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JAN 11 2017

JUDICIAL CENTRE  
OF CALGARY

COURT FILE NUMBER 1501-01523

COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

PLAINTIFF NATIONAL BANK OF CANADA

DEFENDANT PALLISER OIL & GAS CORPORATION

DOCUMENT **SECOND REPORT OF FTI CONSULTING  
CANADA INC., IN ITS CAPACITY AS  
COURT APPOINTED RECEIVER AND  
MANAGER OF PALLISER OIL & GAS  
CORPORATION**

**January 11, 2017**

ADDRESS FOR SERVICE AND  
CONTACT INFORMATION OF  
PARTY FILING THIS  
DOCUMENT

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## INTRODUCTION

1. On February 12, 2015 (the “**Date of Appointment**”), FTI Consulting Canada Inc. was appointed as receiver and manager (the “**Receiver**”) of all the assets, undertakings and properties (the “**Property**”) of Palliser Oil & Gas Corporation. (“**Palliser**” or the “**Company**”) pursuant to an Order of the Honourable Mr. Justice S.J. LoVecchio (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 (as defined below) of the Company, and to make such arrangements or agreements as deemed necessary by the Receiver.
3. To date, the Receiver has filed one report dated July 4, 2016 (the “**First Report**”) on various aspects of the Receivership. Each of the report and other information in respect of these proceedings are posted on the Receiver’s website at <http://cfcanada.fticonsulting.com/palliser/>.
4. The purpose of this report, (the “**Second Report**”), is to inform the Court on the following:
  - (a) the activities of the Receiver since the Receiver’s First Report dated July 11, 2016;
  - (b) the Receiver’s receipts and disbursements from the Date of Appointment to January 11, 2017;
  - (c) the Receiver’s proposed distribution; and
  - (d) the Receiver’s Recommendations (as defined below).
5. The Receiver is requesting the following relief from this Honourable Court:

- (a) approval of the Receiver's actions since July 11, 2016;
- (b) approval of the Receiver's receipts and disbursements from the Date of Appointment of January 11, 2017;
- (c) authorization for the Receiver to make an interim distribution from the sale of the Assets (the "**Interim Distribution**");
- (d) authorization for the Receiver to destroy the Company's corporate books and records if not claimed by the former directors within 30 days of being discharged;
- (e) approval of the fees and expenses of the Receiver and the Receiver's Counsel (as defined below); and
- (f) discharge of the Receiver and termination of the Receivership Proceedings upon the completion of the Receiver's remaining administrative tasks relating to this receivership.

## **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, Palliser'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 dated January 11, 2017. The Report should not be relied on for other purposes.
  10. Information and advice described in this Second 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.
  12. Capitalized terms not otherwise defined herein have the meaning given to them in the Receivership Order, Sale Approval and Vesting Order (as defined below) or the First Report.

## **STATUS OF RECEIVERSHIP MATTERS**

13. On July 11, 2016, the Honourable Court granted an Order (the "**Sale Approval and Vesting Order**") which, inter alia, authorized and approved the execution of the asset purchase agreement (the "**Petrocapita APA**") with Petrocapita Oil and Gas LP ("**Petrocapita**") and authorized and directed the Receiver to take such additional steps to complete the transaction (the "**Transaction**").

**PETROCAPITA TRANSACTION**

14. On July 11, 2016, in accordance with the Sale Approval and Vesting Order and the Petrocapita APA the Receiver closed the Transaction with Petrocapita.
15. The Receiver and Petrocapita settled an Interim Statement of Adjustments on July 11, 2016 and since that time have been working to complete the Final Statement of Adjustments. On November 29, 2016, the Receiver and Petrocapita agreed on the Final Statement of Adjustments which contemplated \$55,133.00 payable to the Receiver. On November 30, 2016 Petrocapita delivered payment to the Receiver, completing the final deliverable in the Petrocapita APA pursuant to the Transaction.

**ASSET RELIZATION**

16. Realization of the Assets is now complete as contemplated in the Transaction and there are no further assets to be realized upon or recovered. The remainder of this report addresses the proposed Interim Distribution of the net proceeds received by the Receiver from the sale of the Assets.

**ADMINISTRATIVE MATTERS TO BE COMPLETED**

17. The following administrative matters remain to be completed in the Receivership Proceedings:
  - (a) completion of requests from the CRA with respect to the Receivership period GST filings;
  - (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 and final distributions, in accordance with the proposed Interim Distribution order.

