the place of the LOC.
21. Since the security deposit was not posted, the licenses for the SW Saskatchewan Properties remained in the name of the Receiver for several years. The SME requested that the Receiver not seek its discharge until all the SW Saskatchewan Properties had been transferred out of Trafina's name.

22. In November 2016, the Receiver was informed that all of the SW Saskatchewan Properties licenses had now been transferred out of Trafina's name. Accordingly the Receiver responded with a request to have the National Bank LOC returned.
23. The SME agreed to return the National Bank LOC and on November 22, 2016. The Receiver and National Bank received a letter from the SME advising that the National Bank LOC had been returned.

Sale of the McMullen and Wetaskiwin Properties

24. On October 31, 2012, the Receiver closed the sale of Trafina's remaining assets which included the McMullen Property and the Wetaskiwin Properties located in Alberta (the "**Quattro Remaining Assets ASA**"), and received the net remaining funds of \$2,925,000 as set out in the asset purchase agreement (total purchase price of \$3,075,000, including a \$150,000 deposit amount).
25. The Quattro Remaining Assets ASA was approved by an Order made on October 24, 2012 by this Honourable Court.

DISTRIBUTIONS

26. The Receiver completed the distributions to creditors as outline in the Second Report of the Receiver dated October 17, 2012 (the "**Second Report**") and as approved in the Distribution Order made October 24, 2012 by this Honourable Court.

ADMINISTRATIVE MATTERS TO BE COMPLETED

27. The Receiver has minor administrative matters to be completed in these Receivership Proceedings including, the completion of certain statutory and administrative duties filing the Receiver's final report with the Office of the Superintendent of Bankruptcy.

SUMMARY OF RECEIPTS AND DISBURSEMENTS

28. Receipts and disbursements from the Date of Appointment to January 3, 2016 are summarized as follows:

Schedule of Receipts and Disbursements		
Date of Appointment to January 3, 2017		Notes
Sale of assets	4,075,000	a
Oil and gas revenue	483,585	b
Miscellaneous refunds	75,217	c
GST collected	54,987	d
Tax refunds and credits	37,785	e
Total receipts	4,726,574	
Operating expenses	345,851	f
Receiver and legal fees	364,178	g
Commission - asset sales	130,500	h
Contractors/employees	89,666	i
Property taxes	81,237	j
GST paid	55,603	k
Other misc. expenses	54,568	l
Rent and utilities	45,101	m
Insurance	13,835	n
Disbursements to secured priority creditor	3,469,604	o
Total disbursements	4,650,143	
Net cash on hand	76,431	p

- (a) Sale of assets - comprise the gross proceeds relating to the sale of the SW Saskatchewan Properties, the McMullen Property and the Wetaskiwin Properties as approved by this Honourable Court on July 16, 2012 and October 24, 2012;
- (b) Oil and gas revenue – receipts received by the Receiver from Trafina’s operating oil and gas assets;
- (c) Miscellaneous refunds – relates to a refund received from Quattro;

- (d) GST collected – relates to GST received on oil and gas revenues and GST collected on the tangible assets included in the sale of the SW Saskatchewan, McMullen and Wetaskiwin Properties;
- (e) Tax refunds and credits – relates to GST and provincial incomes tax refunds and provincial tax credits received;
- (f) Operating Expenses – operating expenses relating to the Assets;
- (g) Receiver and legal fees – Receiver’s fees, its legal fees and disbursements in respect of the Receivership Proceedings;
- (h) Commission – sale of assets – relates to commissions paid to NRG Divestitures Inc. with respect to the closing of the sales of the SW Saskatchewan Properties, the McMullen Property and the Wetaskiwin Properties;
- (i) Contractors / employee costs – amounts disbursed by the Receiver relating to payroll and employee deductions;
- (j) Property taxes – property taxes paid on of the SW Saskatchewan Properties, the McMullen Property and the Wetaskiwin Properties;
- (k) GST paid – GST amounts disbursed relating to invoices paid;
- (l) Other miscellaneous expenses – amounts disbursed including filing fees paid to the Official Receiver, renewal fees for LOC, payments to the ERCB, and moving expenses;
- (m) Rent and Utilities – amounts disbursed in respect of the rental of office and storage space and utilities paid for continued operations;

- (n) Insurance – amounts disbursed in respect of insurance for employees as well as operating insurance for field properties; and
- (o) Disbursements to secured/ priority creditors – amounts disbursed to National Bank, Nexen Inc. and Ensign Drilling Partnership as approved for distribution in the Second Report.
- (p) Net cash on hand – at November 1, 2016, the Receiver currently holds \$76,431 in funds.

