



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

April 18, 2017

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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, amongst 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. On October 11, 2016, an order (the “**SISP Order**”) was granted approving the Receiver’s proposed sales and investor solicitation process (“**SISP**”), which was attached as Appendix A to the Second Report of the Receiver. The SISP Order also authorized the Receiver to engage CIBC World Markets (“**CIBC**”) and Peters & Co. Limited (“**Peters**”) (collectively the “**Selling Agents**”) as selling agents to market all of the assets and properties of Twin Butte in accordance with the terms of the SISP.
4. On January 18, 2017 an order (the “**Sale Approval and Vesting Order**”) was granted approving the Receiver’s proposed en bloc sale of all of Twin Butte’s oil and gas assets (“**HOC Sale**”) to Henenghaixin Operating Corp (“**HOC**”) pursuant to the terms of the purchase and sale agreement between the Receiver and HOC dated December 23, 2016 (“**HOC PSA**”).
5. On March 27, 2017, an order (“**Interim Distribution Order**”) was granted authorizing the Receiver to repay the debt (“**Bank Debt**”) owed to the first secured banking syndicate (“**Banking Syndicate**”) from the proceeds received upon closing the HOC Sale.

6. 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**").

7. The purpose of this report ("**Sixth Report**") is to inform the Court of the following:
 - (a) the Receiver's activities since the Receiver's Fifth Report dated March 20, 2017 including the closing of the HOC Sale and distribution to the Banking Syndicate;
 - (b) the Receiver's receipts and disbursements from the Date of Appointment to April 14, 2017; and
 - (c) the Receiver's request for approval to initiate a claims procedure ("**Claims Procedures**") as set out in the proposed claims procedures order ("**Claims Procedures Order**").

8. The Receiver is requesting the following relief from this Honourable Court:
 - (a) approval of the activities of the Receiver since the Date of Appointment including its receipts and disbursements; and
 - (b) approval of the proposed Claims Procedure Order.

TERMS OF REFERENCE

9. In preparing this Sixth 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**").

10. Except as described in this Sixth 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 Fifth 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 Fifth 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 Sixth Report in connection with the Receiver's Application dated April 27, 2017. This Sixth Report should not be relied on for other purposes.
13. Information and advice described in this Sixth 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.
14. Unless otherwise stated, all monetary amounts contained herein are expressed in Canadian Dollars.

RECEIVER'S ACTIVITIES

15. Since the date of the Receiver's Fifth Report the Receiver has continued with the following initiatives:
 - (a) operating Twin Butte's business in the normal course with no material adverse change;
 - (b) working with Twin Butte employees, the Receiver's Counsel, the Selling Agents and HOC to prepare for closing the HOC Sale; and
 - (c) corresponding with creditors and ongoing suppliers on a regular basis.

Closing the HOC Sale

16. On March 30, 2017 the Receiver closed the HOC Sale and collected the remaining sales proceeds owing pursuant to the HOC PSA.
17. Pursuant to the terms of the HOC PSA the Receiver must continue to keep the purchase price of the HOC Sale confidential for 3 months after closing.

Distribution to Banking Syndicate

18. Immediately after closing the HOC Sale the Receiver paid the Banking Syndicate a total of \$200.6 million which repaid the Bank Debt including accrued interest and related outstanding professional fees in full. The repayment of the Bank Debt had been previously authorized by the Interim Distribution Order granted on March 27, 2017. A prompt repayment of the Bank Debt was necessary and in the best interest of the remaining stakeholders as it stopped additional interest from accruing on the Bank Debt.
19. The Receiver continues to hold the net remaining funds pending a completion of the claims process, as discussed in further detail below.

CORRESPONDENCE WITH THE AD HOC GROUP

20. The Receiver continues to correspond with Bennett Jones LLP (“**Bennett Jones**”) in its capacity as counsel for certain holders (the “**Ad Hoc Group**”) of convertible unsecured subordinate debentures, as defined in the Company’s financial statements (“**Convertible Debentures**”). The Receiver understands that the Ad Hoc Group represents a material portion of the Convertible Debentures.
21. The Ad Hoc Group continues to request various information or clarification with respect to these proceeding in addition to making the following additional specific requests: seeking ‘consultation rights’ with respect to the Claims Procedures and seeking to have certain costs of the Ad Hoc Group to be funded from the estate’s funds. The Receiver has provided its comments on these matters below.
22. The Receiver appreciates that the Ad Hoc Group represents a material portion of the total Convertible Debentures’ class. However, the Receiver also understands that the Ad Hoc Group does not represent a majority of Convertible Debentures or any of the unsecured creditor class. Further, while not yet determined, it appears that the Convertible Debentures, as a class, could be subordinated to some or all of the general class of unsecured creditors. These factors were considered by the Receiver in providing its views below.

