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COURT FILE NUMBER 1701-13518
COURT COURT OF QUEEN'S BENCH OF ALBERTA
JUDICIAL CENTRE CALGARY
APPLICANT STREAM ASSET FINANCIAL SPARK LP
RESPONDENTS BLAZE ENERGY LTD. and WILD ROSE ENERGY LTD.
DOCUMENT **THIRD REPORT OF FTI CONSULTING CANADA INC., IN ITS CAPACITY AS COURT APPOINTED RECEIVER AND MANAGER OF BLAZE ENERGY LTD. AND WILD ROSE ENERGY LTD.**

December 3, 2018

ADDRESS FOR SERVICE AND CONTACT INFORMATION OF PARTY FILING THIS DOCUMENT

RECEIVER

FTI Consulting Canada Inc.
Suite 720, 440 – 2nd Avenue S.W.
Calgary, AB T2P 5E9
Deryck Helkaa / Dustin Olver
Telephone: (403) 454-6031 / 6032
Fax: (403) 232-6116
E-mail: deryck.helkaa@fticonsulting.com
dustin.olver@fticonsulting.com

COUNSEL

Fasken Martineau DuMoulin LLP
3400, 350 – 7th Avenue S.W.
Calgary, AB T2P 3N9
Travis Lysak
Telephone: (403) 261-5501
Fax: (403) 261-5350
Email: tlysak@fasken.com

INTRODUCTION

1. On October 12, 2017 (the “**Date of Appointment**”), pursuant to an Order of the Honourable Justice Jones (the “**Receivership Order**”), FTI Consulting Canada Inc. was appointed as receiver and manager (the “**Receiver**”) of certain assets, undertakings and properties (the “**Property**” or “**Business**”) of Blaze Energy Ltd. (“**Blaze**”) and Wild Rose Energy Ltd. (“**Wild Rose**”). Blaze and Wild Rose are collectively referred to as the “Debtors” or the “Company”.
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 publicly available information in respect of these proceedings (the “**Receivership Proceedings**”) are posted on the Receiver’s website at <http://cfcanada.fticonsulting.com/Blaze> (the “**Receiver’s Website**”).
4. On November 17, 2017 an Order (the “**SISP Order**”) was granted authorizing the Receiver to implement a sale and investment solicitation process (the “**SISP**”). The SISP, as outlined in the Receiver’s first report dated November 15, 2017 (the “**First Report**”) was initiated immediately after the SISP Order was granted. A summary of the SISP and the results thereof is provided in the Receiver’s Second Report dated March 22, 2018 (the “**Second Report**”).

5. On March 22, 2018 an Order (the “**Sale Approval and Vesting Order**”) was granted approving the sale of the Property to Tidewater Brazeau Gas Storage LP (the “**Purchaser**”) pursuant to the terms of an asset purchase agreement between the Purchaser and the Receiver dated March 21, 2018 (the “**Tidewater APA**”). The Sale Approval and Vesting Order also provided for the vesting in the Purchaser of the right, title and interest in and to the Property. The Tidewater PSA included an escrow provision whereby the transaction would close with proceeds held in trust pending certain escrow conditions (the “**Escrow Conditions**”), most notably, approval from the Alberta Energy Regulator (the “**AER**”). The Purchaser’s counsel, DLA Piper (Canada) LLP, acted as escrow agent (the “**Escrow Agent**”) and held the proceeds from the sale in trust until the AER approved the transaction. Further details on closing and satisfaction of escrow period are provided below.

6. The Sale Approval and Vesting Order also authorized the Receiver to distribute to Stream Asset Financial Spark LP (“**Stream**”) the net proceeds received from the Tidewater APA less certain amounts held back for potential priority claims and costs to administer the estate (the “**Initial Stream Distribution**”) once the Escrow Conditions were satisfied.