PROFESSIONAL FEES

- 29. Invoices rendered by the Receiver from the Date of Appointment to November 30, 2016 total \$258,993.04 exclusive of GST and expenses (the “**Receiver’s Fees**”). The accounts are will be made available upon request.
- 30. The Receiver anticipates issuing a final invoice in the amount of approximately \$5,000 (the “**Receiver’s Final Fees**”) in connection with work completed since November 2016 and additional time attending the final distribution and discharge application and final administrative matters including the issuance of final distributions, destruction of corporate records and completion of final statutory reporting to the Superintendent of Bankruptcy.
- 31. Invoices rendered by the Receiver’s Counsel from the Date of Appointment to February 28, 2015 total \$72,930.63 exclusive of GST (the “**Receiver’s Counsel Fees**”). The accounts will be made available upon request.
- 32. The Receiver’s Counsel anticipates issuing a final invoice in the amount of approximately \$8,000 (“**Receiver’s Counsel’s Final Fees**”) in connection with unbilled work completed in November 2016, plus additional time expected to be incurred preparing for and attending the final distribution and discharge application.

33. The Receiver is of the opinion that the Receiver's Fees and the Receiver's Counsel's Fees are appropriate and reasonable in the circumstances.

CORPORATE BOOKS AND RECORDS

34. The Company's books and records are currently located at an offsite storage facility. The Receiver is seeking this Honourable Court's authorization to destroy the remaining books and records including electronic data unless they are claimed by former directors of the Company within 30 days of the Receiver providing the former directors with notification that the books and records will be destroyed unless they are claimed within 30 days. The Receiver proposes to notify the former directors at the address listed on a search of the Alberta Corporation Registration system.

DISTRIBUTION OF SURPLUS FUNDS

35. In the event that there are residual funds available, the Receiver recommends they be distributed to National Bank without further leave of this Honourable Court, as National Bank is in the senior secured position. The total distributions to the National Bank will not be more than the total indebtedness owing to them.

TERMINATION OF RECEIVERSHIP PROCEEDINGS

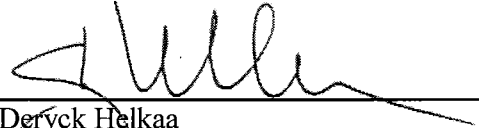
36. As described earlier in this report, the Receivership Proceedings are complete, with the exception of a smaller number of matters which are administrative in nature. In order to avoid additional costs of Court appearances, and with the support of National Bank, the Receiver seeks an Order terminating the Receivership Proceedings and discharging the Receiver, the Receiver will complete the final administrative tasks required.

RECEIVER'S RECOMMENDATIONS

43. The Receiver recommends that this Honourable Court approve an order providing for the following:
- (a) approving the Receiver's actions and conduct throughout the Receivership Proceedings;
 - (b) approving the Receiver's schedule of receipts and disbursements;
 - (c) approving the proposed distribution of surplus funds to National Bank;
 - (d) authorization for the destruction of the books and records if not claimed by the former directors within 30 days;
 - (e) approval of the Receiver's Fees, the Receiver's Final Fees, the Receiver's Counsel's Fees and the Receiver's Counsels Final Fees; and
 - (f) the discharge of the Receiver.

All of which is respectfully submitted this 3rd day of January, 2017.

FTI Consulting Canada Inc.
in its capacity as receiver and manager of
the assets, property and undertaking of
Trafina Energy Ltd.



Name: Deryck Helkaa
Title: Senior Managing Director,
FNI Consulting Canada Inc.