

COURT FILE NUMBER 1601-11552

COURT COURT OF QUEEN'S BENCH OF ALBERTA

JUDICIAL CENTRE CALGARY

APPLICANT NATIONAL BANK OF CANADA, IN ITS
CAPACITY AS ADMINISTRATIVE AGENT

RESPONDENTS TWIN BUTTE ENERGY LTD.

DOCUMENT TENTH REPORT OF FTI CONSULTING
CANADA INC., IN ITS CAPACITY AS
COURT APPOINTED RECEIVER AND
MANAGER OF TWIN BUTTE ENERGY LTD.

September 7, 2017

ADDRESS FOR SERVICE AND
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INTRODUCTION

1. On September 1, 2016 (the “**Date of Appointment**”), FTI Consulting Canada Inc. was appointed as receiver and manager (the “**Receiver**”) of all of the assets, undertakings and properties (the “**Property**”) of Twin Butte Energy Ltd. (“**Twin Butte**” or the “**Company**”) pursuant to an Order of the Honourable Madam Justice Romaine (the “**Receivership Order**”).
2. The purpose of this report (“**Tenth Report**”) is to provide this Honourable Court with the following:
 - (a) an update on the activities of the Receiver since the Receiver’s Ninth Report;
 - (b) a summary of receipts and disbursements from the Date of Appointment to September 1, 2017;
 - (c) an update on the Claims Process including;
 - i. the number, quantum and classification of accepted claims;
 - ii. the number, quantum and status of remaining disputed claims (“**Disputed Claims**”) and claims under review (“**Claims Under Review**”);
 - (d) the Receiver’s request for a declaration with respect to post-filing interest claimed on two tax-related claims; and
 - (e) the Receiver’s revised recovery analysis including the required holdback of funds and the proposed initial distribution to creditors and Subordinate Debenture Holders with accepted claims.

3. The Receiver's reports and other publically available information in respect of these proceedings (the "Receivership Proceedings") are posted on the Receiver's website at <http://cfcanada.fticonsulting.com/twinbutte> (the "Receiver's Website").

TERMS OF REFERENCE

4. In preparing this Tenth Report, the Receiver has relied upon unaudited financial information, other information available to the Receiver and, where appropriate, the Company's books and records and discussions with various parties (collectively, the "Information").
5. Except as described in this Tenth 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 nor reviewed financial forecasts and projections referred to in this Tenth Report in a manner that would comply with the procedures described in the Canadian Institute of Chartered Accountants Handbook.
6. Future oriented financial information reported or relied on in preparing this Tenth Report is based on assumptions regarding future events. Actual results may vary from forecasts and such variations may be material.

7. The Receiver has prepared this Tenth Report in connection with its application (“**Distribution Application**”) scheduled to be heard on September 13, 2017, seeking, among other things, approval to make an interim distribution to the creditors and Subordinate Debenture Holders of Twin Butte with accepted claims. This Tenth Report should not be relied on for other purposes.
8. Information and advice described in this Tenth Report that has been provided to the Receiver by its legal counsel, Norton Rose Fulbright Canada LLP (the “**Receiver’s Counsel**”), was provided to assist the Receiver in considering its course of action, is not intended as legal or other advice to, and may not be relied upon by, any other person.
9. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

RECEIVER’S ACTIVITIES SINCE THE NINTH REPORT

10. Since filing the Ninth Report the Receiver has, among other things:
 - (a) continued to work on post-closing items related to the HOC Sale including completing the final statement of adjustments with the purchaser. The purchaser is reviewing and providing its approval, which the Receiver contemplates should be received shortly;
 - (b) continued to reconcile claims submitted in accordance with the Claims Process (a full summary of the status of the Claims Process is provided below); and
 - (c) prepared an estimated recovery analysis, holdback and proposed distribution as discussed in further detail below.