7. The purpose of this report (the “**Third Report**”) is to provide this Honourable Court with:
 - (a) a summary of the activities of the Receiver since the Second Report including:
 - i. closing of the Tidewater APA;
 - ii. satisfying the Escrow Conditions;
 - iii. making the Initial Stream distribution; and

- iv. corresponding with the Canada Revenue Agency (the “**CRA**”) and Yellowhead County in regards to their claims against the Debtors.
 - (b) a summary of receipts and disbursements from the Date of Appointment to December 3, 2018;
 - (c) a summary and the Receiver’s recommendations with respect to the final remaining tasks to be resolved in order to complete these Receivership Proceedings, including:
 - i. a summary of a priority dispute that exists between Stream, the senior secured creditor in these proceedings, and Yellowhead County. Yellowhead County has a claim for property tax arrears related to the Property sold to Tidewater. Further details with respect to this dispute and the Receiver’s recommended course of action appear below; and
 - ii. a summary of a claim (the “**GST Claim**”) of the CRA in respect of unpaid goods and services taxes (“**GST**”) and the effect of Stream’s pending application for an Order placing the Debtors into bankruptcy (the “**Bankruptcy Order**”) on the GST Claim; and
 - (d) the Receiver’s recommendations with respect to a final distribution to Stream and the subsequent discharge of the Receiver.
8. The Receiver is requesting the following relief from this Honourable Court:
- (a) approval of the activities of the Receiver since the Receiver’s Second Report as reported herein;

- (b) authorization for the Receiver to make a final distribution to Stream in the event the Bankruptcy Order is granted, as outlined below, or, if the Bankruptcy Order is not granted, to make a final distribution to Stream and CRA in accordance with their respective priorities;
- (c) approval of the fees and expenses of the Receiver and the Receiver's Counsel related to the administration of these Receivership Proceedings; and
- (d) discharging the Receiver and terminating these Receivership Proceedings upon the completion of the Receiver's remaining administrative tasks and making a final distribution.

TERMS OF REFERENCE

- 9. In preparing this Third Report, the Receiver has relied upon audited and 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**").
- 10. Except as described in this Third 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 Second Report in a manner that would comply with the procedures described in the Canadian Institute of Chartered Accountants Handbook.

11. Future oriented financial information reported or relied on in preparing this Third Report is based on assumptions regarding future events. Actual results may vary from forecasts and such variations may be material.
12. The Receiver has prepared this Third Report in connection with the Receiver's Application scheduled for December 10, 2018 (the "**Application**"). This Third Report should not be relied on for other purposes.
13. Information and advice described in this Third Report that has been provided to the Receiver by its legal counsel, Fasken Martineau DuMoulin 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.
14. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

RECEIVER'S ACTIVITIES SINCE THE SECOND REPORT

15. Since filing the Second Report, the Receiver has completed various tasks as described below.

Completed the Tidewater APA

16. The Receiver:
 - (a) closed the Tidewater APA in escrow on April 24, 2018. At closing the net proceeds from the transaction were deposited in a trust account with the Escrow Agent;

- (b) worked with Tidewater to clear the Escrow Conditions including submitting necessary license transfers and applications for AER approval of the Tidewater APA;
- (c) on August 30, 2018, received approval from the AER for the Tidewater APA, at which time Escrow Conditions were satisfied and the Escrow Agent released the net sales proceeds from the sale to the Receiver;
- (d) upon satisfaction of the Escrow Conditions the Tidewater APA was complete and the title in the Property was transferred to Tidewater; and
- (e) subsequent to receiving the net sales proceeds from the Tidewater APA the Receiver made the Initial Stream Distribution in the amount of \$9,120,962, as approved by this Honourable Court in the Sale Approval and Vesting Order.

