



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

June 13, 2018

ADDRESS FOR SERVICE AND
CONTACT INFORMATION OF
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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**”) 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 (“**Fourteenth Report**”) is to provide this Honourable Court with the following:
 - (a) an update on the activities of the Receiver since the Receiver’s thirteenth report dated February 12, 2018 (“**Thirteenth Report**”);
 - (b) an update on the status of the following two remaining disputed claims, collectively (“**Remaining Claims**”);
 - i. A claim filed by Alberta Treasury Board and Finance Tax and Revenue Administration (“**AB Finance Claim**”); and
 - ii. Claims filed by three former executives (“**Former Executives**”) of Twin Butte (“**Former Executives Claims**”)
 - (c) a summary of receipts and disbursements from the Date of Appointment to June 15, 2018;
 - (d) the Receiver’s revised recovery analysis and the proposed third and final distribution;
3. The Receiver is requesting the following relief from this Honourable Court:
 - (a) authorization for the Receiver to make a final distribution to the creditors of Twin Butte as outlined below;

- (b) approval of the fees and expenses of the Receiver and the Receiver's Counsel related to the administration of these receivership proceedings;
 - (c) discharging the Receiver and terminating these receivership proceedings upon the completion of the Receiver's remaining administrative tasks and filing of a Receiver's Certificate; and
 - (d) Authorizing the Receiver to destroy the Company's corporate books and records if not claimed by the former directors within 30 days of being discharged.
4. The Receiver's reports and other publicly 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

5. In preparing this Fourteenth 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**").
6. Except as described in this Fourteenth 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 Fourteenth Report in a manner that would comply with the procedures described in the Canadian Institute of Chartered Accountants Handbook.
7. Future oriented financial information reported or relied on in preparing this Fourteenth Report is based on assumptions regarding future events. Actual results may vary from forecasts and such variations may be material.
 8. The Receiver has prepared this Fourteenth Report in connection with its application (“**June 21st Application**”) scheduled to be heard on June 21, 2018.
 9. Information and advice described in this Fourteenth 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.
 10. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

RECEIVER'S ACTIVITIES SINCE THE THIRTEENTH REPORT

11. Since filing the Thirteenth Report the Receiver has, among other things:
 - (a) Made the Proposed Additional Distribution to creditors as approved by this Honourable Court as outlined in the Receiver's supplemental report to the Thirteenth Report dated February 20, 2018 ("**Thirteenth Supplemental Report**");
 - (b) Corresponded with AB Finance and the Former Executives, their respective counsels, and the Ad Hoc Group in an effort to settle or make a final determination of the two Remaining Claims; and
 - (c) Prepared an estimated recovery analysis, holdback, and proposed additional distribution as discussed in further detail below.

UPDATE OF REMAINING CLAIMS

12. There are two Remaining Claims the status of which are as follows:

AB Finance Claim

13. As noted in the Receiver's Thirteenth Report, AB Finance originally submitted a claim for \$3,191,487. The claim related to unpaid re-assessed 2014 and 2015 income taxes ("**Re-Assessed Taxes**"). The Receiver disallowed this claim on June 15, 2017 in full, as the Receiver had filed Twin Butte's 2016 tax return within which the Receiver carried back sufficient losses from 2016 to offset the 2014 and 2015 re-assessed taxes.

14. Subsequent to receiving the Receiver's notice of disallowance, AB Finance revised and re-submitted a claim for \$247,859 ("**Revised AB Finance Claim**"). The \$247,859 related to interest and penalties that accrued from the time the Re-Assessed Taxes became due until the time the Receiver submitted the 2016 tax returns offsetting the Re-Assessed Taxes. As noted in the Receiver's Thirteenth Report, the Receiver is currently holding \$247,859 ("**AB Finance Claim Holdback Funds**") pending review/resolution.

15. The Receiver reviewed the Revised AB Finance Claim and determined that it included interest past the Date of Appointment. According to a decision made by the Honourable Mr. Justice K.D. Yamauchi on October 11, 2017, the interest stops rule applies in the context of the Revised AB Finance Claim and accordingly AB Finance may not claim for post-receivership interest. Accordingly, the Receiver contacted AB Finance and requested that they revise their claim. On May 25, 2018 AB Finance submitted another revised claim in the amount of \$152,757 ("**Re-Revised Claim**"). The Receiver reviewed and recalculated the Re-Revised Claim and noted that it was consistent with its calculated and excluded post-receivership interest. The Receiver discussed the Re-Revised Claim with counsel to the Ad Hoc Group and recommended that it be accepted. Counsel to the Ad Hoc Group agreed with the Receiver's recommendation to accept the Re-Revised Claim and accordingly the Receiver is seeking approval to release the AB Finance Claim Holdback Funds as follows:
 - (a) \$152,757 to AB Finance in full and final settlement of the Re-Revised Claim; and
 - (b) the remaining \$95,102 to the subordinate debenture holders.