SUMMARY OF RECEIPTS AND DISBURSEMENTS

11. Receipts and Disbursements from the Date of Appointment to September 1, 2017, are summarized as:

Schedule of Receipts and Disbursements		
As at Sept 1, 2017		
\$000's CAD		Notes
Operating Receipts		
Receiver's Borrowings	8,800,000	a
Proceeds from Sale to HOC	262,805,729	b
Revenue	108,372,233	c
Royalty & Misc Revenue	1,730,680	d
Interest Income	287,740	e
GST Collected	5,024,820	f
Total - Operating Receipts	387,021,201	
Operating Disbursements		
Repayment of Receiver's Borrowings	8,800,000	g
Royalty Expense	8,841,852	h
Operating Expense	53,790,045	i
Capital Maintenance & Expenditures	6,161,424	j
Contract Operators	5,323,712	k
Occupation Rent (G&A)	1,290,730	l
Payroll - Employee Related Obligations	6,047,570	m
Insurance	1,712,763	n
GST/HST/PST Paid	2,542,740	o
GST Remitted	2,111,242	p
Bank & Interest Charges	205,156	q
Receiver's Fees & Legal Council	2,657,660	r
Distribution to Syndicate & Legal Council	202,357,332	s
Selling Agents & Other Professional Fees	2,429,380	t
Total - Operating Disbursements	304,271,607	
Net Cash on Hand from Operations	82,749,594	

- (a) "Receiver's Borrowings" means borrowings under the Receiver's certificate in order to provide working capital. The Receiver's Borrowings were originally incurred to fund initial working capital requirements required immediately following the granting of the Receivership Order;
- (b) "Proceeds from sale to HOC" relates to the proceeds received upon closing the HOC PSA net of the statement of adjustments;

- (c) “Revenue” means funds collected by the Receiver in respect of the revenue from the Company’s producing oil and gas assets and collection of pre-filing accounts receivable;
- (d) “Royalty and miscellaneous revenue” relate mainly to revenue received from Twin Butte’s gross overriding and freehold royalty interests in various non-operated properties;
- (e) “Interest Income” arise from interest on the cash balance held by the Receiver;
- (f) “GST Collected” arise from tax credits collected on the revenue generated throughout the receivership period;
- (g) “Repayments of Receiver Borrowings” relate to the repayment of funds borrowed by the Receiver (see (a) above);
- (h) “Royalty Expense” means royalties paid to the Crown, freehold and gross overriding royalty owners related to ongoing oil and gas production;
- (i) “Operating Expenses” arise from the payments of ongoing operating costs;
- (j) “Capital and Maintenance expenditures” arise from various maintenance and capital projects completed to maximize ongoing production and to preserve various mineral interest;
- (k) “Contract Operators” arise from amounts paid to third party field operators who operate the properties;
- (l) “Occupation rent” comprises rent paid related to the Company’s head office and various field locations;

- (m) “Payroll” means amounts paid to Twin Butte employees who are assisting the Receiver in running the operations;
- (n) “Insurance” means amounts disbursed in respect of insurance for employees as well as operating insurance for field properties;
- (o) “GST/HST paid” comprises sales taxes paid on goods and services provided to the Receiver;
- (p) “GST remitted” means amounts paid to the Canada Revenue Agency for monthly GST filings;
- (q) “Bank interest and charges” means interest and fees paid on the Receiver’s borrowings;
- (r) “Receiver’s Fees & Legal Counsel” includes professional fees paid to the Receiver and the Receiver’s Counsel relating to administration of these receivership proceedings;
- (s) “Distribution and fees for Banking Syndicate” is the Court approved distribution to the Banking Syndicate to repay the bank debt and accrued interest and fees in full; and
- (t) “Selling Agents and other Professional Fees” includes success and work fees paid to the Selling Agents and other professional consultants in respect of the receivership proceedings.

12. Cash on Hand – at September 1, 2017 the Receiver held \$82,749,594 in cash.

UPDATE STATUS OF THE CLAIMS PROCESS

Summary of Claims

13. The table below summarizes the status of the claims submitted in the Claims Process and the results of the Receiver's review and reconciliation to date.

