

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

October 7, 2016

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 Receivership Order authorized the Receiver, among other things, to manage, operate and carry on the business of the Company, to market any or all the Property including advertising and soliciting offers to purchase the Property, and to make such arrangements or agreements as deemed necessary by the Receiver.
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**”).
4. The purpose of this report (“**Second Report**”) is to inform the Court of the following:
 - (a) the Receiver’s comments and recommendations on the process to engage a financial advisor to market and solicit restructuring proposals or offers to purchase the Company’s operations or its assets; and
 - (b) the Receiver’s comments and recommendations with respect to a proposed sales and investor solicitation process (the “**SISP**”), including updated procedures for the SISP outlining timelines and participation requirements for interested parties, which terms have been updated to reflect the delays in launching the SISP (“**SISP Procedures**” attached as Appendix A).

5. The Receiver has provided the following information to this Honourable Court:
 - (a) a detailed summary of the process undertaken by the Receiver in the process to select a financial advisor to implement the SISP;
 - (b) details of the correspondence between Bennett Jones LLP, as counsel for certain holders of unsecured debentures (the “**Ad Hoc Group**”) and Norton Rose Fulbright Canada LLP as counsel to the Receiver (the “**Receiver’s Counsel**”); and
 - (c) the considerations and results of the Receiver’s expanded search for potential financial advisors that occurred this week.

6. Accordingly, the Receiver is now seeking the following relief:
 - (a) approval of the engagement of CIBC Capital Markets (“**CIBC**”) and Peters and Co. Limited (“**Peters**”) to act as co-financial advisors (collectively, the “**Financial Advisors**”); and
 - (b) approval of the proposed SISP and SISP Procedures.

TERMS OF REFERENCE

7. In preparing this Second 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**”).

8. Except as described in this Second 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 First Report in a manner that would comply with the procedures described in the Canadian Institute of Chartered Accountants Handbook.
- 9. Future-oriented financial information reported or relied on in preparing this First Report is based on assumptions regarding future events. Actual results may vary from forecasts and such variations may be material.
- 10. The Receiver has prepared this Second Report in connection with the Receiver's Application dated September 14, 2016. This Second Report should not be relied on for other purposes.
- 11. Information and advice described in this Second Report that has been provided to the Receiver by 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.
- 12. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

BACKGROUND OF THE RECEIVERSHIP PROCEEDINGS

13. Twin Butte is a public corporation incorporated under the laws of the Province of Alberta with its registered office in Calgary, Alberta.
14. Twin Butte's principal line of business is the acquisition, exploration, development and production of high working interest petroleum and natural gas reserves in the Western Canadian Sedimentary Basin.
15. Twin Butte's production is derived from the following regions:
 - (a) the Provost medium grade oil region (the "**Provost Region**");
 - (b) the Lloydminster heavy oil region (the "**Lloydminster Region**"); and
 - (c) non-core properties in the Plains region, West Central Alberta region and Pincher Creek region, (the "**Non-core Regions**" and collectively with the Provost Region and Lloydminster Region, the "**Assets**").
16. Twin Butte's production is substantially oil weighted (approximately 90% of current production) and geographically concentrated with 90% of current production of approximately 11,500 boe/day derived from the Provost Region and the Lloydminster Region.
17. Before the Date of Appointment, the Company experienced various financial challenges due to the extended depressed commodity price environment and was unsuccessful in completing a transaction intended to satisfy its financial obligations. These circumstances resulted in certain events of default under the Company's credit facility provided by a syndicate of financial institutions (the "**Lenders**"), with the National Bank of Canada acting as administrative agent (the "**Agent**") for the Lenders.

RETAINING A FINANCIAL ADVISOR

Background

18. As more fully set out in the Receiver's First Report, the Receiver determined that a selling agent should be retained to market the operations or Assets to maximize the return for all stakeholders.

19. The Receiver's Application seeking approval of the SISP, SISP Procedure and the engagement of the Financial Advisors dated September 14, 2016, was heard by the Honourable Mr. Justice K. Yamauchi of the Alberta Court of Queen's Bench (the "**Court**") on October 3, 2016 (the "**First Hearing**"). At the First Hearing, the Court:
 - (a) adjourned the Receiver's Application to Tuesday October 11, 2016;
 - (b) requested further information regarding the Receiver's process to retain a financial advisor;
 - (c) directed the Receiver to prepare a further Receiver's Report; and
 - (d) directed the Receiver to solicit additional proposals for potential financial advisors.

20. Furthermore, at the First Hearing, counsel to the Ad Hoc Group raised various concerns regarding the Receiver's recommendations as set out in its First Report, and as discussed in further detail below.

21. Following the Court's directions and since the First Hearing, the Receiver :
- (a) contacted an additional three (3) potential Financial Advisors¹ to submit proposals to market Twin Butte's assets and/or operations, bringing the total amount of proposals requested to seven (7);
 - (b) identified recent examples of insolvency proceedings involving energy companies wherein a sale process has been launched to illustrate and compare historical precedents with the process undertaken by the Receiver in this proceeding;
 - (c) prepared a timeline of events that have occurred since the commencement of these proceedings including a background of discussions between the Receiver, Receiver's Counsel, and the Ad Hoc Group;
 - (d) addressed the areas of specific concern raised by the Ad Hoc Group in its letter dated September 8, 2016 and those concerns raised by counsel to the Ad Hoc Group at the First Hearing'; and
 - (e) considered and developed recommendations for the retention of a financial advisor.

¹ Including the financial advisors suggested by the Ad Hoc Group.

Timeline

22. Given the various events and discussions that have occurred over the last several weeks, the following timeline of events since the granting of the Receivership Order is provided:

Timeline	Items
1-Sep-16	- Receivership Order granted - Request for financial proposals from 4 parties
6-Sep-16	- 4 Financial Advisor Proposals ("FA") received
Sep 6-8/16	- review of FA Proposals, negotiation of terms of winning proposals - preparation of SISP timeline and structure
8-Sep-16	- receipt of the letter from Ad Hoc Group
13-Sep-16	- consideration of issues raised by the Ad Hoc Group - Receiver's response to the letter from the Ad Hoc Group
21-Sep-16	- Court application adjourned to address certain questions from potential bidders regarding SISP and FA Proposals
26-Sep-16	- advised service list that concerns had been address and that Court was now scheduled for October 3
3-Oct-16	- contacted by Ad Hoc Committee that they still had concerns over proposed Financial Advisor(s) and related fee structure
3-Oct-16	- Court requested additional FA Proposals to be received
3-Oct-16	- Receiver requested additional proposals from 3 qualified parties
5-Oct-16	- One additional proposal received

23. On or around September 1, 2016, the Receiver requested proposals from four selling agents (the “**FA Proposals**”). The Receiver identified the four parties from whom proposals were requested based on their specific expertise, experience, and resources required to sell the Assets and maximize the return for all stakeholders.
24. The Receiver requested these parties to submit proposals by Tuesday, September 6, 2016.