## SUMMARY OF RECEIPTS AND DISBURSEMENTS

18. The Receiver's statement of receipts and disbursements from the Date of Appointment to January 11, 2017 are summarized as follows along with an explanation of the major categories:

<b>Schedule of Receipts and Disbursements</b>	
As of January 11, 2017	
Receipts	
Proceeds from Sale of Assets	3,172,912
Oil Revenue	7,929,557
Gas Revenue	128,250
JIB Revenue	947,413
Receiver's Certificate	500,000
Other Receipts	323,113
<b>Total - Receipts</b>	<b>13,001,245</b>
Disbursements	
Operating Expenses	(4,976,393)
Royalty and Lease Payments	(2,390,134)
Employee Costs	(1,137,702)
JIB Payable	(208,358)
Rent and Utilities	(287,162)
Insurance	(119,128)
Operating Taxes Paid	(93,929)
Bank Charges	(38,859)
Receiver's Fees	(674,875)
Legal Fees	(96,256)
GST/PST Paid & Remitted	(72,180)
Deemed Trust	(7,133)
Other Miscellaneous Expenses	(55,322)
<b>Total - Disbursements</b>	<b>(10,157,432)</b>
<b>Net Cash on Hand</b>	<b>2,843,813</b>

- (a) Proceeds from Sale of Assets – amount collected by the Receiver in respect of the sale of the Company's Assets to Petrocapita.
- (b) Oil Revenue – revenue collected by the Receiver in respect of the Company's oil producing Assets;

- (c) Gas Revenue – revenue collected by the Receiver in respect of the Company’s gas producing Assets;
- (d) JIB Revenue – revenue collected by the Receiver in respect of the Company’s joint interest billing partners;
- (e) Receiver’s Certificate – amounts borrowed to date under terms of the Receivership Order;
- (f) Other Receipts – receipts from miscellaneous collections, such as insurance payout from a pre-receivership claim, WCB refunds and refunds for credit on accounts;
- (g) Operating Expenses – operating expenses relating to the Assets;
- (h) Royalty and Lease Payments – amounts disbursed in respect of the Company’s petroleum and natural gas leases;
- (i) Employee Costs – amounts disbursed by the Receiver relating to payroll, employee remittances, consultants and third party operational consultants;
- (j) JIB Payable – amounts disbursed by the Receiver payable to joint interest partners;
- (k) Rent and Utilities – amounts disbursed in respect of the rental of office space and utilities paid for continued operations;
- (l) Insurance – amounts disbursed in respect of insurance for employees as well as operating insurance for field properties;
- (m) Operating Taxes Paid – corporate business and freehold mineral taxes paid through the Receivership Proceedings;

- (n) Bank Charges – amounts disbursed in respect of interest on amounts borrowed under the terms of the Receiver Certificate, wire payment fees, overdraft and interests in respect of the Company’s pre-receivership accounts and other miscellaneous charges;
  - (o) Receiver’s Fees – Receiver’s fees and disbursements in respect of the Receivership Proceedings;
  - (p) Legal Fees – Receiver’s Counsel’s fees and disbursements in respect of the Receivership Proceedings;
  - (q) GST/PST Paid & Remitted – GST and PST amounts disbursed relating to invoices paid;
  - (r) Deemed Trust – amounts paid to the Canada Revenue Agency relating to source deductions from the Company’s pre-receivership with-holding account; and
  - (s) Other Miscellaneous Expenses – amounts disbursed including filing fees paid to the Official Receiver, off-site storage and moving expenses.
19. Cash on Hand – at January 11, 2017, the Receiver currently holds \$2,843,813 in funds.

**PROFESSIONAL FEES**

20. Invoices rendered by the Receiver from the Date of Appointment to January 11, 2017 total \$674,875 exclusive of GST and expenses (the “Receiver’s Fees”). The accounts will be made available upon request.



21. The Receiver anticipates issuing a final invoice in the amount of approximately \$38,954 (the “**Receiver’s Final Fees**”) in connection with work completed throughout January 2016 and additional time attending to 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 Canada.
22. Invoices rendered by the Receiver’s Counsel from the Date of Appointment to January 11, 2017 total \$96,256 exclusive of GST (the “**Receiver’s Counsel Fees**”). The accounts will be made available upon request.
23. The Receiver’s Counsel anticipates issuing a final invoice in the amount of approximately \$27,471 (“**Receiver’s Counsel’s Final Fees**”) in connection with unbilled work completed in January 2017 plus additional time attending to final administrative matters.
24. 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.