Former Executives Claims

16. The Receiver is holding \$1,230,500 (“**Former Executives Claims Holdback Funds**”) in respect of the Former Executives Claims pending resolution. On February 20, 2018, there was an application (“**Former Executives Claims Application**”) where the Ad Hoc Group’s counsel disputed the Former Executives Claims and requested that the Former Executives Claims be disallowed. After hearing arguments from both sides, the Honourable Mr. Justice K.D. Yamauchi reserved his decision. On March 14, 2018 the Honourable Mr. Justice K.D. Yamauchi released his decision (“**Former Executives Claims Decision**”) and determined that the Former Executives Claims should be disallowed in their entirety and the proceeds held by the Receiver in respect of the Former Executives Claims should be distributed to the subordinate debenture holders.

17. Subsequent to the release of the Former Executives Claims Decision, counsel to the Former Executives advised that they intended to appeal the Former Executives Claims Decision. After being advised of the intention to appeal, the Receiver contacted both parties to determine if there was a possibility of a settlement rather than engaging in a lengthy appeal process. After discussions between the Ad Hoc Group, the Former Executives, and the Receiver, a settlement was reached whereby the Former Executives would be paid 50% of the Former Executives Claims less \$30,000 to account for legal fees associated with the Ad Hoc Group’s counsel disputing the Former Executives Claims. The \$30,000 is to be deducted from each individual Former Executives based on their individual pro-rata share of the Former Executives Claims.

18. The Receiver is in support of the settlement of the Former Executives Claims and accordingly recommends distributing the Former Executives Claims Holdback Funds as follows:

- (a) \$585,250 to the Former Executives; and
- (b) \$645,250 to the subordinate debenture holders.

SUMMARY OF RECEIPTS AND DISBURSEMENTS

19. Receipts and Disbursements from the Date of Appointment to June 15, 2018, are summarized as:

Schedule of Receipts and Disbursements
As at June 15, 2018
\$ CAD

| | |
|---|--------------------|
| Operating Receipts | |
| Receiver's Borrowings | 8,800,000 |
| Proceeds from Sale to HOC | 262,805,729 |
| Final Statement of Adjustments | (44,289) |
| Revenue | 108,396,297 |
| Royalty & Misc Revenue | 1,756,999 |
| Interest Income | 553,721 |
| GST Collected | 5,024,861 |
| Total - Operating Receipts | 387,293,318 |
| Operating Disbursements | |
| Repayment of Receiver's Borrowings | 8,800,000 |
| Royalty Expense | 8,839,707 |
| Operating Expense | 53,857,346 |
| Capital Maintenance & Expenditures | 6,161,424 |
| Contract Operators | 5,323,712 |
| Occupation Rent (G&A) | 1,290,730 |
| Payroll - Employee Related Obligations | 6,053,770 |
| Insurance | 1,702,160 |
| GST/HST/PST Paid | 2,569,105 |
| GST Remitted | 2,111,242 |
| Bank & Interest Charges | 206,298 |
| Receiver's Fees & Legal Council | 3,173,369 |
| Distribution to Syndicate & Legal Council | 202,357,332 |
| Distributions made to Creditors | 80,561,297 |
| Selling Agents & Other Professional Fees | 2,436,155 |
| Total - Operating Disbursements | 385,443,646 |
| Net Cash on Hand from Operations | 1,849,672 |

20. The following provides a summary of what is included in each of the line items above:
- (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 interests;
- (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;

- (t) “Distribution made to Creditors” is the Court approved distribution to the unsecured creditors and subordinate noteholders as outlined in previous Receiver’s reports;
- (u) “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.

21. Cash on Hand – at June 15, 2018 the Receiver held \$1,849,672 in cash.

PROPOSED FINAL DISTRIBUTIONS

- 22. The Receiver is seeking approval to make final distributions (“**Proposed Final Distributions**”) to creditors. The Receiver intends to distribute all funds currently held after payment of accrued but unpaid professional fees and minor remaining administrative amounts (i.e. records storage costs, software/IT costs, moving/destruction of records).
- 23. The Receiver’s estimated distributable funds after provisions for remaining professional fees and administrative costs are summarized in the table below:

| Schedule of Provisions for Remaining Costs and Proposed Distribution As at June 15, 2018 | |
|---|-------------------------|
| Net Cash on Hand | 1,849,672 |
| <u>Provision for Remaining Professional Fees & Administrative Costs</u> | |
| Receiver's Costs | 30,000 |
| Receiver's Council | 20,000 |
| Administrative Costs | 50,000 |
| Total Provisions | <u>100,000</u> |
| Distributable Funds | <u>1,749,672</u> |
| <u>Proposed Final Distributions</u> | |
| Settled AB Finance Claim | 152,757 |
| Settled Former Executives Claim | 585,250 |
| Additional Distribution to Subordinate Debenture Holders/Counse | 1,011,665 |
| Proposed Final Distributions | <u>1,749,672</u> |