25. On September 6, 2016, the Receiver received four FA Proposals as discussed in the Receiver's First Report.
26. The Receiver continued discussions with certain of the proposed financial advisors on September 7th and 8th to confirm fees and timelines.
27. On Thursday, September 8, 2016, the Receiver received a letter from counsel to the Ad Hoc Group that outlined certain concerns (the "**September 8th Ad Hoc Group Letter**"). As more fully set out below, the Receiver attempted to address the Ad Hoc Group's concerns in the letter from the Receiver's Counsel dated Tuesday, September 13, 2016 (the "**September 13th Norton Rose Letter**"). The September 8th Ad Hoc Group Letter and the September 13th Norton Rose Letter are attached at Appendix B.
28. The Receiver initially determined that Peters was best positioned to be the financial advisor but reassessed this determination in light of the September 8th Ad Hoc Group Letter. As detailed below, in response to the Ad Hoc Group's concerns, the Receiver opted for a co-lead arrangement. From September 8 to September 13, 2016 the Receiver negotiated a potential co-lead arrangement and ultimately decided upon the retention of Peters and CIBC as financial advisors. The Receiver negotiated acceptable terms of the engagement with CIBC and Peters over this period, subject to approval of this Honourable Court.
29. A Court application was originally scheduled on September 21, 2016 to approve the retention of Peters and CIBC as co-lead financial advisors. However, immediately before the application was scheduled to be heard, the Receiver adjourned to address certain concerns raised by a potential bidder regarding the SISP process.
30. On September 26, 2016, Receiver's Counsel advised the service list that the concerns by the potential bidder had been addressed, and that an application to approve the SISP was scheduled for October 3, 2016.

31. On October 3, 2016, counsel to the Ad Hoc Group advised the Receiver that its client still had concerns over the retention of Peters and CIBC as financial advisors and also recommended an alternative fee structure should Peters and CIBC be approved as financial advisors.
32. On October 3, 2016, the Court directed the Receiver to obtain additional FA Proposals and report back to the Court on October 11, 2016.
33. On October 3, 2016 the Receiver requested an additional three (3) proposals from selling agents and requested that their proposals be received by the end of day on October 5, 2016. The Receiver received one additional FA Proposal. The remaining two parties declined to submit proposals, one party advising this was due to their work-load while the other party did not provide details.

AD HOC GROUP'S CONCERNS OVER THE SISP AND SELECTION OF FINANCIAL ADVISORS

34. The Ad Hoc Group expressed certain concerns and views regarding the selection of a financial advisor to assist the Receiver in implementing the SISP. The Receiver was further contacted by Bennett Jones LLP on September 9, 2016 requesting the Receiver to include one further financial advisor in addition to the four parties first approached to submit proposals.
35. The Ad Hoc Group also provided the Receiver the September 8th Ad Hoc Group Letter summarizing its various concerns.
36. Lastly, at the Court application on October 3, 2016, where the Receiver sought the approval of Peters and CIBC as its financial advisors, the Ad Hoc Group expressed continued concerns over:
 - (a) the retention of Peters as a selling agent or financial advisor;

- (b) that additional potential financial advisors should have been contacted by the Receiver;
- (c) the retention of CIBC as it was a member of the Lenders' syndicate; and
- (d) the overall commission structure.

SUMMARY OF AD HOC GROUP'S CONCERNS AND RECEIVER'S RESPONSE

37. The following summarizes the Ad Hoc Group's concerns as set out in the September 8th Ad Hoc Group Letter and the Receiver's response to these questions and concerns:

Item	Ad Hoc Committee September 8th Ad Hoc Committee Letter	Receiver's Response September 13th Norton Rose Letter
Scope of SISP	SISP to be broad, not only asset or liquidation bids, but to include restructuring type proposals	Agreed, SISP includes the solicitation of both assets purchases and restructuring proposals
Court approval of SISP	SISP to be approved by Court	Receiver agreed and is seeking Court approval
Choice of FA	Peters is not an appropriate choice:	
	(i) Peters is not global in size or scope	Receiver introduced a co-lead arrangement with Peters / CIBC to retain Peter's background and local expertise combined with the international aspect of CIBC's network
	(ii) Peters was previously engaged and highest bid unable to be completed	Significant market data supports the retention of the incumbant financial advisor. Significant additional time and cost will be incurred if Peters background is not retained.
	(iii) Appearance of bias	Receiver has found no evidence to support this concern by the Ad Hoc Group and the Ad Hoc Group has not advanced any such evidence
Proposal Bid	Interested in a pre-emptive bid	Receiver advised given the imminent launch of the SISP, pre-emptive bid not feasible

38. In addition to the September 8th Ad Hoc Group Letter, Bennett Jones LLP contacted the Receiver to request that an additional FA Proposal be received. The Receiver responded to Bennett Jones LLP on September 12, 2016 advising that it was not prepared to contact the additional party at that time given that proposals had already been requested, received and reviewed from four qualified advisors and at the time of the request on or about September 8, 2016, the Receiver was already in discussions regarding fee structures and proposed timelines. Notably, in the context of the expanded request for proposals from financial advisors, one of the financial advisor proposed by Bennett Jones LLP and the Ad Hoc Group declined to submit any proposal.
39. As set out above, the Receiver understands that the Ad Hoc Group's primary concern is the selection of the financial advisor and particularly the selection of Peters.
40. Regarding the Ad Hoc Group's position on the selection of a financial advisor, the Receiver notes the following:
- (a) a detailed process has been completed by the Receiver as set out below with respect to the initial selection of CIBC and Peters, and this process has been updated and expanded following the Court's request that the Receiver solicit additional FA Proposals during this week;
 - (b) the Ad Hoc Group expressed no concerns over the SISP Procedures or timeline, but only over the selection of financial advisors;

- (c) in this regard, the Receiver notes that: i) while the Ad Hoc Group is an important stakeholder in these proceedings, and the Receiver intends to and has worked with the Ad Hoc Group to address its concerns, it remains an unsecured creditor; ii) the Ad Hoc Group has advised the Receiver that it may submit a bid in the SISP and, indeed, sought to submit a pre-emptive bid; and iii) in these circumstances, it is unusual for the Ad Hoc Group as a potential bidder to assert such views over the selection of a financial advisor; and
- (d) the Receiver, as summarized above, has actively engaged with the Ad Hoc Group to address many of its concerns.