## **DETAILS OF SECURED AND POTENTIAL PRIORITY CLAIMS**

### **VALIDITY AND ENFORCEABILITY OF NATIONAL BANK’S SECURITY**

25. As described in the Affidavit of Elizabeth Pineda (the “**Pineda Affidavit**”) sworn on February 9, 2015 in connection with the Receivership Proceedings, the amounts owing to the National Bank were approximately \$40,337,542.23 in principal, plus interest, plus associated costs, fees and disbursements with additional interest and other charges accrued and accruing thereon at the rates and on the terms established by the Loan Agreements, including certain overdrafts to pay critical suppliers authorized by the National Bank. Additional details with respect to the amounts owing to the National Bank are available within the Pineda Affidavit available on the Receiver’s Website.

**PROPERTY TAX**

26. As at January 11, 2016 a total of 9 counties and rural municipal districts namely the County of Forty Mile No. 8, County of Two Hills No. 21, County of Vermilion River, Flagstaff County, RM of Eldon No. 471, RM of Britannia No. 502, RM of Frenchman Butte No. 501, RM of Manitou Lake No. 442 and RM of Turtle River No. 469 (collectively, the “**Property Tax Parties**”) are owed outstanding property taxes for the years 2014 and 2015.
27. In light of the significant decrease in commodity prices, the Receiver contacted all the Property Tax Parties individually beginning in May 2016, to discuss a reduction in the outstanding balance owed to each party in an effort to facilitate a transaction to purchase the Assets.
28. The Receiver attempted to negotiate a reduction in property taxes owed to the Property Tax Parties for the following reasons:
  - (a) the yearly property tax assessment value associated with the Assets was extremely high proportional to the expected transaction value for the sale of the Assets; and
  - (b) the Receiver’s analysis of the market value of the individual asset blocks, (as contemplated in the Transaction) indicated nominal or even potentially negative value; therefore, resulting in no underlying asset value to support certain of the amounts owed to the Property Tax Parties.
29. The Receiver and each Property Tax Party were able to come to an agreement to pay a total of \$1,172,863.30 for the outstanding 2014 and 2015 property taxes owing by the Company as set out below:

<b>Agreed to Balance Owing</b>	
County Of Forty Mile No. 8	\$ 3,611.95
County Of Two Hills No. 21	\$ 22,589.44
County Of Vermilion River	\$ 233,391.00
Eldon No.471	\$ 393.30
Flagstaff County	\$ 5,036.21
R.M. Britannia No. 502	\$ 9,544.48
R.M. Of Frenchman Butte No. 501	\$ 4,862.49
R.M. Of Manitou Lake No. 442	\$ 390,909.36
R.M. Of Turtle River No. 469	\$ 502,525.07
<b>Total</b>	<b>\$ 1,172,863.30</b>

30. The above proposed distributions to the Property Tax Parties was negotiated in good faith, in consultation with the National Bank, and is based on the particular facts and circumstances of this case.

**LIEN CLAIMS**

31. There are a number of liens registered against the Assets. A summary of the liens by province and lien claimant is set out below:

Lien Claimant	Land Description/Short Legal Description	Registration Date	Amount
<b>Saskatchewan</b>			
<u>Canwest Propane Partnership</u>			
	4320: LSD 2 Sec 26-48-21W3		
	LSD 7 SEC 26-48-21W3	25-Feb-15	\$ 46,270.55
	4321: LSD 3 & 4 SEC 8-48-20W3	25-Feb-15	\$ 3,541.60
	4322: SW SEC 18-45-27W3	25-Feb-15	\$ 5,857.07
	4323: LSD 4,5,6 SEC 18-48-20W3	25-Feb-15	\$ 4,181.64
	4324: LSD 10 SEC 6-49-20W3	25-Feb-15	\$ 1,533.58
	4325: NW SEC 8-49-20W3	25-Feb-15	\$ 18,961.99
	4326: LSD 14 SEC 6-49-20W3	25-Feb-15	\$ 9,985.56
	4327: LSD 11, 12 SEC 5-48-20W3	25-Feb-15	\$ 8,575.49
	4328: LSD 9 SEC 31-48-20W3		
	LSD 15 SEC 31-48-20W3	25-Feb-15	\$ 10,015.77
	4329: LSD 10 SEC 26-48-21W3	25-Feb-15	\$ 14,262.53
	4330: LSD 12, 13, 14 SEC 31-48-20W3	25-Feb-15	\$ 24,886.93
	4331: SW SEC 13-45-26W3	25-Feb-15	\$ 3,637.27
	4335: NE SEC 28-44-26W3	3-Mar-15	\$ 1,819.48
	NE 6-49-20-W3	24-Feb-15	\$ 1,533.58
			<b>\$ 155,063.04</b>
<u>Weatherford Canada Ltd.</u>			
	NE 6-49-20 W3	7-Jan-15	\$ 821.24
	NW 27-44-26 W3	7-Jan-15	\$ 1,959.02
	SE 26-48-21 W3	7-Jan-15	\$ 4,638.69
	SW 13-45-26 W3	7-Jan-15	\$ 10,667.71
	NW 7-45-27 W3	7-Jan-15	\$ 6,304.30
	SE 12-49-21 W3	7-Jan-15	\$ 3,752.56
			<b>\$ 28,143.52</b>
<u>Heavy Crude Hauling Ltd.</u>			
	4320: LSD 7 SEC 26-48-21W3	3-Mar-15	\$ 5,488.49
	4336: LSD 1, 8 SEC 26-48-21W3	3-Mar-15	\$ 4,785.87
	4337: LSD 12, 13, 14 SEC 31-48-20W3	3-Mar-15	\$ 3,652.59
	4339: LSD 2 Sec 26-48-21W3	3-Mar-15	\$ 4,024.42
	4340: LSD 11, 12 SEC 5-48-20W3	3-Mar-15	\$ 2,381.67
	4341: NW SEC 8-49-20W3	3-Mar-15	\$ 16,867.00
	SE 26-48-21 W3	8-Aug-16	\$ 14,298.48
			<b>\$ 51,498.52</b>
<b>Total Saskatchewan</b>			<b>\$ 234,705.08</b>

Lien Claimant	Land Description/Short Legal Description	Registration Date	Amount
<b>Alberta</b>			
<u>Canwest Propane Partnership</u>			
	SE-34-52-5W4	24-Feb-15	\$ 3,203.00
	SW-4-52-1W4	24-Feb-15	\$ 9,038.00
	NW-7-50-1W4	24-Feb-15	\$ 3,637.00
			<b>\$ 15,878.00</b>
<u>Quest Logistics Ltd.</u>			
	34-025-05W4	14-Jan-15	\$ 15,162.05
	28-052-01W4	14-Jan-15	\$ 64,066.38
	34-051-01W4	14-Jan-15	\$ 5,182.49
	4L3-L5-052-05W4	14-Jan-15	\$ 12,678.84
	NW, SW 7-50-1W4	15-Jan-15	\$ 1,620.50
	SE-15-51-3W4	14-Jan-15	\$ 2,179.16
	SW, SE-15-51-3W4	14-Jan-15	\$ 2,179.16
	SW, SE-15-51-3W4	14-Jan-15	\$ 2,179.16
			<b>\$ 105,247.74</b>
<u>Weatherford Canada Ltd.</u>			
	28-052-01W4	19-Dec-14	\$ 2,290.53
	34-051-01W4	19-Dec-14	\$ 11,488.49
			<b>\$ 13,779.02</b>
<b>Total Alberta</b>			<b>\$ 134,904.76</b>
<b>Total Liens</b>			<b>\$ 369,609.84</b>

32. By province, the registration amounts total \$234,705.08 in Saskatchewan and \$134,904.76 in Alberta for total lien claims of \$369,609.84 registered against the Assets.
33. The Receiver's Counsel has reviewed the validity of the liens and these findings are discussed below.