Yellowhead County Claim

17. At the time of signing the Tidewater APA Yellowhead County was owed \$85,212.18 (the “**Property Tax Arrears**”) property tax arrears related to the Property being sold to Tidewater. Attached as Appendix A is the Yellowhead County Tax Roll Historical Trial Balance. Of the total Property Tax Arrears, \$41,491.42 related to linear property taxes (the “**Linear Arrears**”) and \$43,720.76 related to non-linear property taxes (the “**Non-Linear Arrears**”). Yellowhead County advised the Receiver that they believed they had a claim in priority to Stream for the full amount of the Property Tax Arrears. The Receiver was advised by Stream that they disputed Yellowhead County’s priority claim. Given the priority dispute over the Property Tax Arrears, the Receiver initially held back the full amount of the Property Tax Arrears from the Stream Distribution pending further analysis and/or a mutual settlement.

18. After further review of the Property Tax Arrears and discussions with the parties involved, Stream advised that they would only dispute priority over the Linear Arrears. Stream consented to the Non-Linear Arrears being paid to Yellowhead County. Accordingly, on October 25, 2018 the Receiver paid Yellowhead County \$43,720.76 in satisfaction of the Non-linear Arrears.
19. The Receiver has discussed the Linear Arrears with both parties in an attempt to settle the priority dispute without having to involve the Court; however, to date, the parties have not been able to reach a settlement agreement. Accordingly, the Receiver recommends paying the Linear Arrears of \$41,491.42 into Court. This will allow the Receiver to move forward with seeking its discharge and allow the two parties to make their own application to have the funds released.

GST Claim

20. Subsequent to the commencement of the receivership proceedings, the CRA requested information to complete an audit of goods and services taxes for Blaze and Wild Rose (the “**GST Audit**”). The Receiver coordinated with the CRA and former employees of Blaze and Wild Rose in respect of the GST Audits. On March 14, 2018 the CRA advised that it had completed limited scope audits and on March 28, 2018 submitted a letter claiming the following:
 - (a) \$309,586.56 with respect to Blaze, of which the CRA claimed:
 - i. \$63,916.98 as a deemed trust claim under subsection 222 (3) of the Excise Tax Act and;
 - ii. the remaining \$245, 669.58 as an unsecured claim; and
 - (b) \$20,343.24 with respect to Wild Rose as an unsecured claim,

(collectively, the “**CRA Claims**”).

21. The Receiver held back \$329,930 (the “**Tax Claim Holdback**”) from the Initial Stream Distribution pending further analysis of the CRA Claims. The Receiver has now reviewed the CRA Claims and has the following comments:
- (a) the Wild Rose claim for \$20,343.24 was submitted as an unsecured claim. Stream has valid and enforceable security over the Wild Rose assets and therefore has priority over these funds; and
 - (b) the Blaze claim included a deemed trust claim of \$63,916.98. However, the Receiver understands that Stream is bringing an application prior to the hearing of the Receiver’s Application to place the Company into bankruptcy. If a Bankruptcy Order is granted it would extinguish the deemed trust claim rendering it unsecured. Assuming a bankruptcy of the Company, which would extinguish the deemed trust portion of the CRA Claims, the Receiver is of the view that Stream has priority over the CRA in respect of the entire Tax Claim Holdback. If no Bankruptcy Order is granted the Receiver is of the view that CRA would take priority to the \$63, 916.98 trust claim.
22. Assuming the Bankruptcy Order is granted, the Receiver recommends distributing the full amount of the Tax Claim Holdback to Stream as they have valid and enforceable security over Blaze and Wild Rose in priority to the CRA Claims.

SUMMARY OF RECEIPTS AND DISBURSEMENT

23. Receipts and Disbursements from the Date of Appointment to December 3, 2018, are summarized as follows:

Schedule of Receipts and Disbursements	
As of December 3, 2018	
Receipts	
Purchase Price for Sale of Property	8,536,104
Deposit for Sale of Property	1,500,000
Receiver's Borrowings	401,541
Other Receipts	140,456
Transfer from Pre-Receivership Account	72,060
Bank Interest and Fees	15,435
Total - Receipts	10,665,597
Disbursements	
Distribution to Secured Creditor	9,120,962
Employee Costs	333,147
Receiver's Fees and Disbursements	261,823
Legal Fees and Disbursements	193,206
Insurance	124,759
Operating Expenses	93,945
Rent and Utilities	51,302
Property Taxes	43,721
Miscellaneous Disbursements	7,719
Royalty and Lease Payments	4,768
Net Taxes	26,844
Total - Disbursements	10,262,195
Net Cash on Hand	403,402