24. The Receiver understands that the Ad Hoc Group of Twin Butte 6.25% Convertible Unsecured Subordinated Debentures due December 31, 2018, will be seeking the approval of its outstanding legal fees and expenses (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 request will total approximately \$30,000.
25. The Proposed Final Distribution to the Twin Butte 6.25% Convertible Unsecured Subordinated Debentures due December 31, 2018 (“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 Final 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 previously granted by this Court.
26. The following table provides a summary of the total distribution made to creditors with accepted claims. The table includes the Proposed Final Distributions presented above.

| Summary of Total Distributions | | | |
|--------------------------------|----------------------------|------------------------------|-------------------------------|
| Creditor Class | Distributions Made to Date | Proposed Final Distributions | Total Projected Distributions |
| Bank Syndicate | 202,357,332 | | 202,357,332 |
| Other Secured Creditors | 416,535 | | 416,535 |
| Unsecured Creditors | 12,340,082 | 738,007 | 13,078,089 |
| Subordinate Debentures | 67,804,680 | 1,011,665 | 68,816,345 |
| Total Distributions | 282,918,629 | 1,749,672 | 284,668,301 |

27. The payments noted above to the Bank Syndicate, Other Secured Creditors and Unsecured Creditors represent a distribution of 100% of the underlying claim amount (and accrued interest for secured creditors).

28. The following table provides a summary of the recoveries to the Subordinate Debenture Holders with the distributions to date and the Proposed Final Distribution.

| Recovery of Subordinate Debentures Claim | |
|--|-------------------|
| Subordinate Debenture Claim | 88,584,758 |
| Distributions to Date to Subordinate Debentures | 67,804,680 |
| Proposed Final Distribution to Subordinate Debentures | 1,011,665 |
| Total Recovery to Subordinate Debentures | 68,816,345 |
| % Recovery of Subordinate Debenture Claim* | 77.68% |
| % Recovery of face value Subordinate Debenture Claim* | 80.96% |

**Before payment to counsel or financial advisor fees*

APPROVAL OF FEES

29. Invoices rendered by the Receiver for fees and expenses exclusive of GST since the Date of Appointment total \$2,290,533 and the Receiver anticipates an additional \$30,000 accrued unbilled work to date and administrative work to complete these receivership proceedings (collectively the “**Receiver’s Fees**”). The accounts will be made available upon request.
30. Invoices rendered for fees and expenses exclusive of GST by the Receiver’s Counsel since the Date of Appointment total \$882,836 and the Receiver’s Counsel anticipates an additional \$20,000 accrued unbilled work to date and administrative work to complete these receivership proceedings (collectively the “**Receiver’s Counsel’s Fees**”). The accounts will be made available upon request.

31. The Receiver believes the Receiver's Fees and the Receiver's Counsel's Fees are appropriate and reasonable in the circumstances given the length of the receivership proceedings, the work required to operate Twin Butte from the Date of Appointment through to closing a sale of the assets, the time required to complete a fulsome sales process, run a claims process, resolve various disputes and make distributions to creditors. The Receiver is requesting that this Honourable Court approve the Receiver's Fees and the Receiver's Counsel's Fees.

TERMINATION OF RECEIVERSHIP PROCEEDINGS AND DISCHARGE OF THE RECIEVER

32. Given the settlement of the two Remaining Claims were the final material matters required to be resolved within these receivership proceedings and they have now been resolved the Receiver recommends terminating the receivership proceedings and discharging the Receiver conditional upon the Receiver filing a Receiver's Certificate confirming that it has completed its remaining administrative tasks and making the Final Distributions.

RECEIVER'S RECOMMENDATIONS

33. The Receiver respectfully requests that this Honourable Court grant an Order:
- (a) authorizing for the Receiver to make a final distribution to the creditors of Twin Butte as outlined above;
 - (b) approving of the fees and expenses of the Receiver and the Receiver's Counsel related to the administration of these receivership proceedings;
 - (c) discharging the Receiver and terminating these receivership proceedings upon the completion of the Receiver's remaining administrative tasks and filing of a Receiver's Certificate; and

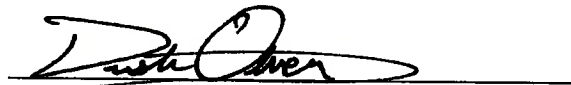
- (d) authorizing the Receiver to destroy the Company's corporate books and records if not claimed by the former directors within 30 days of being discharged.

All of which is respectfully submitted this 13th day of June 2018.

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