**ROYALTIES**

34. The following is a summary of the outstanding amounts owed by the Company in relation to royalties owed both to the Crown as well as freehold and GORR parties (collectively, the "Royalty Claims"):

- (a) the Saskatchewan Ministry of the Economy (“SME”) is owed amounts for unpaid royalties in respect to the Company’s petroleum and natural gas leases for the period of March 2014 to December 2014. The amounts total approximately \$2,332,420.04 not including interest charges;
- (b) the Minister of Finance, Province of Alberta is owed \$6,693.71 for unpaid Gas Crown amounts; and
- (c) the Company has amounts owing to 25 separate royalty owners for unpaid freehold and gross overriding royalties owed for the month of December 2014. The amounts owing total \$74,977.24.

### **ANALYSIS OF SECURED AND PRIORITY CLAIMS**

35. An analysis as to the priority of the above secured and priority claims has been conducted by the Receiver and the Receiver’s Counsel and the Receiver advises as follows:

- (a) the 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 the National Bank in the right, title and interest of Palliser in its real and personal property;
- (b) payment to the Property Tax Parties for outstanding property taxes relating to the tax years 2014 and 2015 are contemplated to be paid as per the Receiver’s previously discussed agreement with each Property Tax Party which settles all arrears amounts owing to the Property Tax Parties;
- (c) after review by the Receiver and the Receiver’s Counsel, it has been determined that a total of \$12,241.00 in liens in Alberta were “first in time” registrations that rank in priority to the secured claim of the National Bank as summarized in the table below:

Lien Claimant	Land Description/Short Legal Description	Registration Date	Amount
<u>Canwest Propane Partnership</u>			
	SE-34-52-5W4	24-Feb-15	\$ 3,203.00
	SW-4-52-1W4	24-Feb-15	\$ 9,038.00
<b>Total - Alberta Priority Liens</b>			<b>\$ 12,241.00</b>

- (d) after review by the Receiver and the Receiver's Counsel, it has been determined that a total of \$122,663.76 in liens in Alberta (collectively the "Alberta Subordinate Liens") were registered after the National Bank's security registrations as follows:

Lien Claimant	Land Description/Short Legal Description	Registration Date	Amount
<u>Canwest Propane Partnership</u>			
	NW-7-50-1W4	24-Feb-15	\$ 3,637.00
			<b>\$ 3,637.00</b>
<u>Quest Logistics Ltd.</u>			
	34-025-05W4	14-Jan-15	\$ 15,162.05
	28-052-01W4	14-Jan-15	\$ 64,066.38
	34-051-01W4	14-Jan-15	\$ 5,182.49
	4L3-L5-052-05W4	14-Jan-15	\$ 12,678.84
	NW, SW 7-50-1W4	15-Jan-15	\$ 1,620.50
	SE-15-51-3W4	14-Jan-15	\$ 2,179.16
	SW, SE-15-51-3W4	14-Jan-15	\$ 2,179.16
	SW, SE-15-51-3W4	14-Jan-15	\$ 2,179.16
			<b>\$ 105,247.74</b>
<u>Weatherford Canada Ltd.</u>			
	28-052-01W4	19-Dec-14	\$ 2,290.53
	34-051-01W4	19-Dec-14	\$ 11,488.49
			<b>\$ 13,779.02</b>
<b>Total - Alberta Subordinate Liens</b>			<b>\$ 122,663.76</b>

- (i) the Receiver notes no recoveries are to be paid to the Alberta Subordinate Liens given the shortfall in recoveries to the National Bank;

- (e) after review by the Receiver and Receiver’s Counsel, it has been determined that a total of \$60,145.06 in liens in Saskatchewan were “first in time” registrations and accordingly rank in priority to the secured claim of the National Bank as summarized in the table below:

Lien Claimant	Land Description/Short Legal Description	Registration Date	Amount
<b>Saskatchewan</b>			
<u>Canwest Propane Partnership</u>			
	4321: LSD 3 & 4 SEC 8-48-20W3	25-Feb-15	\$ 3,541.60
	4323: LSD 4,5,6 SEC 18-48-20W3	25-Feb-15	\$ 4,181.64
	4328: LSD 9 SEC 31-48-20W3		
	LSD 15 SEC 31-48-20W3	25-Feb-15	\$ 10,015.77
	4329: LSD 10 SEC 26-48-21W3	25-Feb-15	\$ 14,262.53
			<b>\$ 32,001.54</b>
<u>Weatherford Canada Ltd.</u>			
	NE 6-49-20 W3	7-Jan-15	\$ 821.24
	NW 27-44-26 W3	7-Jan-15	\$ 1,959.02
	SE 26-48-21 W3	7-Jan-15	\$ 4,638.69
	SW 13-45-26 W3	7-Jan-15	\$ 10,667.71
	NW 7-45-27 W3	7-Jan-15	\$ 6,304.30
	SE 12-49-21 W3	7-Jan-15	\$ 3,752.56
			<b>\$ 28,143.52</b>
<b>Total - Saskatchewan Priority Liens</b>			<b>\$ 60,145.06</b>