Claim Type	Accepted		Disputed		Under Review		Total	
	#	\$	#	\$	#	\$	#	\$
Secured/Trust	14	416,535	-	-	1	805,110	15	1,221,646
Unsecured	289	9,091,895	3	4,393,101	3	6,448,808	295	19,933,804
Unsecured - Late	11	163,209	-	-	-	-	11	163,209
Unsecured - Executives	3	1,230,500	1	471,510	-	-	4	1,702,010
Subordinate Debentures	1	88,584,758	-	-	-	-	1	88,584,758
Total	318	99,486,897	4	4,864,611	4	7,253,918	326	111,605,427

14. The Receiver has reviewed the claims under the following categories:
- (a) Secured/Trust claims represent claims in priority to unsecured claims comprising various GST trust claims and lien claims. With respect to claims for post-receivership interest as asserted by lien claimants with valid, secured liens, the Receiver has determined to make such interest payments. The Receiver's view is that doing so is appropriate as it treats the lien claimants in the same way as the secured claimants of Twin Butte which claimed interest, such as the National Bank of Canada, were treated.
 - (b) Unsecured claims comprise normal course claims by various trade and other creditors;
 - (c) Unsecured-Late claims noted in the "accepted" column of the table above totaling \$163,209 relate to unsecured claims that were submitted after the claims bar date ("Late Claims"). The Receiver's analysis and recommendation with respect to the Late Claims is discussed below;

- (d) Unsecured-Executive claims comprise four claims filed by former executives of Twin Butte relating to unpaid severance change of control payments and other amounts. Three former executive claims have been accepted by the Receiver (but remain subject to review by the Ad Hoc Group) and one claim has been disputed as discussed in further detail below; and
 - (e) Subordinated Debentures consists of the amounts owing to the holders (“**Subordinate Debenture Holders**”) of 6.25% convertible unsecured subordinated debentures (“**Subordinate Debentures**”) including accrued interest up to the Receivership Date. The amounts owing to the Secured/Trust claims and all unsecured claims rank in priority to the Subordinated Debentures and therefore would receive full payment of their respective claim before any distributions to the holders of the Subordinated Debentures.
15. The table above has summarized the status of the claim categories between those that have been accepted by the Receiver as valid and proven claims (“**Accepted Claims**”), disputed by the Receiver and the creditor has issued a formal notice of dispute (“**Disputed Claims**”) and claims that continue to be under review by the Receiver (“**Claims Under Review**”). The status of the Accepted Claims, Disputed Claims and Claims Under Review are discussed in further detail below.

Accepted Claims

16. Accepted Claims include:
- (a) claims accepted by the Receiver as filed;
 - (b) claims revised by the Receiver and accepted by the creditor; and

- (c) claims revised by the Receiver and deemed to have been accepted by the creditor, where such revisions were deemed to be accepted if the creditor did not issue a notice of dispute to the Receiver within the required 15 day dispute period.

Accepted Claims – Late Claims

- 17. In the “accepted” column of the table above the Receiver has identified 11 Late Claims totaling \$163,209 that were submitted after the claims bar date. The Receiver has completed its review of these Late Claims and determined that they were valid and adequately proven (“**Proven Late Claims**”). The Receiver recommends that the Proven Late Claims be accepted as valid claims in the Claims Process for the following reasons:
 - (a) the Late Proven Claims were valid properly supported unsecured claims;
 - (b) no distributions have been made to the beneficiaries of the Claims Process; and
 - (c) in the Receiver’s view accepting Late Proven Claims does not unduly prejudice other creditors or the Claims Process in general. No restructuring plan or proposal is compromised or prejudiced by accepting the Proven Late Claims as there is no restructuring plan contemplated in these Receivership Proceedings. The creditors of Twin Butte are simply receiving a distribution of the remaining net cash on hand.
- 18. The Receiver has discussed the acceptance of the Proven Late Claims with the Ad Hoc Group’s counsel and anticipates that they will not object to the Receiver’s recommendation.

Accepted Claims – Unsecured Executive

19. The Receiver has reviewed and accepted three (3) claims totaling \$1,230,500 from former executive employees (“**Accepted Executive Claims**”). The Receiver understands that the Ad Hoc Group continues to review and may dispute the Accepted Executive Claims pursuant to the consultation and review rights provided to the Ad Hoc Group in paragraph 15(c) of the Claims Procedures as attached to the Claims Procedures Order granted May 1, 2017.