REQUEST FOR ADDITIONAL FA PROPOSALS

- 41. At the First Hearing, there was certain discussion regarding the adequacy of receiving only four proposals and that the recommendation from the Ad Hoc Group was not acted upon.
- 42. As discussed above, the Receiver reconfirms that the original four parties selected were specifically identified based on their expertise and experience. The recommendation by the Ad Hoc Group was made after the process for searching for a financial advisor was substantially completed and when the recommendation was made, the Receiver was already in advance negotiations on fees and structure with the winning proposers.
- 43. Furthermore, to provide additional background to this Honourable Court of the overall process, the Receiver reviewed 28 recent energy sector insolvency proceedings wherein a formal sale process was launched. The Receiver obtained this information from publicly available receivership proceedings, CCAA proceedings and other bankruptcy proceedings.

44. A summary of the 28 proceedings reviewed by the Receiver all concerning the energy sector in Western Canada is provided in the table below:

Summary of Cases Reviewed	No.
Receiver ran process (no external financial advisor selected)	9
Incumbent FA retained by Company/receiver	11
New Financial Advisor selected (see (a) below)	8
	<u>28</u>
<i>(a) Breakdown of selected Financial Advisors</i>	
No process/sole FA selected/no information available on process	5
FA process completed	3
	<u>8</u>

45. As the table illustrates above, in the majority of the insolvency proceedings either the Receiver has acted as selling agent or the incumbent financial advisor continued the sales process following the formal insolvency. Accordingly, this illustrates that it is typical for the incumbent financial advisor to continue as financial advisor following the commencement of the insolvency proceeding. The Receiver believes that the incumbent is typically selected because the incumbent has a deep knowledge of the debtor's company and assets and will likely have already established a data room, both of which features result in cost, time, and efficiency gains to the benefit of all stakeholders.
46. Of the eight cases identified where a new or replacement financial advisor was completed, five cases did not refer to any formal proposal process but simply advised that a financial advisor was being retained. Of the three cases where a formal process was run and disclosed including the instant proceedings: one case involved five proposals; one case disclosed that several proposals were sought (it appears that three proposals were requested); and in the Twin Butte process the Receiver initially solicited four proposals and has now solicited a total of seven proposals, in line with or in excess of precedents.

47. In response to the Court's direction, on October 3, 2016, the Receiver contacted an additional three selling agents to request proposals to be financial advisors in the SISP. The Receiver has now received a total of five FA Proposals.
48. A copy of the summary of the FA Proposals received is attached at Confidential Appendix C to this report.

PROPOSED SALES AND INVESTOR SOLICITATION PROCESS

49. As set out in the First Report, the Receiver recommended that CIBC and Peters be engaged as the co-advisors (the "**Co-Advisors**") to lead the SISP on behalf of the Receiver. The Receiver's recommendation was based on a review and comparison of the various proposals submitted by the selling agents, guidance from relevant stakeholders including Management, combined with the Receiver's knowledge of the selling agents based on previous engagements.
50. The Receiver has now completed a 'refreshed' process that sought additional FA Proposals. Based on this review, the Receiver has carefully analyzed the additional proposals received along with the original proposals.
51. The Receiver maintains its recommendation that CIBC and Peters be retained as Co-Advisors to implement the SISP. The Receiver's recommendation is based on the following considerations:
 - (a) while Peters was involved in the pre-receivership sales process, the Receiver believes the retention of Peters is advisable given its expertise and understanding of the Assets, and accords with the practice of retaining an incumbent financial advisor as detailed above and given precedent;
 - (b) the Receiver's analysis of the FA Proposals discloses that delays of at least three (3) weeks could result if a new financial advisor is retained without the concurrent retention of Peters in a co-lead arrangement;

- (c) the Co-Advisor arrangement negotiated by the Receiver is an equal partnership between CIBC and Peters, in that:
- i. their financial incentives are aligned with each other and with maximizing recovery for all stakeholders through the SISP;
 - ii. their commission and fees will be split equally between them; and
 - iii. while Peters would launch the SISP as it has the data-room updated, CIBC and Peters would evenly divide the remaining undertakings required of the SISP;
- (d) retaining the Co-Advisors leverages Peters' pre-receivership work including its relationship with Management, understanding of the Assets, expertise in the Alberta energy market, correspondence with interested parties, and its existing and updated data room and marketing materials, combined with CIBC's noted expertise regarding selling mandates of this nature and its global network of potential investors and purchasers;
- (e) despite having two advisors the fee structure for their engagement is comparable with the market and other fee proposals received, including the information received in the 'refreshed' FA Proposal process;
- (f) the Receiver has not seen or been advised of any evidence supporting the Ad Hoc Group's concerns regarding Peters' potential bias; and
- (g) insofar as the Ad Hoc Group has any concern about the selling agent's 'international reach', the Receiver has retained CIBC to address same while noting that Peters' reach is also international and that the advisor proposed by the Ad Hoc Group did not submit a proposal.

52. The Ad Hoc Group has not provided any substantive comments or concerns regarding the SISP Procedures (attached at Appendix A) despite being provided a draft copy of same. No concerns have been raised about the process or timelines. The Ad Hoc Group's only concern is with the selection of the financial advisor, and this is a concern the Receiver has addressed. The Receiver can confirm to this Court that all the parties contacted in both the original and updated proposal process were well-qualified professionals with relevant experience.
53. The Ad Hoc Group's oral submissions to this Honourable Court at the First Hearing included that a commission structure be used that their counsel advised would incentivize the financial advisors to maximize recovery. The Receiver has considered this request and believes that the commission structure recommended by the Receiver aligns with the aim of maximum recovery because the commission is based on a straight percentage of the selling price. The higher the selling price, the higher the success fee, and the higher the selling price, the higher the potential maximum recovery for all stakeholders including the unsecured Ad Hoc Group.
54. Appendix A contains the detailed SISP Procedures that set out the timelines and parameters pursuant to which the co-advisors, on behalf of, and in consultation with the Receiver, will market and solicit restructuring proposals and offers to purchase the Company, its operations, or its Assets. The SISP was developed in consultation with the Receiver, its proposed Co-Advisors, the Receiver's Counsel and the Lenders and sets broad parameters allowing interested parties to advance any sort of restructuring or purchase proposal for consideration by the Receiver with the goal of maximizing value to the Company's stakeholders. The dates under the SISP Procedures have been updated to reflect the delays in the launch of the sale process.

55. Generally, the SISP contemplates 5.5 weeks from formal launch to non-binding bids and an additional 4 weeks to obtain binding restructuring agreements or offers to purchase, for an overall 9.5 week process. The following summarizes the proposed timeline for the major steps contemplated in the SISP:
- (a) October 11, 2016 – Formally launch sales process, targeted phone calls, e-mail blast, post teaser, open virtual data room;
 - (b) November 17, 2016 – Phase I bid deadline for non-binding letters of intent;
 - (c) November 17 to December 14, 2016 – negotiate formal binding purchase and sale agreement or restructuring proposal with interested parties, assist with final due diligence;
 - (d) December 15, 2016 – Phase II bid deadline to submit binding offers or restructuring proposals with deposit; and
 - (e) December 2016 – seek Court approval and close transaction or sanction the restructuring proposal.