- (f) after review by the Receiver and the Receiver’s Counsel, it has been determined that a total of \$174,560.02 in liens in Saskatchewan were registered after the National Bank security registrations as follows (collectively the “**Saskatchewan BLA Section 22(2) Liens**”):



Lien Claimant	Land Description/Short Legal Description	Registration Date	Amount
<b>Saskatchewan</b>			
<u>Canwest Propane Partnership</u>			
	4320: LSD 2 Sec 26-48-21W3		
	LSD 7 SEC 26-48-21W3	25-Feb-15	\$ 46,270.55
	4322: SW SEC 18-45-27W3	25-Feb-15	\$ 5,857.07
	4324: LSD 10 SEC 6-49-20W3	25-Feb-15	\$ 1,533.58
	4325: NW SEC 8-49-20W3	25-Feb-15	\$ 18,961.99
	4326: LSD 14 SEC 6-49-20W3	25-Feb-15	\$ 9,985.56
	4327: LSD 11, 12 SEC 5-48-20W3	25-Feb-15	\$ 8,575.49
	4330: LSD 12, 13, 14 SEC 31-48-20W3	25-Feb-15	\$ 24,886.93
	4331: SW SEC 13-45-26W3	25-Feb-15	\$ 3,637.27
	4335: NE SEC 28-44-26W3	3-Mar-15	\$ 1,819.48
	NE 6-49-20-W3	24-Feb-15	\$ 1,533.58
			<b>\$ 123,061.50</b>
<u>Heavy Crude Hauling Ltd.</u>			
	4320: LSD 7 SEC 26-48-21W3	3-Mar-15	\$ 5,488.49
	4336: LSD 1, 8 SEC 26-48-21W3	3-Mar-15	\$ 4,785.87
	4337: LSD 12, 13, 14 SEC 31-48-20W3	3-Mar-15	\$ 3,652.59
	4339: LSD 2 Sec 26-48-21W3	3-Mar-15	\$ 4,024.42
	4340: LSD 11, 12 SEC 5-48-20W3	3-Mar-15	\$ 2,381.67
	4341: NW SEC 8-49-20W3	3-Mar-15	\$ 16,867.00
	SE 26-48-21 W3	8-Aug-16	\$ 14,298.48
			<b>\$ 51,498.52</b>
<b>Total - Saskatchewan BLA Section 22(2) Liens</b>			<b>\$ 174,560.02</b>

- (g) in previous Saskatchewan case law, it has been determined that liens registered after a secured lender's registration are deemed to be in priority to the secured lender. The Receiver, in consultation with the Receiver's Counsel, are proposing to hold back the Saskatchewan BLA Section 22(2) Lien amounts pending the ongoing appeal of the *KNC Holdings Ltd v FTI Consulting Inc et al*, in Saskatchewan Court of Appeal Action Number CACV2987, which is expected to be heard in Spring 2017 (the "Saskatchewan BLA Section 22(2) Appeal") where the priority granted to these subsequent registered liens is being appealed:

- (h) the Receiver is proposing to hold back the funds in relation to the Saskatchewan BLA Section 22(2) Liens pending the Saskatchewan BLA Section 22(2) Appeal;
- (f) after review by the Receiver and the Receiver's Counsel, it has been determined that the Royalty Claims are unsecured claims against the Company, and as such, all secured creditors rank in priority to the Royalty Claims; and
- (g) the Receiver is aware of the super priority claim by the Canada Revenue Agency ("CRA") with regard to the wage earners protection program ("WEPP"). The total amount owed to WEPP is \$3,186.83.

### **CORPORATE BOOKS AND RECORDS**

37. 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. The Receiver proposes to notify the directors of its intentions to destroy the unclaimed books and records of the Company after filing with the Court the receiver's certificate unconditionally and absolutely discharging the Receiver as receiver and manager of the Assets. The Receiver will use the address listed on a search of the Alberta Corporation Registration as the address for which to notify the directors.