Information Requests

23. The Ad Hoc Group has made several requests for information including requests for revised recovery estimates, a list of payments made by the Company prior to the Receivership, and information on operations from the effective date of the HOC PSA to the closing date.

24. The Receiver has responded to various information requests to the counsel to the Ad Hoc Group on a confidential basis, however, given the scope and nature of the Receiver's responses, the fact that queries are being received from parties other than the Ad Hoc Group and that the Ad Hoc Group only represents a portion of a certain creditor group, the Receiver intends on issuing a subsequent report that provides the following information to all remaining creditors:
 - (a) Estimated recovery analysis based upon net proceeds for the HOC Sale, remaining wind-down costs, and the estimated claims and priority of those claims. Any meaningful recovery analysis will require a determination with respect to priority of the Convertible Debentures and whether they rank pari passu or subordinate to the general unsecured creditor class;
 - (b) Details as to the final statement of adjustment relating to the HOC PSA which is expected to be completed in May 2017; and
 - (c) The Receiver's comments on any payments by the Company in the three months' prior to the Receivership.

25. The above areas of inquiry summarize the majority of the information requests received by the Receiver.

26. The Receiver anticipates being able to complete the supplemental report by the end of June 2017 once the Claims Procedures have been substantially completed (along with determination of the priority of the Convertible Debentures relative to the unsecured creditor class) along with the completion of the final statement of adjustments.

Consultation rights on the Claims Procedures

27. The Ad Hoc Group has requested certain consultation rights regarding the Claims Procedures. While the Receiver has not received any specific requested 'consultation rights' from the Ad Hoc Group, the Receiver is prepared to provide the following consultation rights:
- (a) To review the Receiver's determination of a particular claim before the Receiver certifies a Proven Claim or issues an NRD (as both terms are defined below), where the value ascribed by the Receiver to the claim exceeds \$75,000 (the "Review");
 - (b) In the event of such Review, the Ad Hoc Group is to provide its differing assessment (if any) of any disputed claim subject to the Review to the Receiver in writing and within five (5) days of receipt of such disputed claim from the Receiver; and
 - (c) While the Receiver reserves the authority to finally assess the quantum of a disputed claim following a Review, if the respective assessments of a disputed claim by the Receiver and the Ad Hoc Group varies by a margin of 50% or more of the initially claimed amount, the Ad Hoc Group may contest the Receiver's assessment on application to this Honourable Court.

Costs of the Ad Hoc Group

28. The Receiver understands that the Ad Hoc Group is seeking approval from this Honourable Court for approval of its legal counsel's fees being paid from the estate (the Receiver also understands that the Ad Hoc Group may also be seeking approval of its financial advisor's fees being paid). While the Receiver has not yet received the Ad Hoc Group's materials supporting such a request, the Receiver can provide the following comments to the Court. The Receiver understands that there is precedent for similar arrangements vis-à-vis approval of legal fees being approved by the Court.
29. It is the Receiver's view that there may be merit to allowing a finite amount of fees for the Ad Hoc Group's counsel given the significance of the claims of the Convertible Debentures and that this class is likely the fulcrum creditor group if the Convertible Debentures are determined to be subordinate to the general unsecured creditor class (whose indebtedness would then be expected to be repaid in full). However, the Receiver could only support the payment of such fees if:
- (a) the amount of the fees sought for approval fall within reasonable and limited amount;
 - (b) the fees would only be payable out of the distribution owing to the Convertible Debentures, they would not be borne by the entire unsecured creditor class or any other class of creditors;

- (c) The Receiver underscores that the Ad Hoc Group represents only a portion of the Convertible Debentures holders as a class and, accordingly, takes the position that any approval of legal or other fees should be subject to there being no significant opposition to same by the Convertible Debentures holders not within the Ad Hoc Group. Additional information would need to be provided to the Receiver by the Ad Hoc Group's counsel with respect to its overall representation of the Convertible Debentures. The Receiver notes that it has received communication from two other individual Convertible Debenture holders who advised that they do not support the payment of the Ad Hoc Group's fees out of the proceeds of the Twin Butte estate, however the Receiver is not aware of the percentage interest the individual Convertible Debenture holders represent within the entire Convertible Debenture holder class.