Marketing and Advertising

56. The SISP contemplates that as soon as reasonably practicable after obtaining Court approval the Co-Advisors shall formally launch the SISP by:
- (a) posting marketing materials on the Receiver's and Co-Advisors' websites;
 - (b) distributing a teaser by way of e-mail blast to the Co-Advisors' data base of potential interested parties;
 - (c) posting advertisements in the Daily Oil Bulletin;

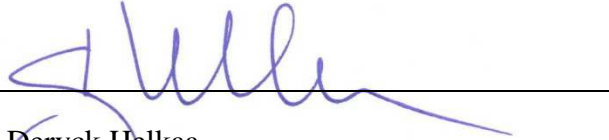
- (d) initiating targeted phone calls;
- (e) issuing a Twin Butte press release; and
- (f) establishing a confidential virtual data room (“**VDR**”) describing the opportunity that will be made available by the Co-Advisors to prospective purchasers that have executed a non-disclosure agreement with the Receiver. The VDR will be available immediately upon Court Approval.

RECOMMENDATIONS

57. The Receiver respectfully requests that this Honourable Court grant the following relief:
- (a) approval of the Receiver’s actions, conduct and activities since the Date of Appointment;
 - (b) approval of the engagement of CIBC and Peters to act as the Co-Advisors in respect of the SISP; and
 - (c) approval of the proposed SISP and SISP Procedures.

All of which is respectfully submitted this 7th day of October, 2016.

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



Dustin Olver
Managing Director, CA, CPA

Appendix A

SISP Procedures

Procedures for the Sale and Investment Solicitation Process

1. On September 1, 2016, the Court of Queen's Bench of Alberta (the "**Court**") made an order (the "**Receivership Order**") appointing FTI Consulting Canada Inc. ("**FTI**") as Receiver and Manager (the "**Receiver**") of Twin Butte Energy Ltd. ("**Twin Butte**"), under Section 243(1) of the *Bankruptcy and Insolvency Act*. The Receiver is requesting Court approval of the sale and investment solicitation process (the "**SISP**") set forth herein at a Court application scheduled on September 21, 2016.
2. Pursuant to Section 3 (d) of the Receivership Order, the Receiver engaged Peters & Co. Limited and CIBC World Markets Inc. to work collaboratively as selling agents (collectively the "**Selling Agent**"), pursuant to an engagement letter dated September 12, 2016 to act as the exclusive marketing agents in the SISP.
3. Set forth below are the procedures (the "**SISP Procedures**") to be followed with respect to the SISP to be undertaken to seek a successful bid or restructuring proposal, and if there is a successful bid or restructuring proposal, to complete the transactions contemplated by the successful bid or restructuring proposal.

Defined Terms

4. Capitalized terms shall have the meanings given to them below. Any capitalized terms used but not otherwise defined herein shall have the meanings given to them in the Receivership Order.

"**Business Day**" means a day, other than a Saturday or Sunday, on which banks are open for business in the City of Calgary;

"**Credit Agreement**" means that amended and restated credit agreement dated as of January 15, 2016, as amended from time to time, among Twin Butte, as borrower, certain financial institutions, as lenders, and National Bank of Canada, as administrative agent;

"**Credit Bid**" means a bid on behalf of a creditor of Twin Butte under which all or a portion of the consideration being offered under the bid includes the compromise of all or a portion of indebtedness owing from Twin Butte to the creditor including, without limitation, any claim arising as the result of the disclaimer or resiliation of any contract, where such disclaimer is contemplated by a Phase I or Phase II Bid or Restructuring Proposal. Any Credit Bid must provide for cash payment of all obligations in priority to the indebtedness to the Credit Bid Party;

"**Credit Bid Party**" means a person submitting a Credit Bid. For further clarity, a Credit Bid Party is still required to execute a confidentiality agreement to qualify as a Qualified Phase I Bidder and meet the requirements of Paragraph 24 to qualify as a Qualified Phase II Bidder. Furthermore, a Credit Bid Party is required to participate in Phase I of the SISP in order to potentially qualify as a Qualified Phase II Bidder;

"**Lenders**" means the syndicate of secured lenders who are owed approximately \$205,375,284 plus accruing interest and costs in accordance with the Credit Agreement by Twin Butte;

"**Property**" means the undertakings, property and assets of Twin Butte or any portion thereof; "**Secured Lender Debt**" means the debt owed by Twin Butte to the secured syndicate of Lenders, including all principal, interest and costs, all in accordance with the Credit Agreement.

Solicitation Process and Timeline

5. The SISP Procedures set forth herein describe the manner in which prospective bidders may gain access to or continue to have access to due diligence materials concerning Twin Butte, its business and operations (the "**Business**") and its assets, undertakings and properties (collectively, the "**Property**"), the manner in which a bid becomes a Qualified Phase I Bid or Restructuring Proposal or a Qualified Phase II Bid or Restructuring Proposal (each as defined herein), the receipt and negotiation of bids received, the ultimate selection of a Successful Bid or Restructuring Proposal (as defined herein), if any, and the approval thereof by the Court.

6. The Selling Agent shall implement these SISP Procedures with the assistance and supervision of the Receiver. Twin Butte is required to assist and support the efforts of the Selling Agent and the Receiver, as provided herein. In the event that there is disagreement as to the interpretation or application of these SISP Procedures, the Court will have jurisdiction to hear and resolve any such dispute.

7. The following table sets out the key milestones under this SISP, subject to extension by the Receiver pursuant to and in accordance with these SISP Procedures:

Milestone	Deadline
Phase I Bid or Restructuring Proposal Deadline	November 17, 2016
Phase II Bid or Restructuring Proposal Deadline	December 15, 2016

Solicitation of Interest

8. As soon as practicable following the issuance of the Court approval of the SISP, the Receiver, in consultation with the Selling Agent, shall cause a notice of the SISP to be published in the *Daily Oil Bulletin* and issue a press release setting out relevant information from such notice with Canada Newswire designating dissemination in Canada and major financial centres in the United States.

9. A non-confidential teaser letter prepared by the Selling Agent (the "**Teaser**") describing the opportunity to acquire some, all or substantially all of the Business or Property will be made available by the Selling Agent to prospective purchasers or prospective strategic or financial investors and will be posted on the Receiver's website and Selling Agent's website as soon as practicable following the issuance of the Court approval of the SISP.