### **PROPOSED INTERIM DISTRIBUTION**

38. A summary of the Receiver's proposed Interim Distribution from the realization of the Assets is set out below:

<b>Proposed Interim Distribution</b>		<b>Notes</b>
Cash on Hand	\$ 2,843,813	a
<b>Funds Available for Distribution</b>	<b>\$ 2,843,813</b>	
<b>Proposed Holdbacks</b>		
Operational Wind Down Expenses	19,392	i
Pending CRA Audits	20,000	ii
Professional Fees		iii
Receiver	38,954	
Receiver's Counsel	27,471	
Saskatchewan BLA Section 22(2) Liens	174,560	iv
<b>Total Proposed Holdbacks</b>	<b>\$ 280,377</b>	
<b>Proposed Distributions</b>		
Property Taxes	1,172,863	v
Liens		vi
Canwest Propane	44,243	
Weatherford	28,144	
WEPP	3,187	vii
Repayment of Receiver's Certificate	500,000	viii
Proposed Repayment of Secured Loan to NBC	815,000	ix
<b>Proposed Interim Distributions</b>	<b>\$ 2,563,436</b>	
<b>Projected Distribution to Unsecured Creditors</b>	<b>\$ -</b>	

- (a) Cash on Hand – receiver’s cash on hand at January 11, 2017;
- (b) Proposed Hold backs:
- i. Operation Wind Down Expenses – operational expenses estimated to be necessary for completion of the file including, storage costs and outside consulting for data retention;
  - ii. Pending CRA Audits – funds to cover any amounts owed to the CRA at the completion of two on going GST audits;
  - iii. Professional Fees – fees expected to be incurred by the Receiver and Receiver’s Counsel up until the completion of the file; and

iv. Saskatchewan BLA Section 22(2) Liens - amount of liens which were deemed in priority to the secured debt by the Receiver's Counsel. In consultation with the Receiver's Counsel, the Receiver proposes to hold back the distribution of these amounts pending the Saskatchewan BLA Section 22(2) Appeal.

(c) Proposed Interim Distributions:

- v. Property Taxes – total funds to be distributed to the Property Tax Parties, the amounts to be distributed to each party is set out in paragraph 30 of this Second Report;
- vi. Liens – the total amounts, which include both Alberta and Saskatchewan liens, which were deemed to be in priority to the secured debt by the Receiver's Counsel and are proposed to be distributed to Canwest Propane Partnership (“**Canwest Propane**”) and Weatherford Canada Ltd. (“**Weatherford**”);
- vii. WEPP – amounts proposed to be distributed to the CRA relating to WEPP;
- viii. Repayment of Receiver's Certificate – repayment of amount drawn against the Receiver's Certificate by the Receiver to fund the operations of the Receivership Proceedings; and
- ix. Proposed Repayment of Secured Loan to NBC – amount proposed to be distributed to the National Bank in partial repayment of their secured claim.

39. The Receiver recommends making the above outlined distributions totaling \$2,563,436 (the “**Interim Distributions**”). The Receiver does not expect there to be significant residual funds remaining from the hold 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 the National Bank without further leave of this Honourable Court, as the National Bank is in the senior secured position and all claims ranking in priority to the National Bank will have been satisfied once the Receiver has made the proposed distributions.

### **TERMINATION OF RECEIVERSHIP PROCEEDINGS**

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

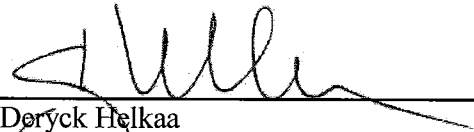
### **RECEIVER’S RECOMMENDATIONS**

43. The Receiver recommends that this Honourable Court approve an order providing for the following:
- (a) approval of the Receiver’s actions and conduct throughout the Receivership Proceedings;
  - (b) approval of the Receiver’s schedule of receipts and disbursements;
  - (c) approval of the proposed hold backs and the proposed Interim Distribution;

- (d) authorization for the destruction of the books and records if not claimed by the former directors within 30 days from the date of discharge;
- (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 11<sup>th</sup> day of January, 2016.

FTI Consulting Canada Inc.  
in its capacity as receiver and manager of  
the assets, property and undertaking of  
Palliser Oil & Gas Corporation.



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