- (a) Purchase Price for the Sale of Property – amounts paid in relation to the Tidewater PSA for the Property;
- (b) Deposit for Sale of Property – amount paid by Tidewater to the Receiver as deposit for purchase of the Property;
- (c) Receiver's Borrowings – amounts borrowed to date under terms of the Receivership Order;

- (d) Other Receipts – miscellaneous other receipts collected by the Receiver through the Receivership Proceedings including refund of deposits on account placed by the Company;
- (e) Transfer from Pre-Receivership Account – amounts transferred from the Company’s Pre-Receivership Accounts at the Date of Appointment;
- (f) Bank Fees and Interest – wire payment fees, other miscellaneous bank fees and interest collected while funds were being held in trust;
- (g) Distribution to Secured Creditor – Initial Stream Distribution as approved by this Honourable Court in the Sale Approval and Vesting Order;
- (h) Employee Costs – amounts disbursed by the Receiver relating to payroll and employee deductions;
- (i) Receiver’s Fees and Disbursements – fees and expenses incurred by the Receiver in the course of the Receivership Proceedings;
- (j) Legal Fees and Disbursements – fees and expenses incurred by the Receiver’s Counsel in the course of the Receivership Proceedings;
- (k) Insurance – insurance costs including general liability and employee benefits;
- (l) Operating Expenses – operating expenses relating to the operation/maintenance of the Company’s Gas Storage Facilities;
- (m) Rent and Utilities – amounts disbursed relating to office rent and utilities;
- (n) Property Taxes – amounts paid to Yellowhead County relating to non-linear arrears;

- (o) Miscellaneous Disbursements – amounts disbursed including filing fees paid to the Official Receiver, off-site storage and other miscellaneous expenses;
 - (p) Royalty and Lease Payments – amounts disbursed in respect of the Company’s petroleum and natural gas leases; and
 - (q) Net Taxes – GST collected and paid on receipts and payments including amounts remitted to the CRA for GST filings.
24. Cash on Hand – at December 3, 2018, the Receiver currently holds \$403,402 in funds.

PROPOSED FINAL DISTRIBUTION TO STREAM

29. As noted in the Second Report, the Receiver’s Counsel completed an independent review of Stream’s security and determined that is valid and enforceable against the Debtors. Based upon its review of relevant searches with the Alberta Department of Energy and with the Alberta Personal Property Registry, as well as its review of the Affidavit of Texas Howard IV sworn in these Receivership Proceedings on October 6, 2017, and additional correspondence with Mr. Howard, the Receiver’s Counsel has advised that it appears the Stream’s security constitutes a first priority charge against the Property.
30. All parties who have made registrations against the Alberta Department of Energy and the Alberta Personal Property Registry have been served with the application.
31. Furthermore, the Receiver has reviewed the CRA Claims and concluded that the bankruptcy of Blaze and Wild Rose, if ordered, will extinguish the deemed trust claim portion of the CRA Claims in which case Stream will have priority over the CRA in respect of the CRA Tax Claims.

32. As detailed above, the Receiver current holds approximately \$403,402. The table below presents a summary of the Receiver’s proposed uses of the funds on hand including a final distribution to Stream and, possibly, the CRA, if the Bankruptcy Order is not granted, in a cumulative amount of \$335,910 (the “**Final Distribution**”), payment of the Linear Arrears into Court in the amount of \$41,191, if such payment is approved, and an administrative holdback of \$26,000 to be retained by the Receiver to account for unpaid professional fees and minor remaining administrative costs to complete the administration of these Receivership Proceedings and possible bankruptcy of the Debtors:

Final Stream Distribution	
Net Cash on Hand	403,402
Administrative Holdback	(26,000)
Linear Arrears	(41,491)
Final Stream Distribution	335,910

33. As outlined in paragraph 20 of the Affidavit of Ryan Dunfield sworn October 6, 2017 the Debtors owed Stream a total of \$23,647,327 (the “**Stream Indebtedness**”) at October 6, 2016. The Final Distribution in the amount of \$335,910, if approved, plus the Initial Stream Distribution in the amount of \$9,120,962 will result in total recoveries to the Stream of a maximum of \$9,456,872. Accordingly, Stream will incur a shortfall on their indebtedness and there will be no remaining cash available for subordinate or unsecured creditors.

APPROVAL OF FEES

34. Invoices rendered by the Receiver for fees and expenses exclusive of GST since the Date of Appointment total \$261,823 and the Receiver anticipates an additional \$10,000 accrued unbilled work to date and administrative work to complete these receivership proceedings (collectively, the “**Receiver’s Fees**”). The accounts will be brought to Court and made available upon request.

35. Invoices rendered for fees and expenses exclusive of GST by the Receiver's Counsel since the Date of Appointment total \$193,206 and the Receiver's Counsel anticipates an additional \$10,000 accrued unbilled work to date and administrative work to complete these receivership proceedings (collectively, the "**Receiver's Counsel's Fees**"). The accounts will be brought to Court and made available upon request.
36. 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 including the long escrow period to complete the Transaction, the time required to complete the sales process and resolve various disputes between creditors/stakeholders. 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

37. The CRA Claims and Linear Arrears are the two remaining items to be completed/settled within these receivership proceedings. 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, making the Final Distribution, and paying the Linear Arrears into Court, or otherwise dealing with the Linear Arrears as directed by the Court.

RECOMMENDATIONS

38. The Receiver respectfully requests that this Honourable Court grant the following relief:

- (a) approving the Receiver's actions, conduct and activities since the Date of Appointment as reported herein;
- (b) approving payment of the Linear Arrears into Court or otherwise directing how the Receiver should deal with such funds;
- (c) approving the proposed Final Distribution;
- (d) approving of the fees and expenses of the Receiver and the Receiver's Counsel related to the administration of these receivership proceedings; and
- (e) discharging the Receiver and terminating these receivership proceedings upon the filing of a Receiver's Certificate confirming the completion of the Receiver's remaining administrative tasks, payment of the Final Distribution, payment of the Linear Arrears into Court or otherwise directing how the Receiver should deal with such funds.

All of which is respectfully submitted this 3rd day of December 2018.

FTI Consulting Canada Inc.,
in its capacity as receiver and manager
of certain assets, undertakings and properties
of Blaze Energy Ltd. and Wild Rose Energy
Ltd.



Deryck Helkaa
Senior Managing Director, CA, CPA, CIRP



Dustin Olver
Managing Director, CA, CPA

Appendix A

Tax Roll Trial Balance

From Roll # 027957 to 999999 End Date: 3/06/15
 From Customer WILD ROSE to WILD ROSE All Balances
 All Tax Classes All Roll Statuses

Roll #	Name	= 2018	2017	2016	2015	= 2014	Total	Class
309070	WILD ROSE ENERGY LTD	\$2,290.43	\$32,173.77	\$0.00	\$0.00	\$0.00	\$40,464.20	STAND
313377	WILD ROSE ENERGY LTD	\$151.55	\$2,525.79	\$0.00	\$0.00	\$0.00	\$2,677.34	STAND
313379	WILD ROSE ENERGY LTD	\$32.79	\$546.43	\$0.00	\$0.00	\$0.00	\$579.22	STAND
603686	WILD ROSE ENERGY LTD	\$2,348.57	\$39,142.85	\$0.00	\$0.00	\$0.00	\$41,491.42	LINER
Report Total:		\$4,823.34	\$60,368.84	\$0.00	\$0.00	\$0.00	\$65,212.16	

Total number of Rolls: 4