Subordination of the Convertible Debentures

30. Concurrent with the Claims Procedure described below the Receiver will be scheduling an application for advice and directions as to the relative priority between claims under the Convertible Debentures as related to other Twin Butte unsecured or trade creditor claims.

SUMMARY OF RECEIPTS AND DISBURSEMENT

31. Receipts and Disbursements from the Date of Appointment to April 14, 2017, are summarized as follows:

Schedule of Receipts and Disbursements	
As at April 14, 2017	
\$000's CAD	
Operating Receipts	
Receiver's Borrowings	8,800,000
Revenue, Proceeds from asset sale and other	<u>362,736,724</u>
Total - Operating Receipts	<u>371,536,724</u>
Operating Disbursements	
Repayments of Receiver's Borrowings	8,800,000
Royalty Expense	7,713,922
Operating Expense	50,292,280
Capital Maintenance & Expenditures	5,292,491
Contract Operators	5,323,712
Occupation Rent (G&A)	1,271,781
Payroll - Employee Related Obligations	6,168,797
Insurance	1,693,142
GST/HST/PST Paid	2,308,276
GST Remitted	1,842,099
Bank & Interest Charges	202,880
Professional Fees	4,186,974
Distribution and fees for Banking Syndicate	<u>200,655,067</u>
Total - Operating Disbursements	<u>295,751,420</u>
Net Cash on Hand from Operations	<u>75,785,305</u>

- (a) "Receiver's Borrowings" means borrowings under the Receiver's certificate in order to provide working capital to fund ongoing operations. The Receiver's Borrowings were originally incurred to fund initial working capital requirements required immediately following the granting of the Receivership Order;

- (b) “Revenue and Proceeds from asset sale and other” 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, GST collected on oil and gas sales, royalty revenue as well as the funds collected by the Receiver related to HOC Sale. Note the revenue, GST collections, royalty revenue and purchase price would typically be disclosed as separate line items however they have been combined in order to maintain confidentiality of the purchase price. Pursuant to the terms of the HOC PSA the Receiver must continue to keep the purchase price of the HOC Sale confidential for 3 months after closing;
- (c) “GST Collected” arise from tax credits collected on the revenue generated throughout the receivership period;
- (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) “Repayments of Receiver Borrowings” relate to the repayment of funds borrowed by the Receiver (see (a) above);
- (f) “Royalty” means royalties paid to the Crown, freehold and gross overriding royalty owners related to ongoing oil and gas production;
- (g) “Operating Expenses” arise from the payments of ongoing operating costs;
- (h) “Capital and Maintenance expenditures” arise from various maintenance and capital projects completed to maximize ongoing production and to preserve various mineral interest;
- (i) “Contract Operators” arise from amounts paid to third party field operators who operate the properties;

- (j) "Occupation rent" comprises rent paid related to the Company's head office and various field locations;
- (k) "Payroll" means amounts paid to Twin Butte employees who are assisting the Receiver in running the operations;
- (l) "Insurance" means amounts disbursed in respect of insurance for employees as well as operating insurance for field properties;
- (m) "GST/HST paid" comprises sales taxes paid on goods and services provided to the Receiver;
- (n) "GST remitted" means amounts paid to the Canada Revenue Agency for monthly GST filings;
- (o) "Bank interest and charges" means interest and fees paid on the Receiver's borrowings;
- (p) "Professional Fees" comprise the Receiver's Fees, Receiver's Counsel's fees and success and work fees paid to the Selling Agents in respect of the Receivership Proceedings; and
- (q) "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.

32. Cash on Hand – at April 14, 2017 the Receiver held \$75,785,304 in cash.

CLAIMS PROCEDURES

33. The Claims Procedures provide for a mechanism to establish an effective process to determine the nature, quantum, validity and enforceability of all claims against the Applicants, as discussed in further detail below.
34. The Claims Procedures have been designed to identify:
- (a) claims of known creditors (“**Known Creditors**”) arising up to and including the date of the Claims Procedures Order;
 - (b) claims of unknown creditors (“**Unknown Creditors**”) arising up to and including the date of the Claims Procedures Order; and
 - (c) any parties with subsequent claims (“**Subsequent Claimants**”) arising after the date of the Claims Procedures Order and includes any claims in respect of the disclaimer or resiliation, after the date of the Claims Procedure Order, of any contract, lease, or other agreement.
- collectively (“**Claimants**”)

Notice of Claims Procedures

35. The Claims Procedures contemplate three methods of notice including direct mailing/fax/e-mail, newspaper advertisements and posting on the Receiver’s website. In the Receiver’s view the three methods of notice provide all types of Claimants sufficient notice of the Claims Procedures and provide adequate opportunity to file a claim.