10. In order to participate in the SISP, each person (a "**Potential Bidder**") must deliver to the Selling Agent and the Receiver at the addresses specified in Exhibit "A" hereto and prior to granting of access to the electronic data room containing confidential information concerning the Business and Property (the "**Data Room**") and the distribution of any such confidential information by the Selling Agent or the Receiver to a Potential Bidder, an executed confidentiality agreement, in form and substance satisfactory to the Receiver.

Phase I

11. All Potential Bidders that are parties to a confidentiality agreement with the Receiver in accordance with these SISP Procedures shall be deemed to be a qualified Phase I bidder (a "**Qualified Phase I Bidder**") and, upon notification from the Receiver to the Selling Agent, will be promptly notified of such classification by the Selling Agent.

12. Qualified Phase I Bidders shall be provided with access to the Data Room and, if requested by the Qualified Phase I Bidder and deemed appropriate by the Receiver, a management presentation, together with such further information as the Selling Agent and the Receiver may deem appropriate. The Selling Agent and the Receiver make no representation or warranty as to the accuracy or completeness of the information contained in the Teaser or in the Data Room.

13. A Qualified Phase I Bidder, if it wishes to submit a bid or restructuring proposal, must deliver written copies of a non-binding letter of intent (a "**Phase I Bid or Restructuring Proposal**") to the Selling Agent and the Receiver at the addresses specified in Exhibit "A" hereto (including by email or fax transmission) so as to be received by each of them no later than 5:00 p.m. (Mountain Time) on November 17, 2016, or such other date or time as may be agreed by the Receiver (the "**Phase I Bid or Restructuring Proposal Deadline**").

14. A Phase I Bid or Restructuring Proposal will be deemed to be a "**Qualified Phase I Bid or Restructuring Proposal**" only if the Phase I Bid or Restructuring Proposal complies with all of the following:

- (a) it includes a term sheet describing the terms and conditions of the proposed transaction or restructuring, including identification of the Business or Property (including any liabilities to be assumed) proposed to be acquired or restructured, the purchase price for the Business or Property proposed to be acquired as applicable and expressed in Canadian dollars (the "**Purchase Price**"), the effective date or timeline of the proposed transaction or restructuring and the structure and financing of the proposed transaction or restructuring;
- (b) it is not subject to a financing condition and it includes written evidence of the financial ability to consummate the proposed transaction or restructuring that will allow the Receiver to make a reasonable determination as to the Qualified Phase I Bidder's financial and other capabilities to consummate the transaction contemplated by its Phase I Bid or Restructuring Proposal;
- (c) it contains a description of the conditions and approvals required for a final and binding offer, including any anticipated corporate, security holder, internal or regulatory approvals required to close the transaction, an estimate of the anticipated time frame and any anticipated impediments for obtaining such approvals;
- (d) it contains an outline of any additional due diligence required to be conducted by the Qualified Phase I Bidder in order to submit a final and binding offer or restructuring proposal;
- (e) it fully discloses the identity of each person (including any person that controls such person) that will be directly or indirectly sponsoring or participating in the bid or restructuring proposal and the complete terms of any such participation;

- (f) it does not include any request for or entitlement to any break or termination fee, expense reimbursement or similar type of payment;
- (g) it contains such other information as may reasonably be requested by the Selling Agent or the Receiver; and
- (h) it is received by the Phase I Bid or Restructuring Proposal Deadline.

15. The Receiver, in consultation with the Selling Agent and Lenders, will consider any Phase I Bid or Restructuring Proposal.

16. The Receiver, in consultation with the Selling Agent and Lenders, will assess the Phase I Bids or Restructuring Proposals and/or Credit Bids received by the Phase I Bid or Restructuring Proposal Deadline and determine which of such bids or proposals constitute Qualified Phase I Bids or Restructuring Proposals. The Receiver may waive compliance with any one or more of the requirements specified herein and deem such non-compliant bids to be Qualified Phase I Bids or Restructuring Proposals.

17. Should any creditor submit a bid (including by way of a Credit Bid) to acquire the Business or Property; such creditor shall be barred from receiving any confidential data regarding the bids received prior to the Phase I Bid or Restructuring Proposal Deadline or the Phase II Bid or Restructuring Proposal Deadline, as may be applicable and will not be consulted by the Receiver in the selection of the Phase II Bidders or the Successful Bid or Restructuring Proposal (as defined herein).

18. The Receiver may reject any Phase I Bid or Restructuring Proposal or Credit Bid if it determines that such bid does not constitute a Qualified Phase I Bid or Restructuring Proposal, is otherwise inadequate or insufficient, or is otherwise contrary to the best interests of the receivership estate, Twin Butte or any of its creditors or other stakeholders.

19. If it is determined by the Receiver that a person that has submitted a Qualified Phase I Bid or Restructuring Proposal (including where compliance with the bid requirements has been waived) has a bona fide interest in completing a transaction pursuant to these SISP Procedures and such bid has not been rejected pursuant to Paragraph 19, then such person shall be deemed to be a "**Phase II Bidder**". Notwithstanding anything else in this paragraph, any person that submits a Qualified Phase I Bid or Restructuring Proposal which contemplates payment in full in cash of the Secured Lender Debt (and which Qualified Phase I Bid or Restructuring Proposal is not subject to financing) shall be deemed to be a Phase II Bidder.

20. The Selling Agent or the Receiver shall notify each Phase I Bidder as to whether or not such person has been determined to be a Phase II Bidder and is permitted to proceed to Phase II.

Phase II

21. The Selling Agent and the Receiver shall allow each Phase II Bidder such further access to confirmatory due diligence materials and information regarding mineral titles, contracts and environmental diligence items as the Receiver deems appropriate in its reasonable business judgement and subject to competitive and other business considerations.

22. If requested by a Phase II Bidder, the Selling Agent shall arrange for a site visit, subject to compliance with health, safety and security measures reasonably required by the Receiver.

23. Phase II of the SISP will be limited to those persons, including a Credit Bid Party, that were identified by the Receiver as a Phase II Bidder. No person, including a Credit Bid Party, shall be permitted to participate in Phase II of the SISP without having participated in Phase I of the SISP and having been designated as a Phase II Bidder herein.