20. The Receiver notes the Accepted Executive Claims were received on or around May 29, 2017. The Receiver advised the Ad Hoc Group that they intended to accept the Accepted Executive Claims on July 19, 2017. The Ad Hoc Group has advised the Receiver that they may wish to dispute the Receiver’s acceptance of the Accepted Executive Claims however has not yet made a final decision. The Receiver notes that paragraph 15 (c) of the Claims Procedures does not provide a time limit for the Ad Hoc Group to make a decision as to whether they wish to dispute the Receiver’s acceptance. If no determination has been made by the September 20, 2017 Application, the Receiver requests that a deadline of September 27, 2017 be set for the Ad Hoc Group to advise of its position with respect to the Accepted Executive Claims. As discussed in further detail below, the Receiver intends to hold back the full distribution of the Accepted Executive Claims until it receives approval from the Ad Hoc Group or advice and direction from this Honourable Court.

Disputed Claims

21. There are four Disputed Claims totaling approximately \$4.7 comprising claims for which the Receiver issued a notice of revision to the creditor and the creditor officially disputed the Receiver's notice of revision by issuing a notice of dispute. The following summarizes the disputed claims:

Claimant	Original Claim Amount	Proposed Holdback	Status
Former Executive	\$ 471,510	\$ 471,510	On July 21, 2017 the Receiver issued a notice of disallowance disallowing the claim in its entirety. On August 4, 2017 the claimant issued a notice of dispute, the dispute is scheduled to be heard by the Court at the September 20, 2017 application.
Former Employee	\$ 280,200	\$ 280,200	On August 15, 2017 the Receiver issued a notice of revision revising the claim down to \$58,050. On August 29, 2017 the claimant issued a notice of dispute, the dispute is scheduled to be heard by the Court at the September 20, 2017 application.
Sutton Energy Ltd and GeoCap Energy Corporation	\$ 2,040,927	\$ 2,040,927	On July 4, 2017 the Receiver issued a notice of disallowance disallowing the claim in its entirety. On July 18, 2017 the claimant issued a notice of dispute, the dispute is expected to be heard by the Court at a later date yet to be scheduled.
CEP LP Investment Corp	\$ 2,071,974	\$ 2,071,974	On August 18, 2017 the Receiver sent a notice of revision to the claimant revising this claim down to \$1,451,010. On September 1, 2017 the claimant issued a notice of dispute, the dispute is expected to be heard by the Court at a later date yet to be scheduled.

Total proposed holdback \$ 4,864,611

22. The Receiver intends to hold back the full amount of the Disputed Claims in the proposed distribution as discussed below.

Claims Under Review

23. Claims Under Review include claims the Receiver does not agree with as filed and are either in the process of being reviewed or the Receiver has filed a notice of revision/disallowance but has not yet received a formal dispute notice back from the claimant. The table below summarizes these claims and current status of the Claims Under Review.

Claimant	Original Claim Amount	Proposed Holdback	Status
Her Majesty the Queen in Right of Canada as Represented by the Minister of National Revenue ("CRA")	\$ 6,199,879	\$ 6,199,879	The Receiver has filed 2016 tax returns that offset this claim. The 2016 tax returns are under review by the CRA. The CRA claim as filed includes claims for penalties and interest. The Receiver believes the interest stops rule should preclude any claim for interest from the date of receivership.
Her Majesty the Queen in Right of Canada as Represented by the Minister of National Revenue ("CRA")	\$ 805,110	\$ 805,110	This claim relates to GST ("GST Claim"). On January 6, 2017 the CRA issued notices of re-assessment relating to several pre-receivership months. The re-assessments resulted in an increase in pre-filing GST liability of approximately \$400,000. The additional \$400,000 is included in the GST claim. The Receiver has requested additional information related to the basis and reasoning for the re-assessment in order to fully assess and review the claim but has not yet received this information from the CRA.
Alberta Treasury Board and Finance Tax and Revenue Administration (Her Majesty the Queen in Right of the Province of AB as represented by the President of Treasury Board and Minister of Finance) ("Alberta Treasury")	\$ 3,191,487	\$ 247,859	This claim related to 2014 and 2015 income tax that had been re-assessed by Alberta Treasury in 2016. On June 15, 2017 the receiver filed a notice of disallowance on the basis that it had filed the 2016 tax return with losses sufficient to fully offset this claim. On June 21, 2017 Alberta Treasury issued a notice of re-assessment to the Receiver advising that they had carried back the 2016 losses as filed in the 2016 tax returns filed and they offset the 2014 and 2015 re-assessed taxes owing, however they continue to claim interest and penalties on the 2014 and 2015 taxes totaling approximately \$247,859.25. The Receiver is in the process of considering the interest and penalties however believes the interest stops rule should apply at the date of receivership. This is discussed in further detail below.
Nordcon Canada Inc.	\$ 1,070	\$ 1,070	This claim was filed on August 16, 2017 (after the claims bar date of June 1, 2017). On August 30, the Receiver has issued a notice of revision revising the claim down to \$77.13.