36. The Receiver will prepare a claims package (“**Claims Package**”) consisting of a notice to creditors (“**Notice to Creditors**”) and a proof of claim form (“**Proof of Claim**”). The Receiver will send the Claims Package to each of the Known Creditors by prepaid ordinary mail, fax, courier or e-mail on or before May 5, 2017. Addresses and/or contact details for the Known Creditors will be based on Twin Butte’s books and records.
37. The Receiver will publish a newspaper advertisement providing notice of the Claims Procedures in the Calgary Herald on May 5, 2017.
38. The Receiver shall cause the Claims Package and the Claims Procedures Order to be posted on its website at <http://cfcanada.fticonsulting.com/twinbutte> on or before May 5, 2017.

Filing a Proof of Claim

39. Known Creditors and Unknown Creditors asserting a claim against Twin Butte must submit their Proof of Claim to the Receiver prior to 5:00 p.m. (Calgary time) on June 1, 2017 (the “**Claims Bar Date**”). The Receiver will review each Proof of Claim submitted by the Claims Bar Date.
40. Subsequent Claimants asserting a subsequent claim (“**Subsequent Claim**”) against Twin Butte must submit their Proof of Claim to the Receiver by the subsequent claims bar date (“**Subsequent Claims Bar Date**”) defined by the later of:
 - (a) The Claims Bar Date; or
 - (b) By 5:00 p.m. (Calgary time) on the day which is 30 calendar days after the date the Subsequent Claim arose. If this date falls on a weekend or statutory holiday the bar date shall be deemed to be the following business day.

Barring Claims

41. Known Creditors and Unknown Creditors who do not submit a proof of claim by the Claims Bar Date and Subsequent Claimants who do not file a proof of claim by the Subsequent Claims Bar Date shall stand forever barred, estopped and enjoined from asserting or enforcing a claim against Twin Butte and such claim shall be forever extinguished.

Reviewing Proof of Claims

42. The Receiver will review each Proof of Claim received by the Claims Bar Date and Subsequent Claims Bar Date and as applicable, accept, revise or disallow the claim. The Receiver may attempt to resolve the classification and/or amount of the claim by consent through negotiations with the Claimant either before or after accepting, revising or disallowing the claim.
43. If the Receiver accepts the Proof of Claim as filed it will become a proven claim (“**Proven Claim**”).
44. If the Receiver disagrees with any aspect of the Proof of Claim and chooses to revise or disallow the claim, the Receiver will send a notice of revision or disallowance (“**NRD**”) to the Claimant.
45. Any Claimant who disputes (“**Disputing Claimant**”) the NRD shall deliver a notice of dispute (“**Notice of Dispute**”) to the Receiver 15 days after the date of the NRD. The Disputing Claimant must also file an application with the Court, supported by an affidavit setting out the basis of the claim. The application materials and affidavit must be served upon the Receiver immediately after filing and the application must be scheduled within 10 days after the date on which the Notice of Dispute was received by the Receiver. Any Claimant failing to deliver a Notice of Dispute shall be deemed to have accepted the amount and/or classification set out in the NRD.

46. Upon receipt of any Notice of Dispute the Receiver may attempt to consensually resolve the claim and if applicable accept a revised Proof of Claim setting forth the agreed classification and amount of the claim, and such claim will be a Proven Claim.
47. The Claims Procedure Order contemplates consultation rights for the Ad Hoc Group as described above. The Receiver supports such consultation rights.

The Receiver's Comments on the Claims Procedures

48. In the Receiver's view the proposed Claims Procedures and proposed Claims Procedures Order are reasonable and appropriate in the circumstances and provide for a timely review of all claims against Twin Butte. The Receiver believes the methods of notice provide adequate notice for all types of Claimants. The various timelines set out in the Claims Procedures Order provide sufficient time for Claimants to file claims and for the Receiver to review and adjudicate claims where required.

RECOMMENDATIONS

49. The Receiver respectfully requests that this Honourable Court grant the following relief:
 - (a) approval of the activities of the Receiver since the Date of Appointment including its receipts and disbursements; and
 - (b) approval of the proposed Claims Procedures Order.

All of which is respectfully submitted this 18th day of April, 2017.

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



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