24. A Phase II Bidder that wishes to make a formal offer to purchase the Business or Property or a formal Restructuring Proposal shall submit a binding offer (a "**Phase II Bid or Restructuring Proposal**") and a copy of the purchase and sale agreement or restructuring agreement they are prepared to sign ("**Definitive Agreement**") to the Selling Agent and the Receiver at the addresses specified in Exhibit "A" hereto (including by email or fax transmission) so as to be received by each of them no later than 12:00 p.m. (Mountain Time) on **December 15, 2016**, or such other date or time as may be agreed to by the Receiver (the "**Phase II Bid or Restructuring Proposal Deadline**"). Such Phase II Bid or Restructuring Proposal shall be a "**Qualified Phase II Bid or Restructuring Proposal**" and such Phase II Bidder shall be a "**Qualified Phase II Bidder**" only if its Phase II Bid or Restructuring Proposal complies with all of the following:

- (a) it complies with all of the requirements in respect of Qualified Phase I Bids or Restructuring Proposals, other than the requirements set out in Paragraphs 14(c), 14(d) and 14(h);
- (b) it clearly identifies the form of consideration being proposed to satisfy the Purchase Price and estimated value of the consideration in Canadian dollars. The Receiver's preference is for cash consideration; however, the Receiver will consider securities or other forms of consideration;
- (c) it clearly identifies the contracts, agreements or other arrangements held by Twin Butte that are to be assumed by the Phase II Bidder under its Phase II Bid or Restructuring Proposal;
- (d) it includes a letter stating that its Phase II Bid or Restructuring Proposal is irrevocable until the earlier of: (i) the approval of a Successful Bid (as defined herein) by the Court in accordance with these SISP Procedures; and (ii) thirty (30) calendar days following the Phase II Bid or Restructuring Proposal Deadline, provided that if such Phase II Bidder is selected as the Successful Bidder, its offer shall remain irrevocable until the closing of the transaction with the Successful Bidder;
- (e) it includes written evidence of a firm irrevocable commitment for all required financing, or other evidence of the financial ability of such Phase II Bidder to consummate the proposed transaction or restructuring, that will allow the Receiver to make a reasonable determination as to the Phase II Bidder's financial and other capabilities to consummate the transaction or restructuring contemplated by its bid;
- (f) it is not conditioned on: (i) the outcome of unperformed due diligence; and/or (ii) obtaining financing;
- (g) it includes an acknowledgement and representation that the Phase II Bidder: (i) has relied solely upon its own independent review, investigation and/or inspection of any documents and/or the Business or Property to be acquired and liabilities to be assumed in making its bid; and (ii) did not rely upon any written or oral statements, representations, promises, warranties or guaranties whatsoever, whether express or implied (by operation

of law or otherwise), regarding the Business or Property to be acquired or liabilities to be assumed or the completeness of any information provided in connection therewith, except as expressly provided in a Definitive Agreement;

- (h) it includes evidence, in form and substance reasonably satisfactory to the Receiver, of authorization and approval from the Phase II Bidder's board of directors (or comparable governing body) with respect to the submission, execution, delivery and closing of the transaction contemplated by the Phase II Bid or Restructuring Proposal, and identifies any anticipated shareholder, regulatory or other approvals outstanding, and the anticipated time frame and any anticipated impediments for obtaining such approvals;
- (i) except in the case of a Credit Bid, it is accompanied by a refundable deposit (the "**Deposit**") in the form of a wire transfer (to a bank account specified by the Receiver), or such other form acceptable to the Receiver, payable to the order of the Receiver, in trust, in an amount equal to ten percent (10%) of the total consideration set out in its Phase II Bid or in the case of a Phase II Restructuring Proposal some other amount mutually agreed to with the Phase II Bidder;
- (j) in the case of a Credit Bid, it is accompanied by a Deposit in the form of a wire transfer (to a bank account specified by the Receiver), or such other form acceptable to the Receiver, payable to the order of the Receiver, in trust, in an amount equal to ten percent (10%) of the total consideration set out in its Phase II Bid, less the value of the consideration allocated to the credit portion of the Credit Bid, or in the case of a Phase II Restructuring Proposal some other amount mutually agreed to with the Credit Bid Party;
- (k) the Phase II Bid or Restructuring Proposal includes an executed Definitive Agreement, including all exhibits and schedules contemplated thereby (other than exhibits and schedules that by their nature must be prepared by the Receiver), together with a blackline against the draft form of Definitive Agreement which will be prepared by the Receiver and posted in the Data Room;
- (l) it does not include any request for or entitlement to any break or termination fee, expense reimbursement or similar type of payment; and
- (m) it contains such other information as may reasonably be requested by the Receiver.

25. The Receiver, in consultation with the Selling Agent and Lenders, will consider the Qualified Phase II Bids or Restructuring Proposals. The Receiver reserves the right to request that Qualified Phase II Bidders revisit their Qualified Phase II Bids or Restructuring Proposals in the event several competitive Qualified Phase II Bids or Restructuring Proposals are received. The Receiver reserves the right not to accept any of the Qualified Phase II Bids or Restructuring Proposals if no acceptable Qualified Phase II Bids or Restructuring Proposals are received. If the Receiver, in consultation with the Selling Agent and Lenders determines a Qualified Phase II Bid or Restructuring Proposal is acceptable and provides superior value to the Twin Butte estate such Qualified Phase II Bid or Restructuring Proposal will be selected as the successful bid ("**Successful Bid or Restructuring Proposal**") with the proponent of such Successful Bid or Restructuring Proposal being a "**Successful Bidder**". The Qualified Phase II Bidder who submitted the Successful Bid or Restructuring Proposal will be notified and the Receiver will seek Court approval of and close or implement the Successful Bid or Restructuring Proposal.

Court Approval

26. The Receiver shall apply to the Court (the "**Approval Motion**") for an order approving the Successful Bid or Restructuring Proposal and authorizing the Receiver to enter into any and all necessary agreements with respect to the Successful Bid or Restructuring Proposal, as well as an order vesting title to the Business or Property in the name of the Successful Bidder or, in the case of a restructuring proposal, a restructuring order to sanction and authorize the implementation of the restructuring proposal.

27. The Approval Motion will be held on a date to be scheduled by the Court upon application by the Receiver. The Approval Motion may be adjourned or rescheduled by the Receiver without further notice.

28. All Qualified Phase II Bids (other than a Successful Bid or Restructuring Proposal) shall be deemed rejected on and as of the date of approval of the Successful Bid or Restructuring Proposal by the Court.

Deposits

29. All Deposits shall be retained by the Receiver and deposited in a trust account. If there is a Successful Bid or Restructuring Proposal, the Deposit paid by the Successful Bidder whose bid is approved by the Court at the Approval Motion shall be applied to the Purchase Price to be paid or investment amount to be made by the Successful Bidder upon closing of the approved transaction or restructuring proposal and will be non-refundable. The Deposits of Phase II Bidders not selected as the Successful Bidder shall be returned to such bidders within five (5) Business Days of the date upon which the Successful Bid or Restructuring Proposal is approved by the Court. If there is no Successful Bid or Restructuring Proposal, then all Deposits shall be returned to the Phase II Bidders within five (5) Business Days of the date upon which the SISP is terminated in accordance with these SISP Procedures.