Total proposed holdback \$ 7,253,918

24. The Receiver intends to hold back the full amount of the Claims Under Review in the proposed distribution discussed below with the exception of the Alberta Treasury claim as after the 2016 tax returns were filed Alberta Treasury issued an updated notice of re-assessment claiming only interest and penalties. The full amount of interest and penalties \$247,859 is contemplated to be included in the holdback until the Receiver has direction from this Honourable Court with respect to post-filing interest claimed by Alberta Treasury.

INTEREST STOPS ON TAX CLAIMS

25. The Receiver notes that the claim for unpaid income taxes submitted by Her Majesty the Queen in Right of Canada as Represented by the Minister of National Revenue (“CRA”) and the claim submitted by the Alberta Treasury Board and Finance Tax and Revenue Administration (“**Alberta Treasury**”) identified above (collectively referred to as the “**Tax Claims**”) continue to be under review and as such have been classified as Claims Under Review. However, the Receiver anticipates a certain portion of the Tax Claims once resolved will include a claim for interest and penalties. The Receiver seeks a declaration from this Honourable Court that the interest stops rules apply in respect of the Tax Claims and accordingly no interest may be claimed after the date of receivership according to Section 122(2) of the *Bankruptcy and Insolvency Act* and its application by the Courts to unsecured claims in non-bankruptcy insolvency proceedings. Such treatment of non-payment for post receivership interest for unsecured tax claims would be consistent with the Receiver’s treatment of and distribution to other unsecured creditors.

PAYMENT OF COSTS TO COUNSEL AT SUBORDINATION APPLICATION

26. Pursuant to the Order of the Honourable Justice Jeffrey dated June 30, 2017, the Receiver has received bills of costs from certain parties in attendance at, and which submitted written briefs for, the application heard June 30, 2017 (“**Bills of Costs**”). The total amounts for the Bills of Costs is \$6,342. The Receiver intends on paying the Bills of Costs in normal course and intends on holding back the required funds to pay the Bills of Costs from the Initial Distribution, as defined below.

PROPOSED INITIAL DISTRIBUTION

27. The Receiver is seeking approval to make distributions (“Initial Distributions”) to creditors with Accepted Claims, with the exception of the Accepted Executive Claims.
28. As various claims are in dispute or continue to be under review, the Receiver proposes to hold back funds equaling the total amounts of the outstanding claims pending resolution of the Disputed Claims, Claims Under Review and the Accepted Executive Claims. The Receiver also proposes to hold back various costs related to post-closing items, general and administrative expenses and professional fees associated with administering these proceedings.
29. The Receiver’s proposed holdbacks and proposed Initial Distributions are summarized in the table below:

Schedule of Holdbacks and Proposed Initial Distributions	
As at Sept 1, 2017	
\$000's CAD	
Net Cash on Hand	82,749,594
<u>Holdbacks</u>	
Disputed Claims	4,864,611
Claims Under Review	7,253,918
Accepted Executive Claims	1,230,500
Joint Venture Expenditures	280,000
Receiver Fees and Legal Council	750,000
Legal Fees - Subordination	6,342
Final Statement of Adjustments	-
G&A	150,000
Required Holdbacks	<u>14,535,371</u>
Distributable Cash	<u>68,214,223</u>
<u>Proposed Initial Distributions</u>	
Accepted Secured/Unsecured Claims paid in full	
Secured/Trust	416,535
Unsecured - accepted	9,091,895
Unsecured - Late	163,209
Total Distributions for Accepted Claims (paid in full)	<u>9,671,639</u>
Initial distribution to Subordinate Debentures	<u>58,542,584</u>
Total Proposed Initial Distributions	<u>68,214,223</u>

