

COURT FILE NUMBER 1201-16124

COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

PLAINTIFF NATIONAL BANK OF CANADA

DEFENDANT SOLARA EXPLORATION LTD.

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

September 3, 2014

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT

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INTRODUCTION

1. On December 19, 2012 (the “Date of Appointment”), FTI Consulting Canada Inc. was appointed receiver and manager (the “Receiver”) of the assets, undertakings and properties (the “Assets”) of Solara Exploration Ltd. (“Solara” or the “Company”) pursuant to the order of this Honourable Court (the “Receivership Order”).
2. The Receivership Order authorized the Receiver, *inter alia*, 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. The Receiver filed its First Report in respect of these proceedings on November 1, 2013, its Second Report on February 7, 2014 and the Supplementary Report on February 14, 2014. All capitalized terms not otherwise defined herein shall have the meaning given to them in the Receiver’s previous Reports.
4. As described in the First Report, the Incipient PSA dated October 28, 2013, was entered into, subject to Court approval, for the sale of Solara’s Assets.
5. On November 7, 2013, Justice Hawco granted an Order (the “Approval and Vesting Order”) approving the Incipient APA. On November 12, 2013, the Receiver closed the Incipient APA and collected the net proceeds of approximately \$2.6 million
6. On February 14, 2014, Justice Eidsvik granted an Order (the “Interim Distribution Order”) which authorized and directed the Receiver to make an interim distribution to National Bank up to \$1,181,975.00 as set out in the Supplementary Report.

7. On May 26, 2014, Justice Jeffery granted an Order (the “Consent Order”) which authorized and directed the Receiver to make distributions to certain priority creditors and Lien Holders as set out in the Second Report February 7, 2014.
8. To date, the Receiver has filed three 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/solara/>.
9. The purpose of this report, (the “Third Report”), is to inform the Court on the following:
 - (a) The status of various aspects of the Receivership Proceedings;
 - (b) The Receiver’s receipts and disbursements from the Date of Appointment to August 31, 2014; and
 - (c) The settlement of the remaining claims for which the Receiver held back funds as outlined in the Receiver’s Second Report and the Supplementary Report.
10. The Receiver is requesting the following relief from this Honourable Court:
 - (a) Authorization for the Receiver to make a final distribution from the sale of the Assets (the “Final Distribution Order”);
 - (b) Approval of the fees and expenses of the Receiver and the Receiver’s Counsel;
 - (c) Discharging the Receiver and terminating the Receivership Proceedings upon the completion of the Receiver’s remaining administrative tasks relating to this receivership; and

- (d) Authorizing the Receiver to destroy the Company's corporate books and records if not claimed by the former directors within 30 days of being discharged.

TERMS OF REFERENCE

- 11. In preparing this report, the Receiver has relied upon unaudited financial information, other information available to the Receiver and, where appropriate, Solara's books and records and discussions with various parties (collectively, the "Information").
- 12. 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 Canadian Institute of Chartered Accountants 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 Canadian Institute of Chartered Accountants Handbook.
- 13. 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.
- 14. The Receiver has prepared this Report in connection with the motion described in the Receiver's Notice of Application dated September 3, 2014. The Report should not be relied on for other purposes.

15. The information and advice described in this Report as being 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.
16. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

STATUS OF RECEIVERSHIP MATTERS

ASSET RELIZATIONS AND DISTRIBUTION TO CREDITORS

17. Realization of the Assets is complete there are no further assets to be realized upon or recovered.
18. The Receiver has made distributions to creditors in accordance with previous Orders of the Court and as more fully detailed in the schedule of receipts and disbursements set out below. Reserves are currently held for payment of the remaining Receiver's costs and if any funds remain after the payment of Receiver's costs, such funds will be distributed to the National Bank of Canada (the "National Bank") on account of its secured claim prior to the discharge of the Receiver.
19. As previously reported, realizations will be insufficient to repay the claims of the secured creditors in full and there will be no amounts available for unsecured creditors of the Company.