No Amendment

30. There shall be no amendments to the SISP Procedures, including for greater certainty, the process and procedures set out herein, without the consent of the Receiver.

"As Is, Where Is"

31. Any sale of the Business or Property will be on an "as is, where is" basis and without surviving representations or warranties of any kind, nature, or description by the Receiver or the Selling Agent or any of their respective affiliates, advisors, agents or representatives, except to the extent otherwise provided under a Definitive Agreement with a Successful Bidder executed and delivered by the Receiver. Neither the Receiver nor the Selling Agent nor any of their respective affiliates, advisors, agents or representatives make any representation or warranty as to the accuracy or completeness of the information contained in the Teaser or in the Data Room, except to the extent otherwise provided under a Definitive Agreement with a Successful Bidder executed and delivered by the Receiver.

Free Of Any And All Claims and Interests

32. In the event of a sale of the Business or the Property, to the extent permitted by law, all of the rights, title and interests of Twin Butte in and to the Business or the Property to be acquired will be sold free and clear of all pledges, liens, security interests, encumbrances, claims, charges, options and interests on or against the Property (collectively, the "**Claims and Interests**") such Claims and Interests to attach only to the net proceeds of the sale of such Property (without prejudice to any claims or causes of action regarding the priority, validity or enforceability thereof), except to the extent otherwise set forth in a Definitive Agreement with a Successful Bidder.

No Obligation to Conclude a Transaction

33. The Receiver has no obligation to agree to conclude a sale or investment arising out of this SISP and it reserves the right and unfettered discretion to reject any offer or other proposal made in connection with this SISP. In addition, at any time during this SISP, the Receiver may determine to terminate these SISP Procedures, in consultation with the Lenders, and shall provide notice of such a decision to all Qualified Phase I Bidders or Qualified Phase II Bidders, as applicable.

Further Orders

34. At any time during this SISP, the Receiver or the Selling Agent may apply to the Court for advice and directions with respect to the discharge of their powers and duties hereunder.

Chris Simard
Direct Line: 403.298.4485
e-mail: simarde@bennettjones.com
Our File No.: 76739.1

September 8, 2016

Via Email

Mr. Howard A. Gorman, Q.C.
Norton Rose Fulbright LLP
Suite 3700, 400 3rd Ave SW
Calgary AB T2P 4H2

Dear Mr. Gorman:

Re: Twin Butte Energy Ltd. in Receivership ("Twin Butte")

As you know, we represent an ad hoc committee (the "Ad Hoc Group") of unaffiliated senior debentureholders with very significant holdings of Twin Butte's 6.25% Convertible Unsecured Subordinated Debentures (the "Debentures"). The holders of the Debentures are an important stakeholder group of Twin Butte.

We understand that you act for FTI Consulting Canada Inc., the Court-appointed Receiver and Manager of Twin Butte (the "Receiver"). We understand that the Receiver is currently formulating a sales and investment solicitation process for Twin Butte ("SISP"), including the engagement of a financial advisor ("FA") to implement the SISP.

As you may be aware, the Ad Hoc Group advanced to Twin Butte a restructuring proposal in late August, 2016. Twin Butte was not receptive to this proposal but was instead insistent on pursuing the transaction with Reignwood (the "Proposed Reignwood Transaction") which was not approved by the requisite majorities of security holders. Our clients believed, and still believe, that their restructuring proposal was superior to the Proposed Reignwood Transaction.

The Ad Hoc Group remains ready, willing and able to propose and pursue a restructuring transaction with respect to Twin Butte. The Ad Hoc Group believes that such a restructuring will result in greater value being realized by all the stakeholders of Twin Butte (including the lending syndicate) than will a liquidation sale of Twin Butte's assets. Accordingly, the Ad Hoc Group wants to work cooperatively with the Receiver and in this regard, we wish to make you aware of the Ad Hoc Group's position with respect to a number of points with respect to the SISP:

- (a) **Scope of SISP** – the Ad Hoc Group feels that it is important to ensure that the scope of the SISP is broad, such that the SISP solicits not only asset or liquidation bids, but also restructuring proposals of the type being proposed by the Ad Hoc Group (which, among

other things, might require the implementation of CCAA proceedings and a creditor vote to implement a restructuring);

- (b) **Court Approval of SISP** – the Ad Hoc Group understands that the Receiver intends to seek court approval for the SISP in advance of implementing the SISP, and the Ad Hoc Group is fully supportive of that approach;
- (c) **Choice of FA** – the choice of FA will have a very significant impact on the outcome of the SISP. You are no doubt aware that Peters & Co. ("Peters") ran the strategic alternative process for Twin Butte (the "Previous Process") that resulted in the selection of the rejected Proposed Reignwood Transaction. The Ad Hoc Group feels that Peters would not be that appropriate choice as the FA engaged by the Receiver to implement the SISP, for a number of reasons. First, Peters is not global in size or scope. A firm such as Scotia Waterous, in contrast, would reach a far larger group of potential bidders and investors than Peters was capable of reaching in the Previous Process (the Ad Hoc Group's understanding of the Previous Process is based on paragraph 33 of the August 31, 2016 Affidavit of Murray D'Angelo, in which it was stated that National Bank Financial and Peters reached out to only approximately 400 parties. As an example, the financial advisor to the Ad Hoc Group, Macquarie Capital, a global firm, uses of contact list of over 1200 parties for such processes. As such, the Ad Hoc Group anticipates that other global firms like Scotia Waterous would be able to reach two or three times the number of potentially interested parties contacted by Peters). Second, the best transaction that Peters was able to generate in the Previous Process was the Proposed Reignwood Transaction, which was unacceptable to Twin Butte's stakeholders. The Ad Hoc Group was disappointed that while Peters provided a fairness opinion with respect to the Proposed Reignwood Transaction to Twin Butte's shareholders, it would not provide such an opinion to holders of the Debentures, and declined to do this when asked. The Ad Hoc Group's view is that this was a failure by Peters to act in the best interests of all the stakeholders of Twin Butte (Twin Butte subsequently had to commission a fairness opinion for the benefit of the holders of the Debentures from Canaccord, who was not involved in the Previous Process). Finally, there may be an inevitable appearance of bias in having Peters conduct the SISP. Having already once recommended the (rejected) Proposed Reignwood Transaction in the Previous Process, objective outside parties might reasonably conclude that Peters may again be inclined to favour a transaction with Reignwood. This reasonable apprehension of bias should not be allowed to taint the SISP, and can be easily avoided. For all these reasons, the Ad Hoc Group feels very strongly that the Receiver should be hiring a new FA such as Scotia Waterous, to implement the SISP; and
- (d) **Proposal from the Ad Hoc Group** – in a brief conversation I had on Tuesday with Mr. Helkaa of FTI, he asked whether the Ad Hoc Group's intention was to submit a proposal in the SISP, or to submit a pre-emptive proposal which would then be used like a stalking horse bid. I have consulted with our clients and can advise that the Ad Hoc Group would be very interested in submitting a pre-emptive proposal that could