30. The Receiver understands that the Ad Hoc Group will be seeking the approval of its outstanding legal fees and expenses by this Honourable Court (the “**Ad Hoc Group Fees**”) as contemplated in the Funding Order pronounced on May 1, 2017. The Receiver understands that the Ad Hoc Group Fees currently total approximately \$424,146.15. The total fees are in excess of the original estimate of \$140,000 to \$190,000 previously provided to the Receiver when the Ad Hoc Group was seeking the Funding Order granted on May 1, 2017. However, the Receiver has reviewed the Ad Hoc Group’s invoices and believes the accounts are in accordance with services provided by the Ad Hoc Group’s counsel in its pursuit in maximizing recovery for Subordinate Debenture Holders at the direction of the Ad Hoc Group.
31. The proposed Initial Distribution to the Subordinate Debentures presented above is inclusive of any Ad Hoc Group Fees that may be approved by this Honourable Court. Any court approved Ad Hoc Group Fees will be deducted from the Proposed Initial Distribution to all Subordinate Debentures. If directed to do so, the Receiver will pay any approved Ad Hoc Group Fees directly to Bennett Jones LLP from the initial distribution to Subordinate Debentures then pay the remaining amount directly to Computershare Trust Company of Canada (“**Computershare**”) as trustee of the Subordinate Debentures. Computershare will then be responsible as trustee to distribute the funds according to the Distribution to Debenture Holders Order being sought by the Ad Hoc Group’s counsel.
32. The Receiver understands the Ad Hoc Group will seek an Order that Computershare deduct fees from Macquarie Capital Markets Canada Ltd. (“**Macquarie**”) from the distribution to the Ad Hoc Group members not from the remaining Subordinate Debenture Holders. The Receiver takes no position with respect to this payment.

33. Counsel for the Ad Hoc Group has advised the Receiver that the Debenture Distribution Order has been reviewed with Computershare and with Canadian Depository for Securities Ltd. ("CDS"), the sole registered holder of the Debentures. Counsel for the Ad Hoc Group has advised the Receiver that neither Computershare nor CDS have any objection to the form of the Debenture Distribution Order.
34. The following table provides a summary of the initial distribution relative to the Subordinate Debenture holders relative to their claim.

Initial Recovery of Subordinate Debentures Claim	
Subordinate Debenture Claim	88,584,758
Initial Distribution to Subordinate Debentures	<u>58,542,584</u>
Unpaid Amount of Subordinate Debentures Claim	<u>30,042,174</u>
<i>% Interim Distribution of Subordinate Debentures Claim</i>	<i>66.09%</i>

35. For Subordinate Debenture Holders not responsible for any Macquarie fees, the initial distribution will total approximately 66% of their claim or 69% of the principal face value of the Subordinate Debentures. There may be additional distributions to the Subordinate Debentures depending on the outcome and resolution of the Disputed Claims, Claims Under Review and other finalization of other holdbacks.
36. The Receiver will also review the reasonableness of the fees and disbursements of Computershare which the Receiver understands to be immaterial.


RECEIVER'S RECOMMENDATIONS

37. The Receiver respectfully requests that this Honourable Court grant the following relief:
- (a) approval of the Receiver's acceptance of the Late Claims as proven Accepted Claims;


- (b) approval to make the Proposed Initial Distributions totaling \$68,214,223;
- (c) a declaration that Section 122(2) of the Bankruptcy and Insolvency Act applies to the Tax Claims and accordingly no interest may be charged in respect of the Tax Claims after the receivership date;
- (d) setting a deadline of September 27, 2017 for the Ad Hoc Group to dispute or accept the Receiver's acceptance of the Accepted Executive Claims; and
- (e) authorization to deduct any approved Ad Hoc Group Fees from the initial distribution to the Subordinate Debentures and pay such amounts directly to Bennett Jones LLP.

All of which is respectfully submitted this 7th day of September, 2017.

FTI Consulting Canada Inc.,
in its capacity as receiver and manager
of the assets, undertakings and properties of
Twin Butte Energy Ltd.



Deryck Helkaa
Senior Managing Director, CA, CPA, CIRP



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Managing Director, CA, CPA