INCIPIENT TRANSACTION

20. The Receiver and Incipient settled an Interim Statement of Adjustments on January 6, 2014 and the Receiver delivered to Incipient \$197,532.71 as set out therein. Since this time, the Receiver has been working with Incipient to complete the Final Statement of Adjustments. Several delays have occurred in completing the Final Statement of Adjustments as a result of delays in the transfer of licenses, changing administrative functions with customers to pay revenue directly to Incipient, receipt of final invoices from suppliers and joint venture partners.
21. On August 27, 2014, Incipient provided a draft Final Statement of Adjustments to the Receiver. The draft Final Statement of Adjustments contemplates approximately \$78,000 payable by the Receiver to Incipient. The Receiver notes that the draft Final Statement of Adjustments is the result of various meetings and negotiations with Incipient, however the Receiver is continuing to analyze the items contained in the draft Final Statement of Adjustments and confirm backup details.
22. While the Receiver has not confirmed amount payable of \$78,000 in the draft Final Statement of Adjustments, the Receiver recommends holding back the full amount until the Final Statement of Adjustments can be verified. The Receiver expects any further adjustments to the final Statement of Adjustments, if any, will be in the favour of the Receiver.

OFFICE LEASE AGREEMENT

23. On February 6, 2014 the Receiver vacated Solara's office space and terminated the short-term lease agreement.

ADMINISTRATIVE MATTERS TO BE COMPLETED

24. The following administrative matters remain to be completed in the Receivership Proceedings:

- (a) Finalizing the Incipient Final Statement of Adjustments;
- (b) Completion of certain statutory and administrative duties including filing the Receiver's final report with the Office of the Superintendent of Bankruptcy; and
- (c) Payment of Receivership expenses.

RECEIPTS AND DISBURSEMENTS PERIOD ENDED SEPTEMBER 2, 2014

25. Receipts and disbursements from the Date of Appointment to September 2, 2014 are summarized as follows:

Schedule of Receipts and Disbursements	
Oil and Gas Revenue	2,644,269
Proceeds from the Sale of Assets	2,569,291
Bank Account Transfer	220,500
GST Collected	133,732
Other Collections	108,557
Total Receipts	5,676,349
Operating Expenses	1,504,416
Payment to Secured Creditor	1,181,975
Lease & Royalty Payments	438,958
Receiver and Legal Fees	379,804
Lien Distribution	368,131
Contracted Employees	256,985
Incipient Statement of Adjustments	197,533
Taxes	192,730
Other Misc. Expenses	168,668
GST Paid	115,744
Rent and Utilities	70,503
Insurance	28,275
Other Professional Fees	23,090
GST Remitted	18,024
Total Disbursements	4,944,835
Net Cash on Hand	731,514

26. The following is a description of the major receipts and disbursements in the above table:

- (a) Oil and Gas Revenue – revenue collected from the Assets from the Date of Appointment;
- (b) Proceeds from the Sale of Assets – proceeds from the Incipient APA and;
- (c) Bank Account Transfer – monies transferred from the Company’s pre-receivership accounts to the Receiver’s account;
- (d) Other Collections – includes amounts received from joint venture partners;
- (e) Operating expenses – operating expenses relating to the Assets;
- (f) Payment to Secured Creditor – amounts paid to National Bank in accordance with previous Order of the Court;
- (g) Lease & Royalty Payments – surface and mineral lease payments and royalty payments related to the Assets;
- (h) Lien Distribution – amounts paid to valid lien holders in accordance with previous Orders of the Court;
- (i) Taxes – municipal taxes, 2013 property taxes and 2012 arrears with penalty and interest;
- (j) Other Miscellaneous Expenses – other amounts disbursed, including commission on the sale of the Assets, transfer for post effective date Revenue to Incipient and payment to the Count of Vermillion River as detailed in the Supplementary Report;

- (k) Other Professional Fees - pre-receivership fees and disbursements relating advisory services pursuant to National Bank's credit agreement; and
- (l) Net Cash on Hand – As at September 2 2014, the Receiver holds \$731,514.

ANALYSIS OF SECURED AND PRIORITY CLAIMS

VALIDITY AND ENFORCEABILITY OF NATIONAL BANK'S SECURITY

- 27. National Bank's security has been reviewed by the Receiver's Counsel who has advised that the security creates a valid security interest in favour of National Bank in the right, title and interest of Solara in its real and personal property.

UNRESOLVED CLAIMS

- 28. As described in the Supplementary Report the Receiver reserved funds to satisfy the Anterra Claim and the Pennwest Claim (collectively, the "Unresolved Claims").
- 29. Since the date of the Receiver's Second Report, the Receiver, the Receiver's Counsel, National Bank's counsel and counsel for Pennwest and Anterra have corresponded in an attempt to settle the Unresolved Claims.