September 8, 2016

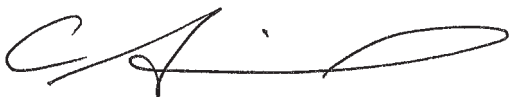
Page 3

be formalized in an agreement with the Receiver, in very short order. The Ad Hoc Group could do this very quickly (*i.e.* within 7 days), but only if the Receiver agrees to release parties who took part in the Previous Process, from their confidentiality obligations regarding Twin Butte. This is necessary because the Ad Hoc Group needs to be able to speak freely with a handful of entities with whom it would work to finalize its proposal, and some of those entities may have been participants in the Previous Process. If the Receiver agrees to this conceptually, we will provide the names of the entities that the Ad Hoc Group needs to be released. We do not anticipate that this request should cause any concern to the Receiver, because we expect that the Receiver will be requiring participants in the SISP to enter into new confidentiality agreements with the Receiver in any event. As such, we formally request the Receiver to advise whether it will agree to such a release for parties in the Previous Process. This is an important threshold issue for the Ad Hoc Group, and we therefore look forward to hearing from you promptly as to whether the Receiver will agree to release participants in the previous process from the confidentiality obligations associated therewith.

We look forward to the Receiver's prompt response to this letter, especially our request regarding the release from confidentiality obligations. We reiterate that the Ad Hoc Group is ready, willing and able to very quickly propose and finalize arrangements for a restructuring proposal, which it believes will result in greater value to all stakeholders, including the lending syndicate. The proposal currently being contemplated by the Ad Hoc Group would, among other things, include a greater return to the lending syndicate than the proposal previously advanced by the Ad Hoc Group.

Thank you for your consideration of these matters and we look forward to discussing same with you soon.

Yours truly,



Chris Simard

CS:dmk

cc: Deryk Helkaa
Bennett Jones
Client

September 13, 2016

Sent By E-mail

Chris Simard
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Your reference
76739.1

Our reference
01020497-0005

Dear Mr. Simard:

**Twin Butte in Receivership
SISP Application**

Thank you for your letter of September 8, 2016 (**September 8 Letter**). All capitalized terms not otherwise defined herein have as their meaning those given to them in the September 8 Letter. As you note, our offices are counsel for the Receiver.

In reply to your September 8 Letter, the Receiver can advise and confirm the following:

1. The Receiver agrees that the Ad Hoc Group comprise important stakeholders of Twin Butte. The Receiver continues to consider the Ad Hoc Group's reasonable expectations in its determination of what is the best interests of all of Twin Butte's stakeholders in the circumstances. The Receiver also acknowledges and values the Ad Hoc Group's willingness to work cooperatively with the Receiver.
2. The Receiver will seek Court approval for a SISP that solicits asset or liquidation bids alongside a corporate sale and restructuring proposals. Throughout the subsequent implementation of the SISP, the Receiver intends on acting transparently and on making the process itself transparent so far as possible in the circumstances.
3. While the Receiver disagrees with the Ad Hoc Group's characterization of Peters, the Receiver has taken steps to address the Ad Hoc Group's concerns about selecting a sales agent with international scope. To this end, and following the solicitation of proposals from four financial advisors, the Receiver has secured the joint engagement of Peters and CIBC World Markets Inc. (**CIBC**) to act as sales agents under the SISP, and is finalizing the fee arrangement and SISP terms amongst them. Together, CIBC and Peters offer access to a global investment market and expert knowledge of and extensive contacts within Alberta. To your clients' point about Scotia Waterous and Macquarie Capital, neither of whom the Receiver contacted, CIBC provides comparable service and reach and the Receiver trusts that the selection of CIBC as co-agent fully addresses your clients' concerns in that respect.
4. Regarding Peters, the Receiver has carefully considered their engagement in the proposed SISP along with their involvement in the Previous Process. The Receiver has concluded that the engagement of Peters in the proposed SISP is in the best interests of all stakeholders of Twin Butte for the following principal reasons. First, Peters' extensive experience in Alberta's oil and gas industry will be integral to

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the successful implementation of the proposed SISP and will complement the services provided by CIBC. Second, Peters' involvement in the Previous Process favors their continued involvement in the SISP because of the cost and time savings that will result from their knowledge of Twin Butte and its assets, and from Peters' established data room in respect of same. These advantages will benefit all of Twin Butte's stakeholders, and would not be available absent Peters' continued involvement. The Receiver disagrees with the Ad Hoc Group's suggestion that the engagement of Peters in the SISP may give rise to a reasonable apprehension of bias. There is no evidence of same nor has the Receiver seen any evidence that the Previous Process was anything less than robust and open to all interested parties. To the extent the Ad Hoc Group continues to apprehend bias in the selection of Peters as sales agent, the Receiver trusts that the joint-engagement of CIBC fully addresses that concern insofar as CIBC was uninvolved in the Previous Process. Further, the co-agents have agreed to share equally in a very competitive fee structure involving an up-front engagement fee of \$100,000, along with a completion fee equal to 0.9% of the aggregate value of the consideration received by Twin Butte in the event of a successful transaction under the SISP. By retaining Peters as a co-agent, any issue or dispute concerning a trailing fee under Peters' original retainer in the Previous Process is avoided.

5. The Receiver has considered the Ad Hoc Group's submitting a pre-emptive proposal and its request that confidentiality obligations under the Previous Process be extinguished. The Receiver has concluded that such a pre-emptive proposal would be contrary to the principles of fairness and transparency underlying its conduct of the SISP and these proceedings generally. Permitting the Ad Hoc Group to submit a pre-emptive proposal would grant them an advantage unavailable to other interested parties and would risk tainting the process as a result. Accordingly, the Receiver does not agree to release any party from their confidentiality obligations under the Previous Process. Of course, the Receiver welcomes any restructuring proposal advanced by the Ad Hoc Group in the context of the SISP and looks forward to working constructively with the Ad Hoc Group over the remainder of these proceedings.

The Receiver intends to bring an application for approval of the SISP before the Honourable Madam Justice K. Eidsvik on September 20, 2016, at a time to be confirmed with the Court.

Should you have any questions or concerns regarding the above, contact the writer directly.

Yours very truly,



Howard A. Gorman, Q.C.
Senior Partner

HAG/rs

Copies to: Deryck Helkaa / Dustin Olver, FTI Consulting Canada Inc.
Aditya M. Badami, Norton Rose Fulbright