ANTERRA CLAIM

- 30. The Anterra Claim, as described in the Supplementary Report, resulted from a priority dispute between National Bank and Anterra, the joint venture operator of certain wells which Solara held an interest in. On August 18, 2014 Anterra's counsel agreed to a settlement whereby Anterra agreed to accept \$80,000 ("Anterra Settlement") in full and final settlement of the Anterra Claim which was originally filed at \$276,655.

31. The \$80,000 is due to be paid by the Receiver upon approval of this Honourable Court with the remaining funds distributed to National Bank, as detailed below.
32. Anterra has advised the Receiver that they are in agreement with Anterra Settlement. The Receiver and the National Bank believe the settlement amount to be reasonable and appropriate in the circumstances.

PENNWEST CLAIM

33. The Pennwest Claim, as described in the Supplementary Report, resulted from a priority dispute between National Bank's security interest and Pennwest's trust claim for overriding royalties. On August 18, 2014 Pennwest's Counsel agreed to a settlement whereby Pennwest agreed to accept \$25,000 ("Pennwest Settlement") in full and final settlement of the Pennwest Claim. The Pennwest Claim originally filed asserted an unsecured claim of \$1,098,824, a trust claim of \$53,135 and a subrogated trust claim of \$84,650. The \$25,000 is due to be paid by the Receiver upon approval of this Honourable Court with the remaining funds distributed to National Bank, as detailed below.
34. Pennwest has advised the Receiver that they are in agreement with the Pennwest Settlement. The Receiver and the National Bank believe the settlement amount to be reasonable and appropriate in the circumstances.

GST

35. The Receiver has completed all GST filings from the date of Appointment and has remitted the net GST payable to the Canada Revenue Agency ("CRA").

36. On November 5, 2013 the Receiver received a notice from the CRA asserting a deemed trust claim (“CRA Trust Claim”) under subsection 222 (3) of the *Excise Tax Act* in the amount of \$31,469.91. The Receiver recommends paying the CRA Trust Claim and advises that National Bank is in agreement with paying the CRA Trust Claim. The Receiver had previously held funds to cover the estimated CRA Trust Claim.

PROFESSIONAL FEES

37. Invoices rendered by the Receiver from the Date of Appointment to July 31, 2014 total \$264,066.05 exclusive of GST (the “Receiver’s Fees”). The accounts are will be made available upon request.
38. The Receiver anticipates issuing a final invoice in the amount of approximately \$25,000 (the “Receiver’s Final Fees”) in connection with work completed throughout August 2014 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.
39. Invoices rendered by the Receiver’s Counsel from the Date of Appointment to July 31, 2014 total \$115,737.64 exclusive of GST (the “Receiver’s Counsel Fees”). The accounts are will be made available upon request.
40. The Receiver’s Counsel anticipates issuing a final invoice in the amount of approximately \$15,000 (“Receiver’s Counsel’s Final Fees”) in connection with unbilled work completed in July and August 2014 plus additional time expected to be incurred preparing for and attending the final distribution and discharge application.
41. 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

42. 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 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 directors at the address listed on a search of the Alberta Corporation Registration system.

PROPOSED FINAL DISTRIBUTION

43. A summary of the Receiver's proposed final distribution is present below:

Proposed Distribution	
Total Cash Available	731,514
Incipient APA Final Statement of Adjustments	78,000
Hold back for Remaining Administrative Matters	50,044
Hold back for Receiver's Final Fees	25,000
Hold back for Receiver's Counsel's Final Fees	15,000
Total Hold Backs	168,044
Proposed Distribution	
Anterra Settlement	80,000
Pennwest Settlement	25,000
CRA Trust Claim	31,470
National Bank	427,000
Total Proposed Distributions	563,470
Ending Projected Cash	-

44. The Receiver recommends making the above outlined distributions totaling \$563,470 (the “Final Distributions”). The Receiver does not expect there to be significant residual funds remaining from the held back funds once all administrative tasks have been completed. However, certain amounts remaining to be paid are based on estimates, therefore 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 and all claims ranking in priority to National Bank will have been satisfied once the Receiver has made the proposed Final Distributions.

TERMINATION OF RECEIVERSHIP PROCEEDINGS

45. 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, conduct and activities throughout the Receivership Proceedings;
 - (b) Approving the Receiver’s schedule of receipts and disbursements;
 - (c) Approving the proposed Final Distribution;

- (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 September, 2014.

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



Name: Deryck Heikaa
Title: Senior Managing Director,
FTI Consulting Canada Inc.